

1. Financial Accounting and Reporting

Appendices

Update 14

A MODULE OF THE

TEXAS EDUCATION AGENCY FINANCIAL ACCOUNTABILITY SYSTEM RESOURCE GUIDE

Published by

**Texas Education Agency
Austin, Texas
January 2010**

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Appendix 1 - Summaries of GASB Statements 1 through 56

The address for GASB is: Governmental Accounting Standards Board, 401 Merritt 7, P. O. Box 5116, Norwalk, CT 06856-5116

[GASB Statement No. 1](#)

Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide

This Statement sets forth the authoritative status of the National Council on Governmental Accounting (NCGA) Statements and Interpretations and of the accounting and financial reporting guidance contained in the Industry Audit Guide, *Audits of State and Local Governmental Units*, issued by the American Institute of Certified Public Accountants (AICPA) in 1974, as amended by certain Statements of Position.

All NCGA pronouncements previously issued and in effect as of the date of this Statement and the currently effective accounting and financial reporting guidance contained in the AICPA Industry Audit Guide are continued in force until altered, amended, supplemented, revoked, or superseded by a subsequent GASB pronouncement. The specific pronouncements covered by this Statement are identified in Appendix A (not included here).

This Statement also identifies those pronouncements concerning pension accounting and financial reporting that the GASB considers as sources of acceptable accounting and reporting principles for public employee retirement systems (PERS) and state and local government employers, pending issuance by the GASB of a Statement or Statements on that subject.

This statement is effective July 1984.
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GASB Statement No. 2

Financial Reporting of Deferred Compensation Plans Adopted Under the Provisions of Internal Revenue Code Section 457

This Statement requires that, for employers using governmental fund accounting, Internal Revenue Code (IRC) Section 457 deferred compensation plan balances be displayed in an agency fund of the governmental employer that has legal access to the resources, whether the assets are held by the employer, a public employee retirement system (PERS), a nongovernmental third party, or another governmental entity under a multiple-jurisdiction plan. Governmental public utilities and public authorities should report the liability in the balance sheet with a corresponding designated asset.

Note disclosure is required of (a) the requirement of IRC Section 457 that the assets in the plan remain the property of the employer until paid or made available to participants, subject only to the claims of the government's general creditors, and (b) the government's fiduciary responsibilities under the plan.

This statement is effective for periods ending after December 15, 1986.

THIS STATEMENT WAS SUPERCEDED BY GASB STATEMENT NO. 32.
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GASB Statement No. 3

Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements

This Statement requires certain note disclosures about governmental entities' deposits with financial institutions, investments (including repurchase agreements), and reverse repurchase agreements. The required disclosures should generally be made for the entity as a whole, but additional or separate disclosures for component units, pension trust funds, or other funds or fund types should be made in certain circumstances. This Statement also provides guidance on accounting for repurchase and reverse repurchase agreements.

Disclosure of the types of investments authorized by legal or contractual provisions is required, as well as disclosure of significant violations during the period of legal or contractual provisions related to deposits and investments.

Disclosures required for the deposit and investment portfolio as of the balance sheet date will provide users with information about credit and market risks. These disclosures include the carrying amounts and market values of investments by investment type and in total and information about the level of credit risk associated with deposits and investments. Credit risk is affected by insurance coverage and registration of securities in the name of the governmental entity and, in the absence of insurance coverage or registration, by the custodial arrangements for investments, securities underlying repurchase agreements, and collateral on deposits. Entities are also required to disclose situations that resulted in significantly greater credit risk during the period than that existing as of the balance sheet date.

For reverse repurchase agreements, this Statement requires disclosure of the source of authorization for their use, significant violations during the period of legal or contractual provisions related to the agreements, and summary information about the credit risk associated with the agreements as of the balance sheet date.

Liabilities resulting from reverse repurchase and fixed coupon reverse repurchase agreements are required to be shown as “Obligations under reverse repurchase agreements” and should not be netted with the related assets on the balance sheet. Interest costs associated with reverse repurchase and fixed coupon reverse repurchase agreements are required to be shown as interest expenditure/expense and are not to be netted with the interest income from the related investments. Income from repurchase and fixed coupon repurchase agreements is required to be shown as interest income. Yield maintenance repurchase and reverse repurchase agreements are required to be accounted for as purchases and sales of investments, with gains or losses on those investments recognized.

This statement is effective for periods ending after December 15, 1986.

GASB Statement No. 4

Applicability of FASB Statement No. 87, “Employers’ Accounting for Pensions,” to State and Local Government Employers

This Statement provides that state and local governmental employers should not change their accounting and financial reporting of pension activities as a result of FASB Statement No. 87, *Employers' Accounting for Pensions*. The GASB is making progress on that subject and expects to issue one or more pronouncements on it in the near future.

The provisions of this Statement are effective on issuance, which is September 1986.

THIS STATEMENT WAS SUPERCEDED BY GASB STATEMENT NO. 27.

GASB Statement No. 5

Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers

This Statement establishes standards for disclosure of pension information by public employee retirement systems (PERS) and state and local governmental employers in notes to financial statements and in required supplementary information. It standardizes pension disclosure guidance by superseding the pension disclosure requirements of paragraph 9 of GASB Statement No. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide*.

The disclosures required by this Statement are intended to provide information needed to assess (a) funding status of a PERS on a going-concern basis, (b) progress made in accumulating sufficient assets to pay benefits when due, and (c) whether employers are making actuarially determined contributions.

Disclosures are required both in financial reports issued by PERS and in financial reports issued by employers, including those that do not fund their pension obligations. In addition to disclosures about plan provisions, actuarially determined contribution requirements, contributions actually made, and significant actuarial assumptions, this Statement requires the computation and disclosure of a standardized measure of the pension obligation. That measure, which may differ from that produced by the actuarial funding method used to determine contribution requirements, is the actuarial present value (APV) of credited projected benefits prorated on service: it considers both salary progression and step-rate benefits. It is referred to in this Statement as the "pension benefit obligation." An actuarial valuation to calculate this measure should be made at least once every two years, with an update in years when a full valuation is not performed.

Ten-year trend information should also be presented as required supplementary information. This information includes comparisons of (a) net assets available for benefits to the pension benefit obligation, (b) unfunded pension benefit obligation to annual covered payroll, and (c) revenues by source to expenses by type. Employers may make reference to the availability of ten-year trend information in publicly available PERS reports or in their own comprehensive annual financial reports (CAFR) rather than present the information with their basic financial statements (BFS).

For purposes of this Statement, PERS are categorized as single-employer, agent multiple-employer, and cost-sharing multiple-employer. Employers are required to disclose only summary information about their participation in cost-sharing multiple-employer PERS.

Small PERS and small employers (as defined in this Statement) may disclose the actuarial accrued liability developed from certain specified actuarial funding methods, instead of the standardized measure of the pension obligation required of larger entities. These smaller entities are also exempted from the requirement for actuarial updates.

Guidance is also provided on disclosure of information on defined contribution pension plans.

This statement is effective for periods ending after December 15, 1986.

THIS STATEMENT WAS SUPERCEDED BY GASB STATEMENTS NO. 25 and 27.

GASB Statement No. 6

Accounting and Financial Reporting for Special Assessments

This Statement establishes accounting and financial reporting standards for capital improvements and services financed by special assessments. The special assessment fund type as identified in NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, is eliminated for financial reporting purposes.

Transactions of a service-type special assessment should be reported in the fund type that best reflects the nature of the transactions, usually the general fund, a special revenue fund, or an enterprise fund, giving consideration to the “number of funds” principle. Service-type special assessment revenues should be treated like user fees. Assessment revenues and expenditures (expenses) for which the assessments were levied should be recognized on the same basis of accounting as that normally used for that fund type.

If the government is obligated in some manner to assume payments on special assessment debt in the event of default by the property owners, all transactions related to capital improvements financed by special assessments should be reported in the same fund types and on the same basis as any other capital improvement and financing transactions. The capital assets constructed or acquired should be reported in the general capital assets account group or in an enterprise fund, as appropriate.

For financial reporting purposes, a government is obligated in some manner for special assessment debt if (a) it is legally obligated to assume all or part of the debt in the event of default or (b) the government may take certain actions to assume secondary liability for all or part of the debt-and the government takes, or has given indications that it will take, those actions.

This Statement also provides guidance for reporting capital improvement assessment projects for which (a) initial financing is provided by existing resources and no debt is issued, (b) the assets constructed or acquired will benefit an enterprise fund, and (c) the government is not obligated in any manner for the related debt.

The provisions of this Statement are effective for periods beginning after June 15, 1987.

GASB Statement No. 7

Advance Refundings Resulting in Defeasance of Debt

This Statement provides guidance on accounting for advance refundings resulting in defeasance of debt recorded in the General Long-Term Debt Fund. The proceeds of the new debt should be reported as an “other financing source-proceeds of refunding bonds” in the fund receiving the proceeds. Payments to the escrow agent from resources provided by the new debt should be reported as an “other financing use-payment to refunded bond escrow agent.” Payments to the escrow agent made with other resources of the entity should be reported as debt service expenditures.

This Statement also provides guidance on disclosures about advance refundings for all governmental entities regardless of where the debt is reported. Among other things, the economic gain or loss on the refunding should be disclosed. The economic gain or loss is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate (as defined by this Statement) of the new debt and adjusted for additional cash paid.

This statement is effective for periods beginning after December 15, 1986. See also GASB Statement No. 23, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities.

GASB Statement No. 8

Applicability of FASB Statement No. 93, Recognition of Depreciation by Not-for-Profit Organizations, to Certain State and Local Governmental Entities

This Statement provides that governmental colleges and universities and other governmental entities that use certain specialized industry accounting and reporting principles and practices should not change their accounting and reporting for depreciation of capital assets as a result of FASB Statement No. 93, *Recognition of Depreciation by Not-for-Profit Organizations*. However, governmental colleges and universities are not precluded from depreciating their capital assets under an option permitted by the AICPA Industry Audit Guide, *Audits of Colleges and Universities*.

The provisions of this Statement are effective on issuance, which is January 1988.

THIS STATEMENT WAS SUPERCEDED BY GASB STATEMENT NO. 35.

GASB Statement No. 9

Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting

This Statement establishes standards for cash flow reporting. It requires a statement of cash flows (instead of a statement of changes in financial position) as part of a full set of financial statements for all proprietary and nonexpendable trust funds and governmental entities that use proprietary fund accounting. It exempts public employee retirement systems and pension trust funds from the requirement to present either a statement of cash flows or a statement of changes in financial position.

This Statement requires that a statement of cash flows classify cash receipts and payments according to whether they stem from operating, noncapital financing, capital and related financing, or investing activities, and it provides definitions of each category.

Governmental enterprises are encouraged to report cash flows from operating activities directly by showing major classes of operating cash receipts and payments (the direct method), although the indirect or reconciliation method may be used. If the direct method is used, a reconciliation of operating income to net cash flow from operating activities is required to be provided.

Information about investing, capital, and financing activities not resulting in cash receipts or payments in the period is required to be provided separately.

This Statement is effective for annual financial statements for fiscal years beginning after December 15, 1989. Restatement of financial statements for earlier years provided for comparative purposes is encouraged but not required.

GASB Statement No. 10

Accounting and Financial Reporting for Risk Financing and Related Insurance Issues

This Statement establishes accounting and financial reporting standards for risk financing and insurance-related activities of state and local governmental entities, including public entity risk pools. The risks of loss that are included within the scope of this Statement include torts; theft of, damage to, or destruction of assets; business interruption; errors or omissions; job-related illnesses or injuries to employees; acts of God; and any other risks of loss assumed under a policy or participation contract issued by a public entity risk pool. Also included are risks of loss resulting when an entity agrees to provide accident and health, dental, and other medical benefits to its employees.

This Statement generally requires public entity risk pools to follow the current accounting and financial reporting standards for similar business enterprises, based primarily on FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*. Pool premiums or required contributions are required to be recognized as revenue over the contract period in proportion to the amount of risk protection provided. Claims costs, including claim adjustment expenses and estimates of costs for claims relating to covered events that have occurred but have not been reported to the pool, should be recognized in the period in which the event that triggers coverage under the policy or participation contract occurs. Costs that vary with and are primarily related to the acquisition of insurance or pool participation contracts (acquisition costs) should be capitalized and charged to expense in proportion to premium revenue recognized. This Statement also requires disclosure of certain ten-year revenue and claims development data as required supplementary information.

State and local governmental entities other than public entity risk pools are required to report an estimated loss from a claim as an expenditure/expense and as a liability if both of these conditions are met:

- a. Information available before the financial statements are issued indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will also occur, confirming the fact of the loss.
- b. The amount of the loss can be reasonably estimated.

If a governmental entity other than a pool uses a single fund to account for its risk financing activities, that fund should be either the general fund or an internal service fund. Both funds must use the method described above for calculating claims liabilities. However, if an internal service fund is used, the entity also may use an actuarial method, including a provision for future catastrophe losses, to calculate the amount that the internal service fund charges other funds of the entity. Charges made on that basis should be reported as revenue in the internal service fund and as expenditures/expenses in the other funds of the entity. Charges in excess of those amounts should be reported as operating transfers. Any surplus fund balance in an internal service fund resulting from use of a provision for catastrophe losses is required to be reported as a designation of equity for future catastrophe losses. If the general fund is used, the entity may use any method it chooses to allocate loss expenditures/ expenses to the other funds of the entity.

This Statement is consistent with proposed provisions of the GASB's August 14, 1989 revised Exposure Draft, *Measurement Focus and Basis of Accounting-Governmental Fund Operating Statements* (MFBA ED), which would require governmental funds to report expenditures when incurred, regardless of when paid. The MFBA ED proposes standards

only for governmental fund *operating statements*, not their balance sheets. The Board will resolve issues about the balance sheet effect of liabilities arising from these expenditure accruals in its financial reporting project. Accordingly, this Statement does not provide guidance on the display of claims liabilities reported by *governmental funds*.

The requirements of this Statement that affect public entity risk pools are effective for financial statements for periods beginning after June 15, 1990. The requirements for entities other than pools are effective on the same date that the Board's final Statement on measurement focus and basis of accounting for governmental funds is effective. The transition date tentatively established by the MFBA ED is for financial statements for periods beginning after June 15, 1993. However, earlier application is permitted. Entities other than pools that use an internal service fund to report their risk management activities should report all claims liabilities in that fund and report the transfer of liabilities previously reported in the General Long-Term Debt Fund as an adjustment of internal service fund beginning net assets. See also GASB Statement No. 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).

GASB Statement No. 11

Measurement Focus and Basis of Accounting - Governmental Fund Operating Statements

This Statement is fundamental to the Board's overall reexamination of governmental accounting and financial reporting. It establishes measurement focus and basis of accounting standards for governmental and expendable trust fund operating statements. This Statement establishes basic principles that are needed to develop the guidance in other projects, especially certain expenditure recognition and measurement standards that will be implemented at the same time as this Statement; it also provides specific guidance for many governmental fund transactions, primarily revenues. This Statement provides guidance for balance sheet reporting of general long-term capital debt — liabilities resulting from capital asset acquisitions or debt financing of certain nonrecurring projects or activities that have long-term economic benefit. This Statement does not, however, provide guidance for balance sheet reporting of debt issued to finance operations or deficits (operating debt) or the long-term liabilities arising from the accrual of governmental fund expenditures. That guidance will be provided with a subsequent Statement on financial reporting, which also will be implemented at the same time as this Statement.

(Remainder of summary not included as implementation of this statement has been delayed indefinitely.)

**THIS STATEMENT WAS SUPERCEDED BY MULTIPLE GASB STATEMENTS,
PRIMARILY GASB STATEMENT NO. 34.**

GASB Statement No. 12

Disclosure of Information on Postemployment Benefits other Than Pension Benefits by State and Local Governmental Employers

This Statement requires these disclosures to be made by all state and local governmental employers that provide postemployment benefits other than pension benefits: (a) a description of the benefits provided, employee groups covered, and the employer and participant obligations to contribute; (b) a description of the statutory, contractual, or other authority under which benefit provisions and obligations to contribute are established; (c) a description of the accounting and financing or funding policies followed for those benefits; and (d) the expenditures/expenses for those benefits recognized for the period and certain related data.

Except for these disclosures, until the GASB has completed its project on recognition and measurement of postemployment benefits other than pension benefits, state and local governmental employers are not required to change their accounting and financial reporting of those benefits.

This statement is effective for periods beginning after June 15, 1990.

GASB Statement No. 13

Accounting for Operating Leases with Scheduled Rent Increases

This Statement establishes standards of accounting and financial reporting by state and local governmental entities for operating leases with scheduled rent increases, regardless of the fund type used to report the lease transactions. It requires governmental entities to account for operating leases with scheduled rent increases by using the terms of the lease

contract when the pattern of the payment requirements is systematic and rational. This includes lease agreements that specify scheduled rent increases over the lease term that are intended to cover economic factors relating to the property, such as the anticipated effects of cost increases or property value appreciation. If, however, an operating lease contains payment requirements in a particular year that are artificially low (for example, to ease the lessee's near-term cash flow requirements), governmental entities should measure the operating lease transactions either on a straight-line basis over the lease term or based on the estimated fair value of the rental.

The provisions of this Statement are effective for leases with terms beginning after June 30, 1990. Retroactive application for leases with terms beginning before July 1, 1990 is permitted. Entities should recognize operating lease revenue and expenditures/expense using an accrual basis of accounting. However, until GASB Statement No. 11, *Measurement Focus and Basis of Accounting – Governmental Fund Operating Statements*, becomes effective, entities that report the transactions in governmental and similar trust funds should recognize operating lease revenue and expenditures using a modified accrual basis of accounting. See also GASB Statement No. 17, *Measurement Focus Basis of Accounting – Governmental Fund Operating Statements: Amendment of GASB Statement No. 11 and Related Statements* (an amendment of GASB 10, 11, and 13).

GASB Statement No. 14

The Financial Reporting Entity

This Statement establishes standards for defining and reporting on the financial reporting entity. It also establishes standards for reporting participation in joint ventures. It applies to financial reporting by primary governments, governmental joint ventures, jointly governed organizations, and other stand-alone governments; and it applies to the separately issued financial statements of governmental component units. In addition, this Statement should be applied to governmental and nongovernmental component units when they are included in a governmental financial reporting entity.

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) 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 notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government.

The financial statements of the reporting entity generally should 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 rather than create the perception that the primary government and all of its component units are one legal entity.

Most component units should be included in the financial reporting entity by discrete presentation. Discrete presentation entails reporting component unit financial data in one or more columns separate from the financial data of the primary government. Certain information should be disclosed about each major component unit included in the component units column. The required information may be presented by using more than one column in the basic financial statements (BFS) for the component units and either including appropriate combining statements for the discretely presented component units in the reporting entity's BFS or presenting appropriate condensed financial statements of the discretely presented component units in the notes to the reporting entity's financial statements.

Some component units, despite being legally separate from the primary government, are so intertwined with the primary government that they are, in substance, the same as the primary government and 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.

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. The reporting entity's financial statements should make those component unit disclosures that are essential to fair presentation of the financial reporting entity's BFS. The notes to the financial statements also should include a brief description of the component units and their relationships to the primary government as well as information about how the separate financial statements of individual component units may be obtained.

This Statement also requires certain disclosures about the entity's relationships with organizations other than component units, including related organizations, joint ventures, jointly governed organizations, and component units of another government with characteristics of a joint venture or jointly governed organization. This Statement also provides financial statement display requirements for joint ventures in which the participating government has an equity interest.

This Statement is effective for financial statements for periods beginning after December 15, 1992.

GASB Statement No. 15

Governmental College and University Accounting and Financial Reporting Models

This Statement provides guidance on the accounting and financial reporting models to be used for governmental colleges and universities. Governmental colleges and universities should follow either the AICPA College Guide model or the Governmental model.

This statement is effective for periods beginning after June 15, 1992.

THIS STATEMENT WAS SUPERCEDED BY GASB STATEMENT NO. 35.

GASB Statement No. 16

Accounting for Compensated Absences

This Statement provides guidance for the measurement of accrued compensated absences liabilities by state and local governmental entities, regardless of the reporting model or fund type used to report the transactions. Compensated absences are absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave.

The standards in this Statement give consideration to the different characteristics of various types of compensated absences. For example, employees usually receive full compensation for vacation leave—either as paid time off or as compensation at termination or retirement. Thus, employees earn the right to be compensated for vacation leave based only on rendering past service. On the other hand, paid time off for earned sick leave is contingent on an illness—a specific event that is outside the control of the employer and employee. In some cases, however, employees may be compensated for a portion of their sick leave when they terminate or retire. In those cases, employees earn the right to be compensated for sick leave at termination based only on rendering past service.

Vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if the leave is attributable to past service and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

Sick leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees but only to the extent it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees' termination or retirement ("termination payments"). Alternatively, the liability should be measured based on the sick leave and other compensated absences with similar characteristics accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. When the liability is calculated, these accumulations should be reduced to the maximum amount allowed as a termination payment.

This Statement requires the compensated absences liability generally to be measured using the pay or salary rates in effect at the balance sheet date. It also requires additional amounts to be accrued for certain salary-related payments associated with the payment of

compensated absences, for example, the employer's share of social security and Medicare taxes.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 1993. However, for governmental and similar trust funds, only the current portion of the liability should be reported in the funds; the remainder of the liability should be reported in the General Long-Term Debt Fund (GLTDF) and compensated absences expenditures should be recognized using a modified accrual basis of accounting. The provisions of this Statement are effective for recognizing governmental and similar trust fund expenditures using an accrual basis of accounting when GASB Statement No. 11, *Measurement Focus and Basis of Accounting – Governmental Fund Operating Statements*, becomes effective.

GASB Statement No. 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 Statements No. 10, 11, and 13)

This Statement amends GASB Statements No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, No. 11, Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements, and No. 13, Accounting for Operating Leases with Scheduled Rent Increases. It defers the effective date of Statement 11 to periods beginning approximately two years after an implementation standard is issued and modifies the Statement 13 reference to Statement 11's effective date. It also establishes an effective date for Statement 10, for entities other than pools, using the modified accrual basis of accounting in governmental and similar trust funds, that is independent of the effective date of Statement 11.

This statement is effective June 1993.

GASB Statement No. 18

Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs

This Statement is based on the October 9, 1991, U.S. Environmental Protection Agency (EPA) rule, "Solid Waste Disposal Facility Criteria," which establishes closure requirements for all municipal solid waste landfills (MSWLFs) that receive solid waste after October 9, 1991. The EPA rule also establishes thirty-year postclosure care requirements for MSWLFs that accept solid waste after October 9, 1993. The effect of the EPA rule and similar state or local laws or regulations is to obligate MSWLF owners and operators to perform certain closing functions and postclosure monitoring and maintenance functions as a condition for the right to operate the MSWLF in the current period.

This Statement applies to state and local governmental entities that are required by federal, state, or local laws or regulations to incur MSWLF closure and postclosure care costs. Certain of these costs, which result in disbursements near or after the date that the MSWLF stops accepting solid waste and during the postclosure period, should be included in the estimated total current cost of MSWLF closure and postclosure care, regardless of their capital or operating nature.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 1993.

GASB Statement No. 19

Governmental College and University Omnibus Statement (an amendment of GASB Statement No. 10 and 15)

This Statement requires governmental colleges and universities that follow the AICPA College Guide model to report Pell grants in a restricted current fund. This Statement also requires that if a single fund is used to account for risk financing activities, that fund should be reported as an unrestricted current fund.

For Pell grants, this Statement is effective for financial statements for periods beginning after June 15, 1993. For risk financing activities, this Statement is effective for financial statements for periods beginning after June 15, 1994. Early application is encouraged.

THIS STATEMENT WAS SUPERCEDED BY GASB STATEMENT NO. 35.

GASB Statement No. 20

Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting

This Statement provides interim guidance on business-type accounting and financial reporting for proprietary activities (that is, proprietary funds and governmental entities that use proprietary fund accounting), pending further GASB research that is expected to lead to the issuance of one or more pronouncements on the accounting and financial reporting model for proprietary activities.

Proprietary activities should apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBS) of the Committee on Accounting Procedure.

In addition to applying FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, a proprietary activity may also apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

The same application of FASB pronouncements is encouraged to be used for all proprietary activities, including component units, in the basic financial statements of the financial reporting entity.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 1993.

GASB Statement No. 21

Accounting for Escheat Property

This Statement establishes standards for the fund type to be used to report escheat property and for reporting liabilities and interfund transfers relating to escheat property. An escheat

is the reversion of property to a governmental entity in the absence of legal claimants or heirs.

This Statement requires escheat property generally to be reported in either an expendable trust fund or the fund to which the property ultimately escheats (the ultimate fund). Escheat revenue should be reduced and a fund liability reported to the extent that it is probable that escheat property will be reclaimed and paid to claimants. Payments to claimants should reduce the liability.

If escheat property is initially reported in an expendable trust fund, amounts transferred to the ultimate fund should be reported as an operating transfer. If, as a result of the transfer, the remaining assets of the expendable trust fund are less than the liabilities of that fund, the difference should be reported as an 'advance to' in the expendable trust fund and an 'advance from' in the ultimate fund. If, however, the escheat assets of the expendable trust fund exceed the liabilities of that fund, the difference should be reported as fund balance.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 1994.

GASB Statement No. 22

Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds

This Statement requires revenue from taxpayer-assessed taxes, such as sales and income taxes, net of estimated refunds, to be recognized in governmental funds 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.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 1994.

THIS STATEMENT WAS SUPERCEDED BY GASB STATEMENT NO. 33.

GASB Statement No. 23

Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities

This Statement establishes standards of accounting and financial reporting for current refundings and advance refundings resulting in defeasance of debt reported by proprietary activities—that is, proprietary funds and other governmental entities that use proprietary fund accounting. Refundings involve the issuance of new debt whose proceeds are used to repay previously issued debt. The proceeds may be used immediately for this purpose (a current refunding), or they may be placed with an escrow agent and invested until they are used to pay principal and interest on the old debt at a future time (an advance refunding).

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 and the net carrying amount of the old debt be deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. On the balance sheet, the deferred amount should be reported as a deduction from or an addition to the new debt liability.

In addition, this Statement makes the disclosures required by paragraphs 11-13 of GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, applicable to current refundings reported by proprietary activities.

The provisions of this Statement are effective for financial statements issued for periods beginning after June 15, 1994.

[GASB Statement No. 24](#)

Accounting and Financial Reporting for Certain Grants and Other Financial Assistance

This Statement establishes accounting and financial reporting standards for pass-through grants, food stamps, and on-behalf payments for fringe benefits and salaries.

Pass-through grants are those that are received by a recipient government to transfer to or spend on behalf of a secondary recipient. As a general rule, recipient governments should recognize all cash pass-through grants as revenue and expenditures or expenses in a governmental, proprietary, or trust fund. In those infrequent cases in which a recipient government serves only as a cash conduit—that is, it has no administrative or direct financial involvement in the program—the grant should be reported in an agency fund.

This Statement requires state governments to recognize their distributions of food stamp benefits as revenue and expenditures in the general fund or a special revenue fund, whether the state government distributes the benefits directly or through agents and whether the benefits are in paper or electronic form. State governments should report food stamp balances held by them or by their agents at the balance sheet date as an asset offset by deferred revenue.

On-behalf payments for fringe benefits and salaries are direct payments made by one entity (the paying entity) to a third-party recipient for the employees of another, legally separate entity (the employer entity). They include payments made by governmental entities on behalf of nongovernmental entities and payments made by nongovernmental entities on behalf of governmental entities. This Statement requires employer governments to recognize revenue and expenditures or expenses for these on-behalf payments. Revenue should equal the amounts that third-party recipients have received and that are receivable at year-end for the current fiscal year. For employer governments that *are not* legally responsible for the payments, expenditures or expenses should equal the amounts recognized as revenue. Employer governments that *are* legally responsible for the payments should follow accounting standards for that type of transaction to recognize expenditures or expenses and related liabilities or assets. This Statement requires governmental entities that make on-behalf payments for fringe benefits and salaries to classify those payments in the same manner that they classify similar cash grants to other entities.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 1995.

GASB Statement No. 25

Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans

This Statement establishes financial reporting standards for defined benefit pension plans and for the notes to the financial statements of defined contribution plans of state and local governmental entities. Financial reporting standards for postemployment healthcare plans administered by defined benefit pension plans and for the pension expenditures/expense of employers are included, respectively, in two related Statements: No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

The standards in this Statement apply for pension trust funds included in the financial reports of plan sponsors or employers as well as for the stand-alone financial reports of pension plans or the public employee retirement systems that administer them. Reduced disclosures are acceptable for pension trust funds when a stand-alone plan financial report is publicly available and contains all required information.

This Statement establishes a financial reporting framework for *defined benefit pension plans* that distinguishes between two categories of information: (a) current financial information about plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due.

Plans should include information in the first category in two financial statements: (a) a *statement of plan net assets* that provides information about the fair value and composition of plan assets, plan liabilities, and plan net assets and (b) a *statement of changes in plan net assets* that provides information about the year-to-year changes in plan net assets. The requirements for the notes to the financial statements include a brief plan description, a summary of significant accounting policies, and information about contributions, legally required reserves, and investment concentrations.

Information in the second category should be included, for a minimum of six years, in two schedules of historical trend information that should be presented as required supplementary information immediately after the notes to the financial statements. The required schedules are (a) a *schedule of funding progress* that reports the actuarial value of assets, the actuarial accrued liability, and the relationship between the two over time and (b) a *schedule of employer contributions* that provides information about the annual required contributions of the employer(s) (ARC) and the percentage of the ARC recognized by the plan as contributed. Note disclosures related to the required schedules should be presented after the schedules and should include the actuarial methods and significant assumptions used for financial reporting.

Plans may elect to report one or more years of the information required for either or both schedules in an additional financial statement(s) or in the notes to the financial statements. Information for all required years also should be reported as required supplementary information, unless all years are included in the additional statement(s) or notes.

Plans should measure all actuarially determined information included in their financial reports in accordance with certain parameters. The parameters include requirements for the frequency and timing of actuarial valuations as well as for the actuarial methods and assumptions that are acceptable for financial reporting. When the methods and assumptions used in determining a plan's funding requirements meet the parameters, the same methods and assumptions are required for financial reporting by both a plan and its participating employer(s).

This Statement requires the notes to the financial statements of *defined contribution plans* to include a brief plan description, a summary of significant accounting policies (including the fair value of plan assets, unless reported at fair value), and information about contributions and investment concentrations.

The provisions of this Statement are effective for periods beginning after June 15, 1996. Early implementation is encouraged; however, Statement 26, if applicable, should be implemented in the same fiscal year.

GASB Statement No. 26

Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans

This Statement establishes financial reporting standards for postemployment healthcare plans administered by state and local governmental defined benefit pension plans. It is an interim Statement pending completion of the GASB's project on accounting and financial reporting of other postemployment benefits by plans and employees. Financial reporting requirements for *pension* assets and benefits administered by defined benefit pension plans are included in related Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* (pension plan reporting standards).

This Statement requires defined benefit pension plans that administer postemployment healthcare plans to present (a) a *statement of postemployment healthcare plan net assets*, (b) a *statement of changes in postemployment healthcare plan net assets*, and (c) notes to the financial statements, all in accordance with the pension plan reporting standards. This Statement also establishes certain requirements for plans that elect to provide historical trend information about the funded status of the postemployment healthcare plan and the employer's required contributions to the plan, either as supplementary information or in an additional financial statement(s) or notes. However, presentation of that information is not required.

The provisions of this Statement are effective for periods beginning after June 15, 1996. Early implementation is encouraged; however, Statement 25 should be implemented in the same fiscal year.

THIS STATEMENT WAS SUPERCEDED BY GASB STATEMENT NO. 43.
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[GASB Statement No. 27](#)

Accounting for Pensions by State and Local Governmental Employers

This statement establishes standards for the measurement, recognition, and display of *pension expenditures/expense* and related liabilities, assets, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. Reporting requirements for *pension trust funds* of employers are included in two related Statements: No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*.

Employers that participate in *single-employer and agent multiple-employer defined benefit pension plans* (sole and agent employers) are required to *measure* and *disclose* an amount for annual pension cost on the accrual basis of accounting, regardless of the amount *recognized* as pension expenditures/expense on the modified accrual or accrual basis. Annual pension cost should be equal to the employer's annual required contributions (ARC) to the plan, unless the employer has a net pension obligation (NPO) for past under- or over-contributions.

The ARC is defined as the employer's required contributions for the year, calculated in accordance with certain parameters. The parameters include requirements for the frequency and timing of actuarial valuations as well as for the actuarial methods and assumptions that are acceptable for financial reporting. When the methods and assumptions used in determining a plan's funding requirements meet the parameters, the same methods and assumptions are required for financial reporting by both a plan and its participating employer(s).

An NPO is defined as the cumulative difference between annual pension cost and the employer's contributions to a plan, including the pension liability or asset at transition, if any. An employer with an NPO should measure annual pension cost equal to (a) the ARC, (b) one year's interest on the NPO, and (c) an adjustment to the ARC to offset the effect of actuarial amortization of past under- or over-contributions.

The calculation requirements for the pension liability or asset at transition are similar to the requirements for calculating the NPO after the effective date. For some employers, the

requirements include recalculation of any differences between the employer's actuarially determined required contributions and the contributions made, for all fiscal years beginning between December 15, 1986 and the effective date of this Statement.

Pension expenditures of governmental and expendable trust funds and all other entities that apply governmental fund accounting should be recognized on the modified accrual basis. A liability balance in the NPO should be recognized in the General Long-Term Debt Fund; an asset balance should not be recognized in the financial statements but should be disclosed. Pension expense of proprietary and similar trust funds and all other entities that apply proprietary fund accounting, and pension expenditures of colleges and universities that apply the AICPA College Guide model, should be recognized on the accrual basis; NPO balances should be recognized as fund liabilities or assets.

In addition to descriptive information about the plan and its funding policy, the required disclosures include three years of information about annual pension cost and, if applicable, the components of annual pension cost, the increase or decrease for the year in the NPO, and the year-end balance of the NPO. Information about the plan's funding progress for the past three actuarial valuations, calculated in accordance with the parameters, should be reported as required supplementary information. Information for one or more of those valuations may be disclosed in the notes to the financial statements. However, unless the note disclosures include all three valuations, the information also should be reported as required supplementary information.

Employers that participate in *cost-sharing multiple-employer defined benefit pension plans* are required to recognize pension expenditures/expense equal to the employer's contractually required contributions and a liability for unpaid contributions. Recognition should be on the modified accrual or accrual basis, depending on the fund type or type of entity. Previously recognized pension liabilities should be adjusted at the effective date to equal the pension liability at transition, if any. That amount should be equal to the employer's contractually required contributions that are unpaid at the effective date. In addition to descriptive information about the plan and its funding policy, the required disclosures include three years of information about the employer's required contributions and the percentage contributed.

Employers that participate in *defined contribution plans* are required to recognize pension expenditures/expense equal to the employer's required contributions to the plan and a liability for unpaid contributions. Recognition should be on the modified accrual or accrual basis, depending on the fund type or type of entity. The required disclosures include descriptive information about the plan and the required and actual contributions of the employer and plan members.

This Statement also includes guidance for employers that participate in insured plans and for entities that are legally responsible for contributions to pension plans covering employees of other entities. Guidance also is provided for sole and agent employers that elect to apply the pension measurement provisions of this Statement to postemployment healthcare benefits on an interim basis, pending issuance of a future Statement(s) on accounting for those benefits.

Note: The provisions of this Statement are effective for periods beginning after June 15, 1997.

GASB Statement No. 28

Accounting and Financial Reporting for Securities Lending Transactions

This statement establishes standards of accounting and financial reporting for securities lending transactions in which governmental entities (lenders) transfer their securities to broker-dealers and other entities (borrowers) for collateral and simultaneously agree to return the collateral for the same securities in the future. It applies to all state and local governmental entities that have had securities lending transactions during the period.

Note: The provisions of this Statement are effective for periods beginning after June 15, 1995.

GASB Statement No. 29

The Use of Not-for-Profit Accounting and Financial Reporting Principles by Government Entities

This Statement provides interim guidance concerning the use of not-for-profit accounting and financial reporting principles by state and local governmental entities pending one or more GASB pronouncements on the accounting and financial reporting model for governmental entities, including proprietary activities.

This Statement provides that governmental entities that heretofore have applied not-for-profit accounting and financial reporting principles by following the American Institute of Certified Public Accountants' (AICPA) Statement of Position (SOP) 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, or Industry Audit Guide, *Audits of Voluntary Health and Welfare Organizations*, should apply the

Governmental model or the AICPA Not-for-Profit model. The AICPA Not-for-Profit model consists of the accounting and financial reporting principles contained in SOP 78-10 or *Audits of Voluntary Health and Welfare Organizations*—except for the provisions relating to the joint costs of informational materials and activities that include a fundraising appeal—as modified by all applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by most applicable GASB pronouncements.

This Statement also provides guidance for proprietary activities—that is, proprietary funds and other governmental entities that use proprietary fund accounting—that apply the provisions of paragraph 7 of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. It provides that those activities should apply only those FASB Statements and Interpretations issued after November 30, 1989, that are developed for business enterprises. They should not apply FASB Statements and Interpretations whose provisions are limited to not-for-profit organizations or address issues concerning primarily such organizations (such as FASB Statements No. 117, *Financial Statements of Not-for-Profit Organizations*, and No. 116, *Accounting for Contributions Received and Contributions Made*, respectively).

Note: The provisions of this Statement generally are effective for periods beginning after December 15, 1994. The modification of the AICPA Not-for-Profit model for certain GASB pronouncements is effective for entities that previously have not applied those pronouncements for periods beginning after December 15, 1995.

GASB Statement No. 30

Risk Financing Omnibus, an Amendment of GASB Statement No. 10

This Statement amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, for public entity risk pools and for entities other than pools.

For *public entity risk pools*, this statement modifies the method for calculating a premium deficiency, and it requires recognition of a premium deficiency liability and expense for the amount by which the premium deficiency exceeds unamortized acquisition costs. It also requires disclosure in the notes to the financial statements about the type of reinsurance or excess insurance coverage for certain claims costs, and requires presentation of gross, ceded, and net premiums and claims costs in the ten-year revenue and claims development

information. Furthermore, this Statement provides that claims development information should be reported consistently on an accident-year basis, a report-year basis, or a policy-year basis. It also allows presentation of additional percentage information.

For *entities other than pools*, this Statement includes specific, incremental claim adjustment expenditures/expenses and estimated recoveries (such as salvage and subrogation) in the determination of the liability for unpaid claims. Also, it requires disclosure of whether other claim adjustment expenditures/expenses are included in the liability for unpaid claims.

Note: The provisions of this Statement are effective for periods beginning after June 15, 1996.

GASB Statement No. 31

Accounting and Financial Reporting for Certain Investments and for External Investment Pools

This Statement establishes accounting and financial reporting standards for *all* investments held by governmental external investment pools. For most other governmental entities (including school districts), it establishes fair value standards for investments in participating interest-earning investment contracts, external investment pools, open-end mutual funds, debt & equity securities, options contracts, stock warrants, and stock rights that have readily determinable fair values. Participating investment contracts are investments whose value is affected by market (interest rate) changes. They participate because they are negotiable or transferable, or their redemption value considers market rates. This statement provides guidance for applying fair values to certain investment transactions for defined benefit pension plans and Internal Revenue Code Section 457 deferred compensation plans.

Governmental entities, including governmental external investment pools, should report investments at fair value in the balance sheet (or other statement of financial position). Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. However, governmental entities other than external investment pools are permitted to report certain money market investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days. This Statement also provides guidance for reporting the fair value of investments in open-end mutual funds and external investment pools.

All investment income, including changes in the fair value of investments, should be reported as revenue in the operating statement (or other statement of activities). For internal and external investment pools, this Statement requires the equity position of each fund and component unit of the reporting entity that sponsors the pool to be reported as assets in those funds and component units. It also provides reporting standards when income from investments associated with one fund is assigned to another fund.

Governmental external investment pools that are 2a7-like pools are permitted to report their investments at amortized cost. A 2a7-like pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows money market mutual funds to use amortized cost to report net assets. This Statement also establishes minimum requirements for the financial statements to be presented and the disclosures to be made in the separate financial reports of governmental external investment pools.

A governmental entity that sponsors one or more external investment pools should report the external portion of each pool as an investment trust fund that reports transactions and balances using the economic resources measurement focus and the accrual basis of accounting. This Statement establishes minimum requirements for the financial statements to be presented and the disclosures to be made in the sponsor's report concerning those pools, including expanded disclosure requirements if separate pool financial reports are not issued. It also provides standards for reporting individual investment accounts that a governmental entity provides to other entities.

Note: This Statement applies to all school districts. The provisions of this Statement are effective for periods beginning after June 15, 1997.

GASB Statement No. 32

Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

This Statement rescinds GASB Statement No. 2, Financial Reporting of Deferred Compensation Plans Adopted under the Provisions of Internal Revenue Code Section 457, and establishes accounting and financial reporting standards for Internal Revenue Code Section 457 deferred compensation plans of state and local governmental employers. In addition, this Statement amends the investment guidance for Section 457 plans in GASB

Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

Note: This Statement applies to all school districts. The provisions of this Statement are effective for financial statements for periods beginning after December 31, 1998 or when plan assets are held in trust under the requirements of IRC Section 457, subsection (g), if sooner.

GASB Statement No. 33

Accounting and Financial Reporting for Nonexchange Transactions

An excerpt from the GASB Statement No. 33 summary section states "This Statement establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources (for example, most taxes, grants, and private donations). In a nonexchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. The principal issue addressed in this Statement is the timing of recognition of nonexchange transactions—that is, when should governments recognize them in the financial statements?"

Note: This Statement applies to all school districts. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2000.

GASB Statement No. 34

Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments

An excerpt from the GASB Statement No. 34 summary section states

“This Statement establishes financial reporting standards for state and local governments, including states, cities, towns, villages, and special-purpose governments such as school

districts and public utilities. It establishes that the basic financial statements and required supplementary information (RSI) for general purpose governments should consist of:

Management's discussion and analysis (MD&A).

MD&A should introduce the basic financial statements and provide an analytical overview of the government's financial activities. Although it is RSI, governments are required to present MD&A before the basic financial statements.

Basic financial statements.

The basic financial statements should include: **Government-wide financial statements, consisting of a statement of net assets and a statement of activities.** Prepared using the economic resources measurement focus and the accrual basis of accounting, these statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. 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. Fiduciary activities, whose resources are not available to finance the government's programs, should be excluded from the government-wide statements.

Fund financial statements consist of a series of statements that focus on information about the government's major governmental and enterprise funds, including its blended component units. Fund financial statements also should report information about a government's fiduciary funds and component units that are fiduciary in nature. 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. Proprietary fund financial statements (including financial data for enterprise and internal service funds) and 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.

Notes to the financial statements consist of notes that provide information that is essential to a user's understanding of the basic financial statements.

Required supplementary information (RSI).

In addition to MD&A, this Statement requires budgetary comparison schedules to be presented as RSI along with other types of data as required by previous GASB

pronouncements. This Statement also requires RSI for governments that use the modified approach for reporting infrastructure assets.

Special-purpose governments that are engaged in only governmental activities (such as some library districts) or that are engaged in both governmental and business-type activities (such as some school districts) generally should be reported in the same manner as general purpose governments. Special-purpose governments engaged only in business-type activities (such as utilities) should present the financial statements required for enterprise funds, including MD&A and other RSI.

Important Aspects of MD&A

MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. MD&A should include comparisons of the current year to the prior year based on the government-wide information. It should provide an analysis of the government's overall financial position and results of operations to assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities. In addition, it should provide an analysis of significant changes that occur in funds and significant budget variances. It should also describe capital asset and long-term debt activity during the year. MD&A should conclude with a description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

Important Aspects of the Government-wide Financial Statements

Governments should report all capital assets, including infrastructure assets, in the government-wide statement of net assets and generally should report depreciation expense in the statement of activities. Infrastructure assets that are part of a network or subsystem of a network are not required to be depreciated as long as the government manages those assets using an asset management system that has certain characteristics and the government can document that the assets are being preserved approximately at (or above) a condition level established and disclosed by the government.

The **net assets** of a government should be reported in three categories—invested in capital assets net of related debt, restricted, and unrestricted. This Statement provides a definition of the term restricted. Permanent endowments or permanent fund principal amounts included in restricted net assets should be displayed in two additional components—expendable and nonexpendable.

The **government-wide statement** of activities should be presented in a format that reports expenses reduced by program revenues, resulting in a measurement of “net (expense)

revenue” for each of the government’s functions. Program expenses should include all direct expenses. General revenues, such as taxes, and special and extraordinary items should be reported separately, ultimately arriving at the change in net assets for the period. Special items are significant transactions or other events that are either unusual or infrequent and are within the control of management.

Important Aspects of the Fund Financial Statements

To report additional and detailed information about the primary government, separate fund financial statements should be presented for governmental and proprietary funds. Required governmental fund statements are a balance sheet and a statement of revenues, expenditures, and changes in fund balances. Required proprietary fund statements are a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows. To allow users to assess the relationship between fund and government-wide financial statements, governments should present a summary reconciliation to the government-wide financial statements at the bottom of the fund financial statements or in an accompanying schedule.

Each of the fund statements should report separate columns for the general fund and for other major governmental and enterprise funds. **Major funds** are funds whose revenues, expenditures/expenses, assets, or liabilities (excluding extraordinary items) are at least 10 percent of corresponding totals for all governmental or enterprise funds and at least 5 percent of the aggregate amount for all governmental and enterprise funds. Any other fund may be reported as a major fund if the government’s officials believe that fund is particularly important to financial statement users. Nonmajor funds should be reported in the aggregate in a separate column. Internal service funds also should be reported in the aggregate in a separate column on the proprietary fund statements.

Fund balances for governmental funds should be segregated into reserved and unreserved categories. Proprietary fund net assets should be reported in the same categories required for the government-wide financial statements. Proprietary fund statements of net assets should distinguish between current and noncurrent assets and liabilities and should display restricted assets.

Proprietary fund statements of revenues, expenses, and changes in fund net assets should distinguish between operating and nonoperating revenues and expenses. These statements should also report capital contributions, contributions to permanent and term endowments, special and extraordinary items, and transfers separately at the bottom of the statement to arrive at the all-inclusive change in fund net assets. Cash flows statements should be prepared using the direct method.

Separate fiduciary fund statements (including component units that are fiduciary in nature) also should be presented as part of the fund financial statements. Fiduciary funds should be used to report assets that are held in a trustee or agency capacity for others and that cannot be used to support the government's own programs. Required fiduciary fund statements are a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Interfund activity includes interfund loans, interfund services provided and used, and interfund transfers. This activity should be reported separately in the fund financial statements and generally should be eliminated in the aggregated government-wide financial statements.

Required Supplementary Information

To demonstrate whether resources were obtained and used in accordance with the government's legally adopted budget, RSI should include budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedules 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. This Statement also requires RSI for governments that use the modified approach for reporting infrastructure assets."

Prospective reporting of **general infrastructure assets** is required at the effective dates of this Statement. Retroactive reporting of all major general governmental infrastructure assets is encouraged at that date. For phase 1 and phase 2 governments, retroactive reporting is required four years after the effective date on the basic provisions for all major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980. Phase 3 governments are encouraged to report infrastructure retroactively, but may elect to report general infrastructure prospectively only.

Components of This Statement

This Statement consists of several components. The detailed authoritative standards established by this Statement are presented in paragraphs 3 through 166. Appendix C provides nonauthoritative illustrations of MD&A; the basic financial statements required for a variety of types of governments, such as towns, school districts, fire districts, and utilities; notes to those financial statements required by this Statement; and RSI other than MD&A. The reasons for the Board's conclusions on the major issues are discussed in the Basis for Conclusions (Appendix B). Appendix D summarizes how the new standards

would be incorporated into the GASB's June 30, 1999, Codification of Governmental Accounting and Financial Reporting Standards.

Note: This Statement applies to all school districts. The requirements of this Statement are effective for periods beginning after June 15, 2001. (The statement provides for a three-phase implementation which is not practical in order to collect comparable data from all school districts. Accordingly, all districts will implement these standards for the fiscal year beginning **September 1, 2001.**)

GASB Statement No. 35

Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities an amendment of GASB Statement No. 34

It is to be noted that this statement is not applicable to independent school districts and most charter school entities.

“This Statement establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. The standards are designed to provide financial information that responds to the needs of three groups of primary users of general purpose external financial reports: the citizenry, legislative and oversight bodies, and investors and creditors. Generally, this amendment to Statement 34 permits public colleges and universities, in separately issued financial statements, to use the guidance for special-purpose governments engaged only in business-type activities, engaged only in governmental activities, or engaged in both governmental and business-type activities in their separately issued reports. Under this guidance, in its separately issued reports, a public institution is required to include management's discussion and analysis (MD&A); basic financial statements, as appropriate for the category of special-purpose government reporting selected; notes to the financial statements; and required supplementary information other than MD&A.”

Note: This Statement applies to post-secondary institutions. The requirements of this Statement are effective for periods beginning after June 15, 2001. (The statement provides for a three-phase implementation. Refer to the statement for additional information.)

GASB Statement No. 36

Recipient Reporting for Certain Shared Nonexchange Revenues—an amendment of GASB Statement No. 33

“This Statement provides symmetrical accounting treatment for certain shared revenues by superseding paragraph 28 of GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions. Statement 33 requires governments that share portions of their derived tax or imposed nonexchange revenues to account for the sharing as a voluntary or government-mandated nonexchange transaction, as appropriate. However, paragraph 28 of that Statement required governments that receive those shared portions to account for the sharing as a derived tax or imposed nonexchange transaction—that is, differently than the provider government. As a result, in certain circumstances, the provider and recipient governments would recognize the sharing of revenues at different times. This Statement eliminates that timing difference by requiring recipient governments to account for the sharing of revenues in the same manner as provider governments.

Additionally, this Statement removes the prior guidance in paragraph 28 that required recipient governments to accrue revenues equal to cash received if notification of the amount was not available in a timely manner. This Statement allows other estimation methods by requiring recipient governments to use a reasonable estimate of the amount to be accrued.”

Note:	The requirements of this Statement are effective simultaneously with Statement 33, for periods beginning after June 15, 2000
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GASB Statement No. 37

Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus – An Amendment of GASB Statements No. 21 and No. 34

”This Statement amends Statement No. 21, Accounting for Escheat Property, and Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments.

The amendments to Statement 21 are necessary because of the changes to the fiduciary fund structure required by Statement 34. Generally, escheat property that was reported in an expendable trust fund in the previous model should be reported in a private-purpose trust fund under Statement 34. This Statement explains the effects of that change.

The amendments to Statement 34 either (1) clarify certain provisions that, in retrospect, may not be sufficiently clear for consistent application or (2) modify other provisions that the Board believes may have unintended consequences in some circumstances.

The provisions clarified by this Statement include:

- MD&A requirements. Governments should confine the topics discussed in MD&A to those listed in paragraph 11 of Statement 34, rather than consider those topics as "minimum requirements."
- Modified approach. Adopting the modified approach for infrastructure assets that have previously been depreciated is considered a change in an accounting estimate. The effect of the change is accounted for prospectively, rather than as a restatement of prior periods.
- Program revenue classifications. Fines and forfeitures should be included in the broad charges for services category. Also, additional guidance is provided to aid in determining to which function certain program revenues pertain.
- Major fund criteria. Major fund reporting requirements apply to a governmental or enterprise fund if the same element (for example, revenues) exceeds both the 10 and 5 percent criteria.

Modifications to the requirements of Statement 34 include:

- Eliminating the requirement to capitalize construction-period interest for governmental activities
- Changing the minimum level of detail required for business-type activities in the statement of activities from segments to different identifiable activities.

The provisions of this Statement should be simultaneously implemented with Statement 34. For governments that implemented Statement 34 prior to the issuance of this Statement, this Statement's requirements are effective for financial statements for periods beginning after June 15, 2000.

GASB Statement No. 38

Certain Financial Statement Note Disclosures

"This Statement modifies, establishes, and rescinds certain financial statement disclosure requirements.

Existing disclosure requirements are modified to include the following:

- Descriptions of the activities accounted for in the major funds, internal service fund type, and fiduciary fund types
- The length of time used to define available for purposes of revenue recognition in the governmental fund financial statements
- Actions taken to address significant violations of finance-related legal or contractual provisions
- Debt service requirements to maturity, separately identifying principal and interest for each of the subsequent five years and in five-year increments thereafter
- Obligations under leases for each of the five subsequent years and in five-year increments thereafter
- A schedule of changes in short-term debt and the purpose for which short-term debt was issued
- For interfund balances, amounts due from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type; the purpose for those balances; and amounts that are not expected to be repaid within one year.

Governments should provide the following additional note disclosures:

- Interest requirements for variable-rate debt computed using the rate effective at year-end
- Terms of interest rate changes for variable-rate debt
- Details about major components of receivable and payable balances when obscured by aggregation and identification of receivable balances not expected to be collected within one year
- For interfund transfers, amounts transferred from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type; a general description of the principal purposes of interfund transfers; and purposes for and amounts of certain transfers.

This Statement rescinds the requirement in National Council of Governmental Accounting Statement 1, Governmental Accounting and Financial Reporting Principles, to disclose the accounting policy for encumbrances.

The provisions of this Statement are generally effective when the provisions of GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, are required to be implemented, except that requirements related to short-term debt, receivable and payable balances, interfund

balances, and interfund transfers may be implemented one year later by phase 1 governments.

GASB Statement No. 39

Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14 (Issued 5/02)

An objective of Statement No. 14, The Financial Reporting Entity, is that all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. This Statement amends Statement 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit.

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.

This Statement continues the requirement in Statement 14 to apply professional judgment in determining whether the relationship between a primary government and other organizations for which the primary government is not financially accountable and that do not meet these criteria is such that exclusion of the organization would render the financial statements of the reporting entity misleading or incomplete. Those component units should

be reported based on the existing blending and discrete presentation display requirements of Statement 14.

Note: The provisions of this Statement are effective for periods beginning after June 15, 2003.

GASB Statement No. 40

Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3 (Issued 3/03)

The deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed.

The Board reconsidered the disclosures required by Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements. Portions of that Statement are modified or eliminated. The custodial credit risk disclosures of Statement 3 are modified to limit required disclosures to:

- Deposits that are not covered by depository insurance and are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name
- Investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.

Statement 3 disclosures generally referred to as category 1 and 2 deposits and investments are eliminated. However, this Statement does not change the required disclosure of authorized investments or the requirements for reporting certain repurchase agreements and

reverse repurchase agreements, and it maintains, with modification, the level-of-detail disclosure requirements of Statement 3.

How the Changes in This Statement Improve Financial Reporting

Deposit and investment resources often represent significant assets of governmental, proprietary, and fiduciary funds. These resources are necessary for the delivery of governmental services and programs, or to carry out fiduciary responsibilities. This Statement is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. The Board believes that there are risks inherent in all deposits and investments, and it believes that the disclosures required by this Statement provide users of governmental financial statements with information to assess common risks inherent in deposit and investment transactions.

The Board adopted fair value accounting for most investments in Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Fair value portrays the market's estimate of the net future cash flows of investments, discounted to reflect both time value and risk. In order to understand the measurement of investments at fair value, the timing of cash flows (including investment time horizons) and investment risks need to be communicated.

This Statement results from the Board's formal reviews of its existing standards. These reviews—part of the Board's strategic plan—are designed to evaluate the continuing usefulness of current requirements. The reduction of existing custodial credit risk disclosures follows from federal banking reforms adopted since the release of Statement 3.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2004.

GASB Statement No. 41

Budgetary Comparison Schedules—Perspective Differences—an amendment of GASB Statement No. 34 (Issued 5/03)

This Statement amends Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. The amendment to Statement

34 clarifies the budgetary presentation requirements for governments with significant budgetary perspective differences that result in their not being able to present budgetary comparison information for their general fund and major special revenue funds. These governments are required to present budgetary comparison schedules as required supplementary information (RSI) based on the fund, organization, or program structure that the government uses for its legally adopted budget.

The provisions of this Statement should be implemented simultaneously with Statement 34. For governments that have implemented Statement 34 prior to the issuance of this Statement, the requirements of this Statement are effective for financial statements for periods beginning after June 15, 2002.

GASB Statement No. 42

Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries

This Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.

Governments are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. A capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset.

Impaired capital assets that will no longer be used by the government should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the government should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. Impairment of capital assets that are affected by enactment or approval of laws or regulations or other changes in environmental factors or are subject to technological changes or obsolescence generally should be measured using a service units approach, an approach that compares the service

units provided by the capital asset before and after the impairment event or change in circumstance. Impairment of capital assets that are subject to a change in manner or duration of use generally should be measured using a service units approach, as described above, or using deflated depreciated replacement cost, an approach that quantifies the cost of the service currently being provided by the capital asset and converts that cost to historical cost.

Impairment losses should be reported in accordance with the guidance in paragraphs 41 through 46, 55, 56, 101, and 102 of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and paragraphs 19 through 24 of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. If not otherwise apparent from the face of the financial statements, the description, amount, and financial statement classification of impairment losses should be disclosed in the notes to the financial statements. If evidence is available to demonstrate that the impairment will be temporary, the capital asset should not be written down.

Impaired capital assets that are idle should be disclosed, regardless of whether the impairment is considered permanent or temporary.

An insurance recovery associated with events or changes in circumstances resulting in impairment of a capital asset should be netted with the impairment loss. Restoration or replacement of the capital asset using the insurance recovery should be reported as a separate transaction. Insurance recoveries should be disclosed if not apparent from the face of the financial statements. Insurance recoveries for circumstances other than impairment of capital assets should be reported in the same manner.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2004.

[GASB Statement No. 43](#)

Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

This Statement establishes uniform financial reporting standards for OPEB plans and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, with modifications to reflect differences between pension plans and OPEB plans.

The standards in this Statement apply for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This Statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. A related Statement, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (referred to as the related Statement), addresses standards for the measurement, recognition, and display of employers' OPEB expense/expenditures and related liabilities (assets); note disclosures; and, if applicable, required supplementary information (RSI). The measurement and disclosure requirements of the two Statements are related, and disclosure requirements are coordinated to avoid duplication when an OPEB plan is included as a trust or agency fund in an employer's financial report. In addition, reduced disclosures are acceptable for OPEB trust or agency funds when a stand-alone plan financial report is publicly available and contains all required information.

Effective Dates and Transition

The requirements of this Statement for OPEB plan reporting are effective *one year prior* to the effective date of the related Statement for the employer (single-employer plan) or for the largest participating employer in the plan (multiple-employer plan). The requirements of the related Statement are effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. Plans in which the sole or largest employer is a phase 1 government--with annual revenues of \$100 million or more--are required to implement this Statement in financial statements for beginning after December 15, 2005. Plans in which the sole or largest employer is a phase 2 government--with total annual revenues of \$10 million or more but less than \$100 million--are required to implement this Statement in financial statements for beginning after December 15, 2006. Plans in which the sole or largest employer is a phase 3 government--with total annual revenues of less than \$10 million--are required to implement this Statement in financial statements for beginning after December 15, 2007. If comparative financial statements are presented, restatement of prior-period financial statements is required. Earlier implementation is encouraged.

GASB Statement No. 44

Economic Condition Reporting: The Statistical Section—An Amendment of NCGA Statement 1

This Statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, that guide the preparation of the statistical section. The

statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government.

Three shortcomings have been identified in the statistical section since NCGA Statement 1 was issued in 1979. First, NCGA Statement 1 presented a list of fifteen required schedules with no additional explanation of the nature of the information they were to contain. As a result, some governments prepared their statistical sections differently from others, thereby diminishing the usefulness and comparability of the information. Second, the statistical section requirements were oriented to general purpose local governments. Consequently, other types of governments had little guidance on how to adapt the requirements to their circumstances, resulting in incomplete and inconsistent application of the standards and, therefore, additional loss of comparability and usefulness.

Third, the requirements for the statistical section did not encompass the new information that governments are presenting as a result of GASB Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments.

The statistical section is a required part of a comprehensive annual financial report (CAFR), although governments are not required to prepare a statistical section if they do not present their basic financial statements within a CAFR. These circumstances are not altered by this Statement. However, this Statement does apply to any statistical section that accompanies a government’s basic financial statements.

The provisions of this Statement are effective for statistical sections prepared for periods beginning after June 15, 2005.

GASB Statement No. 45

Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions

In addition to pensions, many state and local governmental employers provide *other postemployment benefits* (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes *postemployment healthcare*, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with modifications to reflect differences between pension benefits and OPEB. Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses financial statement and disclosure requirements for reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.

How This Statement Improves Financial Reporting

Postemployment benefits (OPEB as well as pensions) are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service, whereas other benefits, including postemployment healthcare and other OPEB, are taken after the employees' services have ended. Nevertheless, both types of benefits constitute compensation for employee services.

From an accrual accounting perspective, the cost of OPEB, like the cost of pension benefits, generally should be associated with the periods in which the exchange occurs, rather than with the periods (often many years later) when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report the financial effects of OPEB until the promised benefits are paid. As a result, current financial reporting generally fails to:

- Recognize the *cost* of benefits in periods when the related services are received by the employer
- Provide information about the *actuarial accrued liabilities* for promised benefits associated with past services and whether and to what extent those benefits have been funded
- Provide information useful in assessing potential demands on the employer's future cash flows.

This Statement improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

Measurement (the Parameters)

Employers that participate in *single-employer* or *agent multiple-employer defined benefit* OPEB plans (sole and agent employers) are required to measure and disclose an amount for annual OPEB cost on the accrual basis of accounting. Annual OPEB cost is equal to the employer's annual required contribution to the plan (ARC), with certain adjustments if the employer has a net OPEB obligation for past under- or over-contributions.

The ARC is defined as the employer's required contributions for the year, calculated in accordance with certain parameters, and includes (a) the normal cost for the year and (b) a component for amortization of the total unfunded actuarial accrued liabilities (or funding excess) of the plan over a period not to exceed thirty years. The parameters include requirements for the frequency and timing of actuarial valuations as well as for the actuarial methods and assumptions that are acceptable for financial reporting. If the methods and assumptions used in determining a plan's funding requirements meet the parameters, the same methods and assumptions are required for financial reporting by both a plan and its participating employer(s). However, if a plan's method of financing does not meet the parameters (for example, the plan is financed on a pay-as-you-go basis), the parameters nevertheless apply for financial reporting purposes.

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with a total membership of fewer than 200. The projection of benefits should include all benefits covered by the current *substantive plan* (the plan as understood by the employer and plan members) at the time of each valuation and should take into consideration the pattern of sharing of benefit costs between the employer and plan members to that point, as well as certain legal or contractual caps on benefits to be provided. The parameters require that the selection of actuarial assumptions, including the *healthcare cost trend rate* for postemployment healthcare plans, be guided by applicable actuarial standards.

Alternative Measurement Method

A sole employer in a plan with fewer than one hundred total plan members (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retirees and beneficiaries currently receiving benefits) has the option to apply a simplified *alternative measurement method* instead of obtaining actuarial valuations. The option also is available to an agent employer with fewer than one hundred plan members, in circumstances in which the *employer's* use of the alternative measurement method would not conflict with a requirement that the *agent multiple-employer plan* obtain an actuarial valuation for plan reporting purposes. Those circumstances are:

- The plan issues a financial report prepared in conformity with the requirements of Statement 43 but is not required to obtain an actuarial valuation because (a) the plan has fewer than one hundred total plan members (all employers) and is eligible to use the alternative measurement method, or (b) the plan is not administered as a qualifying trust, or equivalent arrangement, for which Statement 43 requires the presentation of actuarial information.
- The plan does not issue a financial report prepared in conformity with the requirements of Statement 43.

This alternative method includes the same broad measurement steps as an actuarial valuation (projecting future cash outlays for benefits, discounting projected benefits to present value, and allocating the present value of benefits to periods using an actuarial cost method). However, it permits simplification of certain assumptions to make the method potentially usable by nonspecialists.

Net OPEB Obligation—Measurement

An employer's net OPEB obligation is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan, including the OPEB liability or asset at transition, if any. (Because retroactive application of the measurement requirements of this Statement is not required, for most employers the OPEB liability at the beginning of the transition year will be zero.) An employer with a net OPEB obligation is required to measure annual OPEB cost equal to (a) the ARC, (b) one year's interest on the net OPEB obligation, and (c) an adjustment to the ARC to offset the effect of actuarial amortization of past under- or over-contributions.

Financial Statement Recognition and Disclosure

Sole and agent employers should recognize OPEB expense in an amount equal to annual OPEB cost in government-wide financial statements and in the financial statements of proprietary funds and fiduciary funds from which OPEB contributions are made. OPEB expenditures should be recognized on a modified accrual basis in governmental fund financial statements. Net OPEB obligations, if any, including amounts associated with under- or over-contributions from governmental funds, should be displayed as liabilities (or assets) in government-wide financial statements. Similarly, net OPEB obligations associated with proprietary or fiduciary funds from which contributions are made should be displayed as liabilities (or assets) in the financial statements of those funds.

Employers are required to disclose descriptive information about each defined benefit OPEB plan in which they participate, including the funding policy followed. In addition, sole and agent employers are required to disclose information about contributions made in comparison to annual OPEB cost, changes in the net OPEB obligation, the funded status of each plan as of the most recent actuarial valuation date, and the nature of the actuarial valuation process and significant methods and assumptions used. Sole and agent employers also are required to present *as RSI* a schedule of funding progress for the most recent valuation and the two preceding valuations, accompanied by notes regarding factors that significantly affect the identification of trends in the amounts reported.

Cost-Sharing Employers

Employers participating in *cost-sharing multiple-employer* plans that are administered as trusts, or equivalent arrangements, in which (a) employer contributions to the plan are irrevocable, (b) plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan, and (c) plan assets are legally protected from creditors of the employers or plan administrator, should report as cost-

sharing employers. Employers participating in multiple-employer plans that do not meet those criteria instead are required to apply the requirements of this Statement that are applicable to agent employers.

Cost-sharing employers are required to recognize OPEB expense/expenditures for their *contractually required contributions* to the plan on the accrual or modified accrual basis, as applicable. Required disclosures include identification of the way that the contractually required contribution rate is determined (for example, by statute or contract or on an actuarially determined basis). Employers participating in a cost-sharing plan are required to present as RSI schedules of funding progress and employer contributions for the plan as a whole if a plan financial report, prepared in accordance with Statement 43, is not issued and made publicly available and the plan is not included in the financial report of a public employee retirement system or another entity.

Other Guidance

Employers that participate in *defined contribution* OPEB plans are required to recognize OPEB expense/expenditures for their required contributions to the plan and a liability for unpaid required contributions on the accrual or modified accrual basis, as applicable. This Statement also includes guidance for employers that finance OPEB as insured benefits (as defined by this Statement) and for special funding situations.

Effective Dates and Transition

This Statement generally provides for prospective implementation—that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. Implementation is required in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. The definitions and cutoff points for that purpose are the same as those in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This Statement is effective for periods beginning after December 15, 2006, for *phase 1 governments* (those with total annual revenues of \$100 million or more); after December 15, 2007, for *phase 2 governments* (those with total annual revenues of \$10 million or more but less than \$100 million); and after December 15, 2008, for *phase 3 governments* (those with total annual revenues of less than \$10 million). Earlier implementation is encouraged.

[GASB Statement No. 46](#)

Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34

GASB Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. In the process of applying this provision, some governments have had difficulty interpreting the requirement that those restrictions be “legally enforceable.” The confusion over this phrase has resulted in a diversity of practice that has diminished comparability.

This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions.

This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation.

How the Changes in This Statement Improve Financial Reporting

The clarifications in this Statement should improve the understandability and comparability of net asset information by making the assessment of legal enforceability more uniform across governments. For example, it should minimize the chances that a government will make an across-the-board determination that none or all of its enabling legislation restrictions are legally enforceable without considering each restriction individually. The additional accounting and financial reporting guidance should help governments determine how to respond to changes in the circumstances surrounding an enabling legislation restriction. The disclosure of the amount of net assets restricted by enabling legislation will allow users to distinguish qualifying restrictions on resource use imposed through a government’s own actions from other types of net asset restrictions.

The provisions of this Statement are effective for periods beginning after June 15, 2005.

GASB Statement No. 47

Accounting for Termination Benefits

This Statement establishes accounting standards for termination benefits.

Recognition Requirements

In financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early-retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. For financial reporting purposes, a plan of involuntary termination is defined as a plan that (a) identifies, at a minimum, the number of employees to be terminated, the job classifications or functions that will be affected and their locations, and when the terminations are expected to occur and (b) establishes the terms of the termination benefits in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated. If a plan of involuntary termination requires that employees render future service in order to receive benefits, the employer should recognize a liability and expense for the portion of involuntary termination benefits that will be provided after completion of future service ratably over the employees' future service period, beginning when the plan otherwise meets the recognition criteria discussed above.

In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

Measurement Requirements

Healthcare-related termination benefits that are provided as the result of a large-scale, age-related program (for example, an early-retirement incentive program that affects a significant portion of employees) should be measured at their discounted present values based on projected total claims costs (or age-adjusted premiums approximating claims costs) for terminated employees, with consideration given to the expected future healthcare cost trend rate. Employers that provide healthcare-related termination benefits that are not part of a large-scale, age-related termination program are permitted, but not required, to measure the cost of termination benefits based on projected claims costs for terminated employees. That is, in this circumstance, the cost of termination benefits may be based on unadjusted premiums.

The cost of non-healthcare-related termination benefits for which the benefit terms establish an obligation to pay specific amounts on fixed or determinable dates should be measured at the discounted present value of expected future benefit payments (including an assumption regarding changes in future cost levels during the periods covered by the employer's commitment to provide the benefits). If, however, the benefit terms do not establish an obligation to pay specific amounts on fixed or determinable dates, the cost of non-healthcare-related benefits should be calculated as either (a) the discounted present value of expected future benefit payments or (b) the undiscounted total of estimated future benefit payments at current cost levels.

Termination Benefits That Affect an Employer's Defined Benefit Pension or OPEB Obligations

As an exception to the general recognition and measurement requirements discussed above, the effects of a termination benefit on an employer's obligations for defined benefit pension or other postemployment benefits should be accounted for and reported under the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, or Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as applicable.

Disclosure Requirements

This Statement requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities.

How the Changes in This Statement Will Improve Financial Reporting

This Statement supersedes accounting guidance in National Council on Governmental Accounting (NCGA) Interpretation 8, Certain Pension Matters, as amended, which addresses one form of voluntary termination benefits—special termination benefits, or those offered for a “short period of time.” It improves financial reporting by (a) adopting for all voluntary termination benefits recognition requirements similar to those in NCGA Interpretation 8, (b) establishing guidance applicable to involuntary termination benefits that requires governments, in financial statements prepared on the accrual basis of accounting, to account for the effects of termination benefits in the period in which the employer becomes obligated to provide benefits to terminated employees, and (c) elaborating on measurement issues associated with all forms of termination benefits. As a result of governments being recognized to account for similar termination benefits in the same manner, application of this Statement will enhance the comparability of financial statements.

Effective Date

The requirements of this Statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005. Earlier application is encouraged.

In the initial year of implementation, the requirements of this Statement should be applied to any previous commitments of termination benefits that remain unpaid at the effective date of the Statement. The cumulative effect of applying this Statement should be reported as a restatement of beginning net assets (or equity or fund balance, as appropriate). Financial statements for prior periods are not required to be restated.

GASB Statement No. 48

Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues

Governments sometimes exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments—generally, a single lump sum. The financial reporting question addressed by this Statement is whether that transaction should be regarded as a sale or as a collateralized borrowing resulting in a liability. Historically, guidance for reporting the effects of those transactions in governmental financial statements either has been provided in several standards or, in certain cases, was not specifically addressed in authoritative literature. In addition, little or no information about pledged revenues was being disclosed in the notes to the financial statements. As a result, there has been considerable diversity in the manner in which these transactions and information about them have been reported.

This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds

should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity.

This Statement includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. Therefore, any assets (or future revenues) sold or donated within the same financial reporting entity should continue to be reported at their current carrying value when those assets or future revenues are transferred.

This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. The disclosures pertaining to future revenues that have been pledged or sold are intended to provide financial statement users with information about which revenues will be unavailable for other purposes and how long they will continue to be so.

How the Changes in This Statement Improve Financial Reporting

The requirements in this Statement improve financial reporting by establishing consistent measurement, recognition, and disclosure requirements that apply to both governmental and business-type activities. Those requirements alleviate the confusion that arises when there are multiple sources from which generally accepted accounting principles requirements may derive. Deferral requirements that are applicable to sales of future revenues are provided to contribute to the measurement and reporting of interperiod equity in accordance with the objectives set forth in Concepts Statement No. 1, Objectives of Financial Reporting. Specific provisions that address the effects of intra-entity transactions are provided so that governments retain consistent values for assets transferred between components of the same financial reporting entity. This Statement also improves the usefulness of financial reporting by requiring that specific relevant disclosures be made to inform financial statement users about the unavailability of future revenues that have been pledged or sold.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2006.

GASB Statement No. 49

Accounting and Financial Reporting for Pollution Remediation Obligations

This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of *existing* pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution *prevention* or *control* obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning.

As illustrated in the flowchart in paragraph 106, once any one of five specified obligating events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- The government is compelled to take pollution remediation action because of an imminent endangerment.
- The government violates a pollution prevention–related permit or license.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.
- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The government commences or legally obligates itself to commence pollution remediation.

Pollution remediation outlays should be capitalized in government-wide and proprietary fund financial statements, subject to certain limitations, only if the outlays are incurred (1) to prepare property for sale in anticipation of a sale, (2) to prepare property for use when the property was acquired with known or suspected pollution that was expected to be remediated, (3) to perform pollution remediation that restores a pollution-caused decline in service utility that was recognized as an asset impairment, or (4) to acquire property, facilities, and equipment that have a future alternative use other than remediation efforts.

Most pollution remediation outlays do not qualify for capitalization and should be accrued as a liability (subject to modified accrual provisions in governmental funds) and expense when a range of expected outlays is reasonably estimable or as an expenditure upon receipt

of goods and services. If a government cannot reasonably estimate the range of all components of the liability, it should recognize the liability as the range of each *component* (for example, legal services, site investigation, and required post-remediation monitoring) becomes reasonably estimable. In government-wide and proprietary fund financial statements, the liability should be recorded at the current value of the costs the government expects to incur to perform the work. This amount should be estimated using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts—the estimated mean or average.

For pollution remediation obligations that are not common or similar to situations at other sites with which the government has experience, this Statement includes a series of recognition benchmarks—steps in the remediation process—that governments should consider in determining when components of pollution remediation liabilities are reasonably estimable. Thus, the measurable transactions and events that result in a pollution remediation liability may be relatively limited at initial recognition but would increase over time as more components become reasonably estimable. This Statement also requires remeasurement of the liability (and its components) when new information indicates increases or decreases in estimated outlays.

The measurement of a government's pollution remediation liability should include remediation work that the government expects to perform for other parties; however, expected recoveries from those other parties, and insurance recoveries, reduce the measurement of the government's pollution remediation expense when reasonably estimable (and reduce associated expenditures when the recoveries are measurable and available). If the expected recoveries are not yet realized or realizable, they also would reduce the measurement of the government's pollution remediation liability. If the expected recoveries are realized or realizable, they should be reported as recovery assets (for example, cash or receivables).

For recognized pollution remediation liabilities and recoveries, this Statement requires governments to disclose the nature and source of pollution remediation obligations, the amount of the estimated liability (if not apparent from the financial statements), the methods and assumptions used for the estimate, the potential for changes in estimates, and estimated recoveries that reduce the measurement of the liability. Governments are required to disclose a general description of the nature of pollution remediation activities for liabilities (or components thereof) that are not reasonably estimable.

How This Statement Will Improve Financial Reporting

This Statement will enhance comparability of financial statements among governments by requiring all governments to account for pollution remediation obligations in the same manner, including required reporting of pollution remediation obligations that previously may not have been reported. This Statement also will enhance users' ability to assess governments' obligations by requiring more timely and complete reporting of obligations as their components become reasonably estimable. Current standards (NCGA Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, and Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*) do not require recognition of pollution remediation liabilities until after they are judged to be probable of occurrence. This causes a number of expected liabilities not to be reported. Additionally, current standards require the liability to be reported as a single-point estimate, which may not consider all potential outcomes. For example, FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss*, requires recognition of the low end of a range of estimated pollution remediation outlays when no amount within a range is a better estimate than any other amount. This causes reporting of liabilities at amounts that may differ significantly from the expected amounts (the amounts that, on average, will be incurred). This Statement will improve financial reporting by requiring consideration of recognition once an obligating event occurs and by requiring reporting of liabilities using the expected cash flow measurement technique.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning net assets can be restated. However, governments that have sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods are required to apply the provisions retroactively for all such prior periods presented.

GASB Statement No. 50

Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27

This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI

requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Summary of Standards

This Statement amends Statements 25 and 27 to require defined benefit pension plans and sole and agent employers present the following information related to note disclosures or RSI:

- Notes to financial statements should disclose the funded status of the plan as of the most recent actuarial valuation date. Defined benefit pension plans also should disclose actuarial methods and significant assumptions used in the most recent actuarial valuation in notes to financial statements instead of in notes to RSI.
- If the aggregate actuarial cost method is used to determine the annual required contribution of the employer (ARC), notes to financial statements should disclose the funded status of the plan, and a schedule of funding progress should be presented as RSI, using the entry age actuarial cost method. Plans and employers also should disclose that the purpose of doing so is to provide information that serves as a surrogate for the funded status and funding progress of the plan.
- Notes to financial statements should include a reference linking the funded status disclosure in the notes to financial statements to the required schedule of funding progress in RSI.
- If applicable, notes to financial statements should disclose legal or contractual maximum contribution rates. In addition, if relevant, they should disclose that the maximum contribution rates have not been explicitly taken into consideration in the projection of pension benefits for financial accounting measurement purposes.
- If an actuarial assumption is different for successive years, notes to financial statements should disclose the initial and ultimate rates.

This Statement amends Statement 25 to require defined benefit pension plans and defined contribution plans to disclose in the notes to financial statements the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices.

This Statement amends Statement 27 to require cost-sharing employers to include, in the note disclosure of the required contribution rates of the employer(s) in dollars and the percentage of that amount contributed for the current year and each of the two preceding

years, how the contractually required contribution rate is determined (for example, by statute or by contract, or on an actuarially determined basis) or that the cost-sharing plan is financed on a pay-as-you-go basis.

This Statement also amends Statement 27 to require that, if a cost-sharing plan does not issue a publicly available stand-alone plan financial report prepared in accordance with the requirements of Statement 25, as amended, and the plan is not included in the financial report of another entity, each employer in that plan should present as RSI the schedules of funding progress and employer contributions for the plan (and notes to these schedules). Each employer also should disclose that the information presented relates to the cost-sharing plan as a whole, of which the employer is one participating employer, and should provide information helpful for understanding the scale of the information presented relative to the employer.

Effective Date and Transition

This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. Early implementation is encouraged. In the initial year of implementation, defined benefit pension plans and sole and agent employers that use the aggregate actuarial cost method to determine the ARC are required to present elements of information in the schedule of funding progress using the entry age actuarial cost method as of the most recent actuarial valuation date. In subsequent years, plans and employers should add to that schedule information as of subsequent actuarial valuation dates until the requirements of Statements 25 and 27, as amended, with regard to the minimum number of years or actuarial valuations to be included have been met.

How the Changes in This Statement Will Improve Financial Reporting

Statements 42 and 45, which were developed using Statements 25 and 27 as models, improved the transparency and decision usefulness of financial reporting as a result of decisions by the Board to modify, for financial reporting by OPEB plans and employers, certain requirements related to note disclosures and RSI. This Statement similarly is intended to improve the transparency and usefulness of financial reporting by pension plans and employers by amending Statements 25 and 27 to conform to the applicable note disclosure and RSI modifications adopted in the OPEB Statements.

GASB Statement No. 51

Accounting and Financial Reporting for Intangible Assets

Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Intangible assets, and more specifically easements, are referred to in the description of capital assets in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. This reference has created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes. An absence of sufficiently specific authoritative guidance that addresses these questions has resulted in inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement, and amortization. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets.

The guidance specific to intangible assets referred to above includes guidance on recognition. This Statement requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. This Statement also provides guidance on recognizing internally generated computer software as an intangible asset. This guidance serves as an application of the specified-conditions approach described above to the development cycle of computer software.

This Statement also establishes guidance specific to intangible assets related to amortization. This Statement provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized unless their useful life is subsequently determined to no longer be indefinite due to a change in circumstances.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing Statement 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated. Retroactive reporting of these intangible assets by phase 3 governments is encouraged but not required. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this Statement and those considered to be internally generated.

How the Changes in This Statement Improve Financial Reporting

The requirements in this Statement improve financial reporting by reducing inconsistencies that have developed in accounting and financial reporting for intangible assets. These inconsistencies will be reduced through the clarification that intangible assets subject to the provisions of this Statement should be classified as capital assets, and through the establishment of new authoritative guidance that addresses issues specific to these intangible assets given their nature (for example, recognition provisions for internally generated intangible assets, including computer software). This Statement also fosters greater comparability among state and local government financial statements and results in a more faithful representation of the service capacity of intangible assets—and therefore the financial position of governments—and of the periodic cost associated with the usage of such service capacity in governmental financial statements.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

GASB Statement No. 52

Land and Other Real Estate Held as Investments by Endowments

Accounting standards previously required permanent and term endowments, including permanent funds, to report land and other real estate held as investments at their historical cost. Endowments exist to invest resources for the purpose of generating income. Other entities that exist for similar purposes—pension and other postemployment benefit plans, external investment pools, and Internal Revenue Code Section 457 deferred compensation plans—however, report land and other real estate held as investments at their fair value.

This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

How the Changes in This Statement Will Improve Financial Reporting

This Statement more appropriately reports the resources available in endowments and more closely aligns financial reporting with the objectives of endowments. It results in property held for similar purposes by comparable entities being reported in the same manner. Reporting land and other real estate held as investments at fair value enhances users' ability to meaningfully evaluate an entity's investment decisions and performance.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2008.

[GASB Statement No. 53](#)

Accounting and Financial Reporting for Derivative Instruments

This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts.

Governments enter into derivative instruments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (that is, hedgeable items); or to lower the costs of borrowings. Governments often enter into derivative instruments with the intention of effectively fixing cash flows or synthetically

fixing prices. For example, a government with variable-rate debt may enter into a derivative instrument designed to synthetically fix the debt's interest rate, thereby hedging the risk that rising interest rates will negatively affect cash flows. Governments also enter into derivative instruments to offset the changes in fair value of hedgeable items.

A key provision in this Statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, are reported at fair value. For many derivative instruments, historical prices are zero because their terms are developed so that the instruments may be entered into without a payment being received or made. The changes in fair value of derivative instruments that are used for investment purposes or that are reported as investment derivative instruments because of ineffectiveness are reported within the investment revenue classification. Alternatively, the changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net assets as deferrals.

Derivative instruments associated with hedgeable items that are determined to be effective in reducing exposures to identified financial risks are considered hedging derivative instruments. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. In these instances, hedge accounting should be applied. Under hedge accounting, the changes in fair values of the hedging derivative instrument are reported as either deferred inflows or deferred outflows in a government's statement of net assets.

Much of this Statement describes the methods of evaluating effectiveness. The consistent critical terms method considers the terms of the potential hedging derivative instrument and the hedgeable item. If relevant terms match or in certain instances are similar, a potential hedging derivative instrument is determined to be effective. The other methods are based on quantitative analyses. The synthetic instrument method considers whether a fixed rate or price has been established within a prescribed range. The dollar-offset method evaluates changes in expected cash flows or fair values over time between the potential hedging derivative instrument and the hedgeable item. The regression analysis method considers the relationship between changes in the cash flows or fair values of the potential hedging derivative instrument and the hedgeable item. In these methods, critical and quantitative values are evaluated to determine whether a potential hedging derivative instrument is effective. Quantitative methods other than those specified in the Statement are permitted, provided that they address whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item.

The disclosures required by Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, have been incorporated into this Statement. The objectives, terms, and risks of hedging derivative instruments are required disclosures. Disclosures also include a summary of derivative instrument activity that provides an indication of the location of fair value amounts

reported on the financial statements. The disclosures for investment derivative instruments are similar to the disclosures of other investments.

How the Changes in This Statement Improve Financial Reporting

The guidance in this Statement improves financial reporting by requiring governments to measure derivative instruments, with the exception of SGICs that are fully benefit-responsive, at fair value in their economic resources measurement focus financial statements. These improvements should allow users of those financial statements to more fully understand a government's resources available to provide services. The application of interperiod equity means that changes in fair value are recognized in the reporting period to which they relate. The changes in fair value of hedging derivative instruments do not affect investment revenue but are reported as deferrals. On the other hand, the changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. The disclosures provide a summary of the government's derivative instrument activity and the information necessary to assess the government's objectives for derivative instruments, their significant terms, and the risks associated with the derivative instruments.

Accounting standards previously required permanent and term endowments, including permanent funds, to report land and other real estate held as investments at their historical cost. Endowments exist to invest resources for the purpose of generating income. Other entities that exist for similar purposes—pension and other postemployment benefit plans, external investment pools, and Internal Revenue Code Section 457 deferred compensation plans—however, report land and other real estate held as investments at their fair value.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. Earlier application is encouraged. For potential hedging derivative instruments existing prior to the fiscal period during which this Statement is implemented, the evaluation of effectiveness should be performed as of the end of the current period. If determined to be effective, hedging derivative instruments are reported as if they were effective from their inception. If determined to be ineffective, the potential hedging derivative instrument is then evaluated as of the end of the prior reporting period.

[GASB Statement No. 54](#)

Fund Balance Reporting and Governmental Fund Type Definitions

The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

How the Changes in This Statement Will Improve Financial Reporting

The requirements in this Statement will improve financial reporting by providing fund balance categories and classifications that will be more easily understood. Elimination of the *reserved* component of fund balance in favor of a *restricted* classification will enhance the consistency between information reported in the government-wide statements and information in the governmental fund financial statements and avoid confusion about the relationship between reserved fund balance and restricted net assets. The fund balance classification approach in this Statement will require governments to classify amounts consistently, regardless of the fund type or column in which they are presented. As a result, an amount cannot be classified as restricted in one fund but unrestricted in another. The fund balance disclosures will give users information necessary to understand the processes under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated. The clarifications of the governmental fund type definitions will reduce uncertainty about which resources can or should be reported in the respective fund types.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Earlier application is encouraged. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented.

[GASB Statement No. 55](#)

The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles.

The GASB is responsible for establishing GAAP for state and local governments. However, the current GAAP hierarchy is set forth in the American Institute of Certified Public Accountants' (AICPA) Statement on Auditing Standards No. 69, *The Meaning of*

Present Fairly in Conformity With Generally Accepted Accounting Principles, rather than in the authoritative literature of the GASB.

How the Changes in This Statement Will Improve Financial Reporting

The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source. The Board concluded that the GAAP hierarchy should reside in the accounting literature established by the GASB and is issuing this Statement to accomplish that objective. This Statement will make it easier for preparers of state and local government financial statements to identify and apply all relevant guidance. The Board does not expect that this Statement will result in a change in current practice.

The requirements of this Statement are effective on issuance in March 2009.

[GASB Statement No. 56](#)

Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards

The objective of this Statement is to incorporate into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes *accounting* principles—related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the *preparation* of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature.

This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards.

How the Changes in This Statement Will Improve Financial Reporting

The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This effort is important from the perspective of bringing the authoritative accounting and financial reporting

literature together in one place, with that guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial statement users.

The requirements of this Statement are effective on issuance in March 2009.

Appendix 2 - Texas Laws Applicable to Cash and Investments Summarized

Government Code Title 10, Subtitle F., State and Local Contracts and Fund Management, Chapter 2256, Public Funds Investment, Subchapter A. Authorized Investments for Governmental Entities and Subchapter B. Miscellaneous Provisions contain requirements that apply to various aspects of investment activities including:

- Authorized investments;
- Investment activities;
- Policies;
- Training of investment officers;
- Reports to the governing board; and
- Audit requirements.

[Banks to Bonds: A Practical Path to Sound School District Investing](#) on the Legislative Budget Board web site contains guidelines and other information about investments.

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 80th Legislature, the only method of choosing a depository bank was by competitive bids. [TEC 45.206](#) 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.

Appendix 3 - Fund Balance and Cash Flow Worksheet

Instructions for Completing the Fund Balance and Cash Flow Worksheet for the General Fund

Item # Description and/or Instruction

- 1 Enter the General Fund fund balance from the BALANCE SHEET (Row 3000, Exhibit C-1) in the June 30 or August 31, 20AA annual financial and compliance report.
- 2 Enter the amount of General Fund fund balance which the school district's board has reserved for specific purposes (reserves may be adjusted after year-end for annual audit report purposes).
- 3 Enter the amount of General Fund fund balance which the school district's board has designated for specific purposes (designations may be adjusted after year-end for annual financial and compliance report purposes).
- 4 Enter the amount of funds it would take to cover the months that have cash flow deficits from September 20AA (or July 20AA) to January 20BB. Each month should stand on its own and should be evaluated on a purely cash basis (not accrual basis). Include only the deficit month(s) amounts. Any borrowed funds or deferred revenues, such as excess LPE cash flows, should be netted.
- 5 Enter the estimated average of two months' cash disbursements for the fiscal year 20BB.
- 6 Enter the amount of delayed payments from state sources.

- 7 Enter the amount of estimated underpayment from state sources equal to the variance between the LPE and the DPE or the District's calculated earned state aid amount (using the district's actual ADA).
- 8 Enter the average amount of accounts receivable prior to receipt of funds for federal programs (funds loaned from the general fund to the special revenue fund).
- 9 Enter the amount of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds).
- 10 Enter the amount of funds needed to meet any target General Fund balance established by the local school board.
- 11 Add the amounts on lines 2, 3, 4, 5, 6, 7, 8, 9 and 10 and enter this amount on line 11.
- 12 Subtract the amount on line 11 from the amount on line 1 and enter the result on line 12.

If item 12 is a positive number, please explain the need for and/or projected use of the net positive Undesignated Unreserved General Fund Balance in the explanation area.

See following page for layout of worksheet.

For a sample monthly working cash flow spreadsheet, click [here](#) to go to the Financial Audits webpage.

**ANYWHERE INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
GENERAL FUND AS OF AUGUST 31, 20yy**

Exhibit J-3

Data Control		
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Code	Explanation	Amount
1	Total General Fund Balance 8/31/yy or 6/30/yy (Exhibit C-1 object 3000 for the General Fund Only)	\$
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund only)	\$
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund only)	\$
4	Estimated amount needed to cover fall cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues)	\$
5	Estimate of two months' average cash disbursements during the fiscal year	\$
6	Estimate of delayed payments from state sources (58XX)	\$
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	\$
8	Estimate of delayed payments from federal sources (59XX)	\$
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	\$
10	Adjustment to meet Board Policy	\$
11	Optimum Fund Balance and Cash Flow (2 + 3 + 4 + 5 + 6 + 7 + 8 + 9 + 10)	\$
12	Excess/(Deficit) Undesignated Unreserved General Fund Fund Balance (1 minus 11)	\$
<u>If item 12 is a positive number</u>		
Explanation of need for and/or projected use of net positive Undesignated Unreserved General Fund Fund Balance:		
(UNAUDITED)		

Appendix 4 - Teacher Retirement System Forms

All public schools must file salary and other information with the [Teacher Retirement System](#), except for certain charter schools upon written confirmation from the TRS of their exempt status. Required [TRS forms](#) include the following:

TXNET TRS – Payor Information Form

TRS 4 – Summary of Payroll Report

TRS 6 – Notice of Final Deposit and Request for Refund/Special IRS Tax Notice Regarding TRS Payments (two pages) Front / Back

TRS 8 – Notice of Final Deposit of Deceased Member

TRS 118 – Employment of Retired Members

TRS 118D – Employment After Retirement Disability Election

TRS 199 – Order Blank for Forms

TRS 355 – Summary of Contract/Work Agreement Information

TRS 374 – Summary of TRS-Care Contributions

TRS 553 – Summary of Salaries and Contributions Paid from Educational/General Funds

TRS 557 – Summary of Member Position Information

TRS 581 – Certification for Employment After Retirement as a Classroom Teacher in an Acute Shortage Area or as a Principal or Assistant Principal

TRS 581N – Certification for Employment After Retirement as a Faculty Member of a Nursing Program

TRS 596 – Certification of Performance Pay

TRS 597 – TRS Reporting and Query System (TRAQS) Authorization Information

TRS 598 – User ID and Password Agreement

TRS 667 – TRS-Care Employer Health Benefit Surcharge Information

Appendix 5 - Account Code Listings

Fund Codes

100 THROUGH 600

GOVERNMENTAL FUND TYPES

100-199

GENERAL FUND

Fund Number	Title	CFDA Number
101	Food Service	(10.553, breakfast; 10.555, lunch)
102	ESC State Support (Education Service Centers Only)	
103-160	Reserved for Future State Definition	
161-198	Locally Defined Classifications (Convert to Fund 199 for PEIMS)	
199	General Fund	

200/300/400

SPECIAL REVENUE FUNDS

200-289

SPECIAL REVENUE (FEDERAL PROGRAMS)

Fund Number	Title	CFDA Number
201	Reserved for future state definition	
202	Reserved for future state definition.	
203	Child Care Development Block Grant	(93.575)
204	ESEA, Title IV, Part A Safe and Drug Free Schools and Communities Act	(84.186A)
205	Head Start	(93.600)

Fund Number	Title	CFDA Number
206	ESEA Title X, Part C - Education for the Homeless Children and Youth	(84.196)
207	Reserved for future state use.	
208	Human Immunodeficiency Virus (HIV) Education	(93.938)
209	Energy Conservation for Institutional Buildings	(81.052)
210	Reserved for future state use.	
211	ESEA, Title I, Part A - Improving Basic Programs	(84.010A)
212	ESEA Title I, Part C - Education of Migratory Children	(84.011)
213	ESEA Title I, Part B, Subpart 3 - Even Start Family Literacy	(84.213)
214	Reserved for future state use.	
215	Reserved for future state use.	
216	Reserved for future state use.	
217	Reserved for future state use.	
218	ESEA Title V, Part D, Subpart 6, - Jacob Javits Gifted and Talented Students Education Act	(84.206)
219	Reserved for future state use.	
220	Adult Basic Education (ABE) – Federal	(84.002)
221	Reserved for future state use.	
222	National and Community Service Act - Learn and Serve America	(94.004)
223	Temporary Assistance for Needy Families (TANF)	(93.558)

Fund Number	Title	CFDA Number
224	IDEA - Part B, Formula	(84.027)
225	IDEA - Part B, Preschool	(84.173)
226	IDEA - Part B, Discretionary	(84.027)
227	IDEA - Part B, Deaf	(84.027)
228	IDEA - Part B, Preschool Deaf	(84.173)
229	IDEA - Part D, Deaf-Blind	(84.025)
230	IDEA - Part D, Personnel Training	(84.029)
231	Reserved for future state use.	
232	Reserved for future state use.	
233	Reserved for future state use.	
234	Reserved for future state use.	
235	Reserved for future state use.	
236	Substance Abuse Prevention and Treatment Block Grant - Intervention	(93.959)
237	ESEA Title IV - Safe and Drug Free Schools and Community Act	(84.186A)
238	Substance Abuse Prevention and Treatment Block Grant - Females	(93.959)
239	Substance Abuse Prevention and Treatment Block Grant - Prevention	(93.959)
240	National School Breakfast and Lunch Program	(10.553, breakfast; 10.555, lunch)
241	Education Service Center Child Nutrition	
242	Summer Feeding Program, Texas Department of Agriculture (TDA)	(10.559)
243	Career and Technical - Technical	(84.243A)

Fund Number	Title	CFDA Number
	Preparation	
244	Career and Technical - Basic Grant	(84.048)
245	Career and Technical - Single Parent	(84.048A)
246	Career and Technical - Sex Equity	(84.048A)
247	Career and Technical - Curriculum Development	(84.048A)
248	Career and Technical - Professional Development	(84.048A)
249	Career and Technical - Community Based Organization	(84.174A)
250	Career and Technical - Apprenticeship	(84.048A)
251	Career and Technical - Quality Work Force	(84.048A)
252	Career and Technical - Other Program Improvement	(84.253A)
253	IDEA, Part C, Early Intervention (Deaf)	(84.181A)
254	Reserved for future state use.	
255	ESEA, Title II, Part A,: Teacher and Principal Training and Recruiting	84.367A
256	ESEA, Title I, Part F, Comprehensive School Reform Demonstration Program, Improving Teaching and Learning	(84.010B)
257	Reserved for future state use.	
258	Public Charter Schools	(84.282)
259	Matching Funds for Library Purchases	
260	Reserved for future state use.	
261	Reading First	(84.357)
262	Title II, Part D, Subpart 1, Enhancing	(84.318A)

Fund Number	Title	CFDA Number
	Education Through Technology	
263	Title III, Part A, English Language Acquisition and Language Enhancement	(84.365A)
264	Community Service Grant Program	(84.184c)
265	Title IV, Part B 21 st Century Community Learning Centers	(84.287)
266	ARRA of 2009, Title XIV, State Fiscal Stabilization Fund (<i>Effective fiscal year 2008/09</i>)	(84.394)
267	Improving Academic Achievement (Grants for State Assessments and Related Activities)	(84.369)
268	Improving Academic Achievement (Grants for Enhanced Assessment Instruments)	(84.368)
269	Title V, Part A – Innovative Programs	(84.298)
270	ESEA, Title VI, Part B, Subpart 2 – Rural and Low-Income Program	(84.358B)
271	Workforce Investment Act Youth Activities (Effective September 1, 2005)	(17.259)
272	Medicaid Administrative Claiming Program – MAC (Effective September 1, 2005)	(93.778)
273	Mathematics and Science Partnerships (Effective fiscal year 2008/09)	(84.336B)
274	GEAR UP (Effective fiscal year 2008/09)	(84.334S)
275	School Dropout Prevention (Effective fiscal year 2008/09)	(84.360A)
276	Title I SIP Academy Grant (Effective fiscal year 2008/09)	(84.377A)
277-278	Reserved for Future State Definition	

Fund Number	Title	CFDA Number
279	Title II, Part D, Subpart 1 – Enhancing Education through Technology - ARRA (Stimulus) <i>(Effective fiscal year 2008/09)</i>	(84.386)
280	ESEA, Title X, Part C – Education for the Homeless Children and Youth - ARRA (Stimulus) <i>(Effective fiscal year 2008/09)</i>	(84.387)
283	IDEA – Part B, Formula - ARRA (Stimulus) <i>(Effective fiscal year 2008/09)</i>	(84.391)
284	IDEA – Part B, Preschool - ARRA (Stimulus) <i>(Effective fiscal year 2008/09)</i>	(84.392)
285	ESEA, Title I, Part A – Improving Basic Programs - ARRA (Stimulus) <i>(Effective fiscal year 2008/09)</i>	(84.389)
286	Title I SIP Academy Grant - ARRA (Stimulus) <i>(Effective fiscal year 2008/09)</i>	(84.388)
287-288	Federally Funded Special Revenue Funds - Locally Defined (Convert to Fund 289 for PEIMS)	
289	Federally Funded Special Revenue Funds	

**290-379 FEDERALLY FUNDED SHARED SERVICES
ARRANGEMENTS**

Fund Number	Title	CFDA Number
291	Reserved for future state use.	
292	Shared Services Arrangements - Child Care Development Block Grant	(93.575)
293	Shared Services Arrangements - ESEA, Title IV, Part A - Safe and Drug Free Schools and Communities Act	(84.186A)
294	Shared Services Arrangements - Head Start	(93.600)

Fund Number	Title	CFDA Number
295	Shared Services Arrangements - ESEA Title X, Part C - Education for the Homeless Children and Youth	(84.196)
296	Reserved for future state use.	
297	Shared Services Arrangements - Human Immunodeficiency Virus (HIV) Education	(93.938)
298	Shared Services Arrangements - Energy Conservation for Institutional Building	(81.052)
299	Reserved for future state use.	
300	Shared Services Arrangements - ESEA, Title I, Part A - Improving Basic Programs	(84.010A)
301	Shared Services Arrangements - ESEA Title I, Part C - Education of Migratory Children	(84.011)
302	Shared Services Arrangements - ESEA Title I, Part B, Subpart 3 - Even Start Family Literacy	(84.213)
303	Reserved for future state use.	
304	Reserved for future state use.	
305	Reserved for future state use.	
306	Reserved for future state use.	
307	Shared Services Arrangements - ESEA Title V, Part D, Subpart 6 - Jacob Javits Gifted and Talented Students Education Act	(84.206)
308	Reserved for future state use.	
309	Shared Services Arrangements - Adult Basic Education (ABE) - Federal	(84.002)
310	Reserved for future state use.	

Fund Number	Title	CFDA Number
311	Shared Services Arrangements - National and Community Service Act - Learn and Serve America	(94.004)
312	Shared Services Arrangements - Temporary Assistance for Needy Families (TANF)	(93.558)
313	Shared Services Arrangements - IDEA - Part B, Formula	(84.027)
314	Shared Services Arrangements - IDEA - Part B, Preschool	(84.173)
315	Shared Services Arrangements - IDEA - Part B, Discretionary	(84.027)
316	Shared Services Arrangements - IDEA - Part B, Deaf	(84.027)
317	Shared Services Arrangements - IDEA - Part B, Preschool Deaf	(84.173)
318	Reserved for Future State Definition	
319	Shared Services Arrangements - IDEA - Part D, Personnel	(84.029)
	Shared Services Arrangements - IDEA - Part D, Personnel Training	
320	Reserved for Future State Definition	
321	Reserved for Future State Definition	
322	Reserved for Future State Definition	
323	Reserved for Future State Definition	
324	Reserved for Future State Definition	
325	Shared Services Arrangements - Substance Abuse Prevention and Treatment Block Grant - Intervention	(93.959)
		(TCADA code YIN)

Fund Number	Title	CFDA Number
326	Shared Services Arrangements -ESEA Title IV, Part A Safe and Drug Free Schools and Community Act	(84.186A) (CJD code ED)
327	Shared Services Arrangements - Substance Abuse Prevention and Treatment Block Grant - Females	(93.959) (TCADA code YPF)
328	Shared Services Arrangements - Substance Abuse Prevention and Treatment Block Grant - Prevention	(93.959) (TCADA code YPP)
329	Shared Services Arrangements - Summer Feeding Program, Department of Human Services (DHS)	(10.559)
330	Shared Services Arrangements - Career and Technical - Technical Preparation	(84.243A)
331	Shared Services Arrangements - Career and Technical - Basic Grant	(84.048)
332	Shared Services Arrangements - Career and Technical - Single Parent	(84.048A)
333	Shared Services Arrangements - Career and Technical - Sex Equity	(84.048A)
334	Shared Services Arrangements - Career and Technical - Curriculum Development	(84.048A)
335	Shared Services Arrangements - Career and Technical - Professional Development	(84.048A)
336	Shared Services Arrangements - Career and Technical - Community Based Organization	(84.174A)
337	Shared Services Arrangements - Career and Technical - Apprenticeship	(84.048A)
338	Shared Services Arrangements - Career	(84.048A)

Fund Number	Title	CFDA Number
	and Technical - Quality Work Force	
339	Shared Services Arrangements - Career and Technical - Other Program Improvement	(84.253A)
340	Shared Services Arrangements - IDEA, Part C (Deaf)	(84.181A)
	Shared Services Arrangements - IDEA, Part C, Early Intervention (Deaf)	
341	Reserved for future state use.	
342	Shared Services Arrangements – ESEA, Title II, Part A: Teacher and Principal Training and Recruiting	(84.367A)
343	Shared Services Arrangements - ESEA Title I, Part F Comprehensive School Reform	(84.010B)
344	Reserved for future state use.	
345	Reserved for future state use.	
346	Reserved for future state use.	
347	Shared Services Arrangements – ESEA, Title VI, Part B, Subpart 2 – Rural and Low-Income School Program	(84.358B)
348	Shared Services Arrangements – Reading First	(84.357)
349	Shared Services Arrangement – Title II, Part D, Subpart 1 Enhancing Education Through Technology	(84.318A)
350	Shared Services Arrangements – Title III, Part A English Language Acquisition and Language Enhancement	(84.365A)
351	Shared Services Arrangements – Community Service Grant Program	(84.184C)

Fund Number	Title	CFDA Number
352	Shared Services Arrangements – 21 st Century Community Learning Centers	(84.287)
353	Reserved for future state use	
354	Shared Services Arrangements – Improving Academic Achievement (Grants for State Assessments and Related Activities)	(84.369)
355	Shared Services Arrangements - Improving Academic Achievement (Grants for Enhanced Assessment Instruments)	(84.368)
356	Shared Services Arrangements – Title V, Part A – Innovative Programs	(84.298)
357	Shared Services Arrangements – Mathematics and Science Partnerships (effective fiscal year 2008/09)	(84.336B)
358	Shared Services Arrangements – Title I SIP Academy Grant (effective fiscal year 2008/09)	(84.377A)
359	Shared Services Arrangements – ESEA, Title I, Part A – Improving Basic Programs – ARRA (Stimulus) (<i>Effective fiscal year 2008/09</i>)	(84.389)
360	Shared Services Arrangements – Title I SIP Academy Grant - ARRA (Stimulus) (<i>Effective fiscal year 2008/09</i>)	(84.388)
361	Shared Services Arrangements – Title II, Part D, Subpart 1 – Enhancing Education Through Technology - ARRA (Stimulus) (<i>Effective fiscal year 2008/09</i>)	(84.386)
362-363	Reserved for Future State Definition	

Fund Number	Title	CFDA Number
364	Shared Services Arrangements – IDEA – Part B, Formula - ARRA (Stimulus) (Effective fiscal year 2008/09)	(84.391)
365	Shared Services Arrangements – IDEA – Part B, Preschool - ARRA (Stimulus) (Effective fiscal year 2008/09)	(84.392)
366	Shared Services Arrangements – ARRA of 2009, Title XIV, State Fiscal Stabilization Fund (Effective fiscal year 2008/09)	(84.394)
367	Shared Services Arrangements – ESEA Title X, Part C – Education for the Homeless Children and Youth - ARRA (Stimulus) (Effective fiscal year 2008/09)	(84.387)
368-378	Federally Funded Shared Services Arrangements - Locally Defined (Convert to Fund 379 for PEIMS)	
379	Federally Funded Shared Services Arrangements	

380-429**SPECIAL REVENUE FUNDS (STATE PROGRAMS)**

Fund Number	Title	CFDA Number
381	Adult Basic Education (ABE) - State	
382	Temporary Assistance for Needy Families - State TEC §29.252	
383	Professional Staff Development	
384	Texas After School Initiative	
385	Visually Impaired	
	State Supplemental Visually Impaired (SSVI)	
386	Regional Day School for the Deaf	

Fund Number	Title	CFDA Number
387	Quality Work Force Planning - State	
388	Innovative Education Grants	
389	Master Mathematics Teacher	
390	Early Childhood Limited English Proficient (LEP) Summer Program	
391	Year Round Schools Incentive	
392	Noneducational Community - Based Support	
393	Texas Successful Schools Program	
394	Life Skills Program	
395	Comprehensive Developmental Guidance Program on Elementary Campuses for Students in At-Risk Situations Program	
396	Communities in Schools	
397	Advanced Placement Incentives	
398	Children's Trust Fund of Texas	
399	Campus Deregulation and Restructuring to Improve Student Achievement	
	Investment Capital Funds	
400	School Health (Education Service Centers Only)	
401	State-Funded Optional Extended-Year Program	
402	Texas Ready to Read Program	
403	Certification (Education Service Centers Only)	

Fund Number	Title	CFDA Number
404	Student Success Initiative	
405	Gifted and Talented (Education Service Centers Only)	
406	Teacher Recruitment (Education Service Centers Only)	
407	Bilingual Education (Education Service Centers Only)	
408	Technology (Education Service Centers Only)	
409	High School Completion and Success/Texas High School Project	
410	State Textbook Fund	
411	Technology Allotment	
412	Public School Child Care Services	
413	Telecommunication Infrastructure Fund	
414	Texas Reading Initiative/Texas Reading, Math and Science Initiative	
415	Kindergarten and Prekindergarten Grants	
416	State Head Start	
417	Educational Technology (Ed Tech Pilot)	
418	Active Employee Health Insurance Coverage or Supplemental Compensation (Fund Code Deleted effective 8/31/07)	
419	Head Start-Ready to Read/Early Childhood School Readiness	
420	Reserved for Future State Definition	
421	Master Reading Teacher	

Fund Number	Title	CFDA Number
422	Matching Funds for Library Purchases	
423	Limited English Proficient (LEP) Student Success Initiative (effective fiscal year 2008/09)	
424	School Leadership Pilot Program (effective fiscal year 2008/09)	
425	Teacher Induction and Mentoring Program (effective fiscal year 2008/09)	
426	Texas Educator Excellence Award Grant Program (effective fiscal year 2008/09)	
427	State Funded Special Revenue Funds - Locally Defined (Convert to Fund 429 for PEIMS)	
428	High School Allotment (through 2009/10)	
429	State Funded Special Revenue Funds	

430-459 SHARED SERVICES ARRANGEMENTS - STATE/LOCAL FUNDED

Fund Number	Title	CFDA Number
431	Shared Services Arrangements - Adult Basic Education State Educational Technology (Ed Tech) Pilot	
432	Shared Services Arrangements - Temporary Assistance for Needy Families (TANF)	
433	Shared Services Arrangements - Professional Staff Development	
434	Shared Services Arrangements - Visually Impaired	

Fund Number	Title	CFDA Number
	Shared Services Arrangements - State Supplemental Visually Impaired (SSVI)	
435	Shared Services Arrangements - Regional Day School for the Deaf	
436	Shared Services Arrangements - Quality Work Force Planning - State	
437	Shared Services Arrangements - Special Education	
438	Shared Services Arrangements - Public School Child Care Services	
439	Shared Services Arrangements - Texas Reading Initiative/Texas Reading, Math and Science Initiative	
440	Shared Services Arrangements - Telecommunication Infrastructure Fund	
441	Shared Services Arrangements – Head Start-Ready to Read/Early Childhood School Readiness	
442	Shared Services Arrangements – Limited English Proficient (LEP) Student Success Initiative (effective fiscal year 2008/09)	
443-445	Reserved For Future State Definition	
446-458	Shared Services Arrangements - State/Local Funded) Locally Defined (Convert to Fund 459 for PEIMS)	
459	Shared Services Arrangements - State/Local Funded Educational Programs (includes local/state supplement to federal)	

460-499 SPECIAL REVENUE FUNDS (LOCAL PROGRAMS)

Fund Number	Title	CFDA Number
461	Campus Activity Funds (see Fund 865 for Student Activity Funds)	
462-469	Reserved for Future State Definition	
470 – 471	Reserved for future State Definition – Permanent Funds	
472-478	Permanent Funds – Locally Defined (Convert to Fund 499 for PEIMS)	
479	Permanent Fund	
480-498	Locally Funded Special Revenue Funds - Locally Defined (Convert to Fund 499 for PEIMS)	
499	Locally Funded Special Revenue Funds	

500 DEBT SERVICE FUNDS

Fund Number	Title	CFDA Number
501-510	Reserved for Future State Definition	
511-598	Debt Service Funds - Locally Defined (Convert to Fund 599 for PEIMS)	
599	Debt Service Funds	

600 CAPITAL PROJECTS FUNDS

Fund Number	Title	CFDA Number
601-615	Reserved for Future State Definition	
616-698	Capital Projects Funds - Locally Defined (Convert to Fund 699 for PEIMS)	
699	Capital Projects Funds	

700 THROUGH 799

PROPRIETARY FUND TYPES

700-749 ENTERPRISE FUNDS

Fund Number	Title	CFDA Number
701	Enterprise Fund - National School Breakfast and Lunch Program (Report Budget and Actual Expenditures through PEIMS)	(10.553, breakfast; 10.555, lunch)
702-710	Reserved for Future State Definition	
711-748	Enterprise Funds - Locally Defined (Not Reported to PEIMS)	
749	Enterprise Funds (Not Reported to PEIMS)	

750-799 INTERNAL SERVICE FUNDS

Fund Number	Title	CFDA Number
751	Transportation (Not Reported to PEIMS)	
752	Print Shop (Not Reported to PEIMS)	
753	Insurance (Not Reported to PEIMS)	
754	Computer Operations (Not Reported to PEIMS)	
755	Public Entity Risk Pool (Not Reported to PEIMS)	
756-769	Reserved for Future State Definition	
770-798	Internal Service Funds - Locally Defined (Not Reported to PEIMS)	
799	Internal Service Funds (Not Reported to PEIMS)	

800 THROUGH 899 FIDUCIARY FUND TYPES And Similar
Component Units 800-829 TRUST FUNDS

Fund Number	Title	CFDA Number
800	Trust Funds	

Fund Number	Title	CFDA Number
801-805	Reserved for Future State Definition	
810	Private-Purpose Trust Funds	
811-815	Reserved for Future State Definition	
816-828	Private-Purpose Trust Funds	
829	Private-Purpose Trust Funds	

830-849 INVESTMENT TRUST FUNDS

Fund Number	Title	CFDA Number
830	Investment Trust Fund	
831-835	Reserved for Future State Definition	
836-848	Investment Trust Funds - Locally Defined (Not Reported to PEIMS)	
849	Investment Trust Funds - (Not Reported to PEIMS)	

850-859 PENSION TRUST FUNDS

Fund Number	Title	CFDA Number
851-858	Pension Trust Funds - Locally Defined (Not Reported to PEIMS)	
859	Pension Trust Funds (Not Reported to PEIMS)	

860-899 AGENCY FUNDS

Fund Number	Title	CFDA Number
861	Agency Fund for Tax Collections (Not Reported to PEIMS)	
862	Agency Fund for Textbook Waiver Refunds (Not Reported to PEIMS)	

Fund Number	Title	CFDA Number
863	Payroll Clearing Account (Not Reported to PEIMS)	
864	Accounts Payable Clearing Account (Not Reported to PEIMS)	
865	Student Activity Account (Not Reported to PEIMS) (See Fund 461 for Campus Activity Funds)	
866-875	Reserved for State Definition	
876-898	Locally Defined Agency Funds (Not Reported to PEIMS)	
899	Agency Funds (Not Reported to PEIMS)	

900**GENERAL CAPITAL ASSETS AND
GENERAL LONG-TERM DEBT ACCOUNT GROUPS**

Fund Number	Title	CFDA Number
901	General Capital Assets Account Group (Not reported to PEIMS; also referred to as Capital Asset Accounts)	
902	General Long-Term Debt Fund (Not reported to PEIMS; also referred to as General Long-term Liability Accounts)	

Function Codes

Function	Title
11	Instruction
12	Instructional Resources and Media Services
13	Curriculum Development and Instructional Staff Development
21	Instructional Leadership
23	School Leadership
31	Guidance, Counseling and Evaluation Services
32	Social Work Services
33	Health Services
34	Student (Pupil) Transportation
35	Food Services
36	Extracurricular Activities
41	General Administration
51	Facilities Maintenance and Operations
52	Security and Monitoring Services
53	Data Processing Services
61	Community Services
62	School District Administrative Support Services (Used by Education Service Centers Only)
71	Debt Service
81	Facilities Acquisition and Construction

Function	Title
91	Contracted Instructional Services Between Public Schools
92	Incremental Costs Associated with Chapter 41, <u>Texas Education Code</u>, Purchase or Sale of WADA
93	Payments to Fiscal Agent/Member Districts of Shared Services Arrangements
95	Payments to Juvenile Justice Alternative Education Programs
97	Payments to Tax Increment Fund
99	Other Intergovernmental Charges

Asset Object Codes

1000 ASSETS AND OTHER DEBITS

1100 CASH AND TEMPORARY INVESTMENTS

1101-1109 Cash and Temporary Investments

℞ 1110 Cash and Cash Equivalents

℞ 1120 Investments – Current

1200 RECEIVABLES

℞ 1210 Property Taxes - Current

℞ 1220 Property Taxes - Delinquent

℞ 1230 Allowance for Uncollectible Taxes (Credit)

1240 Due from Other Governments

℞ 1241 Due from State

℞ 1242 Due from Federal Agencies

℞ 1243 Due from Other Governments

℞ 1250 Accrued Interest

1260 Due from Other Funds

℞ 1261 General Fund

℞ 1262	Special Revenue Fund
℞ 1263	Debt Service Fund
℞ 1264	Capital Projects Fund
℞ 1265	Enterprise Fund
℞ 1266	Internal Service Fund
℞ 1267	Trust and Agency Funds
℞1268	Permanent Funds
℞ 1290	Other Receivables
1300	INVENTORIES
℞ 1310	Inventories - Supplies and Materials
1400	OTHER CURRENT ASSETS
℞ 1410	Deferred Expenditures/Expenses
℞1420	Capitalized Bond and Other Debt Issuance Costs
℞1430	Premium and Discount on Issuance of Bonds (Deleted effective fiscal year 2008/09; September 1 or July 1 depending on fiscal year end)
℞1490	Other Current Assets
1500	LAND, BUILDINGS AND EQUIPMENT

℞ 1510	Land Purchase and Improvements
℞ 1520	Buildings and Improvements
1530	Furniture and Equipment
℞ 1531	Vehicles
℞ 1539	Furniture and Equipment
1540	Capital Assets - District Defined
℞ 1541	Vehicles
℞ 1549	Furniture and Equipment
1550	Assets Purchased Under Capital Leases
℞ 1551	Buildings
℞ 1559	Furniture and Equipment
1560	Library Books and Media
℞ 1569	Library Books and Media
1570	Accumulated Depreciation
℞ 1571	Accumulated Depreciation - Buildings
℞ 1572	Accumulated Depreciation - Vehicles

℞ 1573	Accumulated Depreciation - Furniture and Equipment
℞ 1574	Accumulated Depreciation - Library Books and Media
℞ 1576	Accumulated Depreciation - Capital Leases
℞ 1577	Accumulated Depreciation – Infrastructure
℞ 1578	Accumulated Depreciation – Art and Collections
℞ 1579	Accumulated Depreciation – Historical Treasures
℞ 1580	Construction in Progress
℞ 1590	Other Capital Assets – Infrastructure, Art, Historical Treasures, and Collections
℞ 1591	Infrastructure Assets Roads
℞ 1592	Infrastructure Assets – Drainage Systems
℞ 1593	Infrastructure Assets – Water Systems
℞ 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 Reserved for Future State Definition

1700 Reserved for Future State Definition

1800 RESTRICTED ASSETS

℞ 1810 Cash and Temporary Investments

℞ 1890 Other Restricted Assets

1900 OTHER ASSETS

℞1910 Long-Term Investments

℞1990 Other Assets

Liability Object Codes

2000 LIABILITIES

2100 CURRENT PAYABLES

℞ 2110 Accounts Payable

2120 Bonds and Loans Payable - Current Year

℞ 2121 Bonds Payable - Current Year

℞ 2122 Loans Payable - Current Year

℞ 2123	Other Liabilities - Current
℞ 2130	Capital Leases Payable - Current Year
2140	Interest Payable
℞ 2141	Bond Interest Payable
℞ 2142	Loan Interest Payable
℞ 2143	Capital Lease Interest Payable
2150	Payroll Deductions and Withholdings
℞ 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
2170	Due to Other Funds
℞ 2171	General Fund
℞ 2172	Special Revenue Fund

ℳ 2173	Debt Service Fund
ℳ 2174	Capital Projects Fund
ℳ 2175	Enterprise Fund
ℳ 2176	Internal Service Fund
ℳ 2177	Trust and Agency Funds
ℳ 2178	Permanent Funds
2180	Due to Other Governments
ℳ 2181	Due to State
ℳ 2182	Due to Federal Agencies
ℳ 2183	Due to Other Governments
ℳ 2184	Due to Government Unit - Taxes
ℳ 2190	Due to Student Groups
2200	ACCRUED EXPENDITURES/EXPENSES
ℳ 2210	Accrued Expenditures/Expenses
2300	DEFERRED REVENUE
ℳ 2310	Deferred Revenue
2400	PAYABLE FROM RESTRICTED ASSETS

℞ 2410	Construction Contract
℞ 2420	Fiscal Agent
℞ 2430	Accrued Interest
℞ 2440	Other
2500	BONDS AND LOANS PAYABLE - LONG-TERM
℞ 2510	Bonds Payable - Long-Term
℞ 2511	Deferred Gain/Loss on Defeasance of Bonds
℞ 2512	Accumulated Accretion on Capital Appreciation Bonds
℞ 2516	Premium and Discount on Issuance of Bonds (Effective fiscal year 2008/09; September 1 or July 1 depending on fiscal year end)
℞ 2520	Loans Payable - Long-Term
2530	OTHER LONG-TERM DEBT PAYABLE
℞ 2531	Capital Leases Payable - Long-Term
℞ 2532	Vested Vacation Benefits Payable
℞ 2590	Other Long-Term Debt Liabilities

Fund Equity Object Codes

Prior to GASB 54 Effective Date (through FY 2009-10)

3000	<u>FUND EQUITY/FUND NET ASSETS</u>
3100	RESERVED FOR FUTURE STATE DEFINITION
℞ 3200	INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT
3300	RESERVED FOR FUTURE STATE DEFINITION
3400-3600	FUND BALANCE
3400	RESERVED FUND BALANCE
℞ 3410	Reserve for Investment in Inventories
℞ 3420	Reserve for Retirement of Long-Term Debt
℞ 3430	Reserve for Prepaid Items
℞ 3440	Reserve for Outstanding Encumbrances
℞ 3450	Reserve for Food Service
℞ 3460	Reserve for Fund Balances of Consolidated School Districts
℞ 3470	Reserve for Capital Acquisition Program and Contractual Obligations
℞ 3490	Other Reserves of Fund Balance

3500	DESIGNATED FUND BALANCE
℞ 3510	Designated Fund Balance - Construction
℞ 3520	Designated Fund Balance - Claims and Judgments
℞ 3530	Designated Fund Balance - Capital Expenditures for Equipment
℞ 3540	Designated Fund Balance - Self-Insurance
℞ 3590	Other Designated Fund Balance
℞ 3600	UNRESERVED, UNDESIGNATED FUND BALANCE
℞ 3700	BUDGETARY FUND BALANCE
℞ 3800	RESTRICTED NET ASSETS
℞ 3900	UNRESTRICTED NET ASSETS

After GASB 54 Effective Date (FY 2010-11)

3000	<u>FUND EQUITY/FUND NET ASSETS</u>
3100	RESERVED FOR FUTURE STATE DEFINITION
℞ 3200	INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

3300	RESERVED FOR FUTURE STATE DEFINITION
3400-3600	FUND BALANCE
3400	NONSPENDABLE OR RESTRICTED FUND BALANCE
℞ 3410	Nonspendable Inventories
℞ 3415	Nonspendable Long-Term Loans/Notes Receivable
℞ 3425	Nonspendable Endowment Principal
℞ 3430	Nonspendable Prepaid Items
℞ 3445	Nonspendable Other
℞ 3450	Restricted for Federal/state funds grant restrictions
℞ 3460	Restricted for Fund Balances of Consolidated School Districts
℞ 3470	Restricted for Capital Acquisition Program and Contractual Obligations
℞ 3480	Restricted for Retirement of Long-Term Debt
℞ 3490	Other Restrictions of Fund Balance
3500	COMMITTED OR ASSIGNED FUND BALANCE
℞ 3510	Committed Fund Balance - Construction
℞ 3520	Committed Fund Balance - Claims and Judgments
℞ 3525	Committed Fund Balance - Retirement of Loans/Notes Payable

℞ 3530	Committed Fund Balance - Capital Expenditures for Equipment
℞ 3540	Committed Fund Balance - Self-Insurance
℞ 3545	Other Committed Fund Balance
℞ 3550	Assigned Fund Balance - Construction
℞ 3560	Assigned Fund Balance - Claims and Judgments
℞ 3565	Assigned Fund Balance - Retirement of Loans/Notes Payable
℞ 3570	Assigned Fund Balance - Capital Expenditures for Equipment
℞ 3580	Assigned Fund Balance - Self-Insurance
℞ 3590	Other Assigned Fund Balance
℞ 3600	UNASSIGNED FUND BALANCE
℞ 3700	BUDGETARY FUND BALANCE
℞ 3800	RESTRICTED NET ASSETS
℞ 3900	UNRESTRICTED NET ASSETS

Clearing Account Object Codes

4000	<u>CLEARING ACCOUNTS</u>
4300	ENCUMBRANCE RESERVES
4310	Reserve for Encumbrances - Locally Defined

Revenue Object Codes

5000	<u>REVENUE CONTROL ACCOUNTS</u>
5010	Estimated Revenues - Control - Locally Defined
5020	Realized Revenues - Control - Locally Defined
5700-5900	REVENUES
5700	REVENUES FROM LOCAL AND INTERMEDIATE SOURCES
5710	Local Real and Personal Property Taxes
℞ 5711	Taxes, Current Year Levy
℞ 5712	Taxes, Prior Years
5713-5715	Reserved for Future State Definition
5716-5718	Penalties, Interest and Other Tax Revenues - Locally Defined (Convert to Object Code 5719 for PEIMS)
℞ 5719	Penalties, Interest and Other Tax Revenues
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
℞ 5722	Shared Services Arrangements - Local Revenues from Member Districts

℞ 5723 Shared Services Arrangements - Local Revenues from Fiscal Agent

5724-5726 Reserved for Future State Definition

5727-5728 Local Revenues Resulting from Services Rendered to Other School Districts- Locally Defined (Convert to Object Code 5729 for PEIMS)

℞ 5729 Local Revenues Resulting from Services Rendered to Other School Districts

5730 Tuition and Fees

5731-5734 Reserved for Future State Definition

5735-5738 Tuition and Fees - Locally Defined (Convert to Object Code 5739 for PEIMS)

℞ 5739 Tuition and Fees

5740 Other Revenues from Local Sources

℞ 5741 Earnings from Permanent Funds and Endowments

℞ 5742 Earnings from Temporary Deposits and Investments

℞ 5743 Rent

℞ 5744 Revenue from Foundations, Other Non-Profit Organizations, Gifts and Bequests

℞ 5745 Insurance Recovery

℞ 5746 Tax Increment Fund

5747	Reserved for Future State Definition
5748	Other Revenues from Local Sources - Locally Defined (Convert to Object Code 5749 for PEIMS)
℞ 5749	Other Revenues from Local Sources
5750	Revenues from Cocurricular, Enterprising Services or Activities
℞ 5751	Food Service Activity
℞ 5752	Athletic Activities
℞ 5753	Extracurricular Activities Other than Athletics
℞ 5754	Interfund service provided and used / Interfund Transactions
℞ 5755	Enterprising Services Revenue
5756	Reserved for Future State Definition
5757-5758	Cocurricular, Enterprising Services or Activities - Locally Defined (Convert to Object Code 5759 for PEIMS)
℞ 5759	Cocurricular, Enterprising Services or Activities
5760	Revenues from Intermediate Sources
5761-5765	Reserved for Future State Definition
5766-5768	Revenues from Intermediate Sources - Locally Defined (Convert to Object Code 5769 for PEIMS)
℞ 5769	Miscellaneous Revenues from Intermediate Sources

5770-5790	Reserved for Future State Definition
5800	STATE PROGRAM REVENUES
5810	Per Capita and Foundation School Program Act Revenues
℞ 5811	Per Capita Apportionment
℞ 5812	Foundation School Program Act Entitlements
℞ 5813	Foundation School Program Act Incentive Aid
5814-5816	Reserved for Future State Definition
5817-5818	Foundation School Program Act Revenues - Locally Defined (Convert to Object Code 5819 for PEIMS)
℞ 5819	Other Foundation School Program Act Revenues
5820	State Program Revenues Distributed by Texas Education Agency
5821-5825	Reserved for Future State Definition
5826-5828	Revenues from Other State Programs - Locally Defined (Convert to Object Code 5829 for PEIMS)
℞ 5829	State Program Revenues Distributed by Texas Education Agency
5830	State Revenues from State of Texas Government Agencies (Other than Texas Education Agency)
℞ 5831	Teacher Retirement/TRS Care - On-Behalf Payments

**℞5832 TRS Payment Supplemental Compensation Under Article
3.50-8, Insurance Code (Deleted effective 8/31/2007)**

5833-5835 Reserved for Future State Definition

**5836-5838 State Revenues from State of Texas Government Agencies
(Other than Texas Education Agency) - Locally Defined
(Convert to Object Code 5839 for PEIMS)**

**℞ 5839 State Revenues from State of Texas Government Agencies
(Other than Texas Education Agency)**

5840 Shared Services Arrangements - State Revenues

**℞ 5841 Shared Services Arrangements - State Revenues from Member
Districts**

**℞ 5842 Shared Services Arrangements - State Revenues from Fiscal
Agent**

5843-5845 Reserved for Future State Definition

**5846-5848 Shared Services Arrangements - State Revenues Locally
Defined (Convert to Object Code 5849 for PEIMS)**

℞ 5849 Shared Services Arrangements - State Revenues

5850-5890 Reserved for Future State Definition

5900 FEDERAL PROGRAM REVENUES

**5910 Federal Revenues Distributed Through Government Entities
Other than State or Federal Agencies**

5911-5915 Reserved for Future State Definition

**5916-5918 Federal Revenues Distributed Through Government Entities
Other than State or Federal Agencies - Locally Defined
(Convert to Object Code 5919 for PEIMS)**

**℞ 5919 Federal Revenues Distributed Through Government Entities
Other than State or Federal Agencies**

5920 Federal Revenues Distributed by the Texas Education Agency

℞ 5921 School Breakfast Program

℞ 5922 National School Lunch Program

℞ 5923 United States Department of Agriculture (USDA) Commodities

5924-5926 Reserved for Future State Definition

**5927-5928 Federal Revenues Distributed by Texas Education Agency -
Locally Defined (Convert to Object Code 5929 for PEIMS)**

℞ 5929 Federal Revenues Distributed by Texas Education Agency

**5930 Federal Revenues Distributed by Other State of Texas
Government Agencies (Other than Texas Education Agency)**

℞ 5931 School Health and Related Services (SHARS)

℞ 5932 Medicaid Administrative Claiming Program (MAC)

5933-5935 Reserved for Future State Definition

**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)**

℞ 5939	Federal Revenues Distributed by State of Texas Government Agencies (Other than Texas Education Agency)
5940	Federal Revenues Distributed Directly From the Federal Government
℞ 5941	Impact Aid (84.041)
5942-5945	Reserved for Future State Definition
5946-5948	Federal Revenues Distributed Directly from the Federal Government - Locally Defined (Convert to Object Code 5949 for PEIMS)
℞ 5949	Federal Revenues Distributed Directly from the Federal Government
5950	Shared Services Arrangements - Federal Revenues
℞ 5951	Shared Services Arrangements - Federal Revenues from Member Districts
℞ 5952	Shared Services Arrangements - Federal Revenues from Fiscal Agent
5953-5955	Reserved for Future State Definition
5956-5958	Shared Services Arrangements - Federal Revenues - Locally Defined (Convert to Object Code 5959 for PEIMS)
℞ 5959	Shared Services Arrangements - Federal Revenues
5960-5990	Reserved for Future State Definition

Expenditure/Expense Object Codes

6000	<u>EXPENDITURE/EXPENSE CONTROL ACCOUNTS</u>
6010	Appropriated Expenditures/Expense - Control - Locally Defined
6020	Encumbrances - Control - Locally Defined
6030	Expenditures/Expenses - Control - Locally Defined
6100	PAYROLL COSTS
6110	Teachers and Other Professional Personnel
6111	Reserved for Future State Definition
℞ 6112	Salaries or Wages for Substitute Teachers and Other Professionals (Effective fiscal year 2008/09; September 1 or July 1 depending on fiscal year end)
6113-6115	Reserved for Future State Definition
6116-6118	Salaries or Wages for Teachers and Other Professional Personnel - Locally Defined (Convert to Object Code 6119 for PEIMS)
℞ 6119	Salaries or Wages - Teachers and Other Professional Personnel
6120	Support Personnel
℞ 6121	Extra Duty Pay/Overtime - Support Personnel
℞ 6122	Salaries or Wages for Substitute Support Personnel (Effective fiscal year 2008/09; September 1 or July 1 depending on fiscal year end)

6123-6124 Reserved for Future State Definition**6125-6128 Salaries or Wages for Support Personnel - Locally Defined
(Convert to Object Code 6129 for PEIMS)**

℞ 6129 Salaries or Wages for Support Personnel

6130 Employee Allowances

℞ 6131 Contract Buyouts

**℞ 6132 TRS Supplemental Compensation Under Article 3.50-8,
Insurance Code (Deleted effective 8/31/2007)**

6133 Reserved for Future State Definition

**6134-6138 Employee Allowances - Locally Defined (Convert to Object
Code 6139 for PEIMS)**

℞ 6139 Employee Allowances

6140 Employee Benefits

℞ 6141 Social Security/Medicare

℞ 6142 Group Health and Life Insurance

℞ 6143 Workers' Compensation

℞ 6144 Teacher Retirement/TRS Care - On-Behalf Payments

℞ 6145 Unemployment Compensation

℞ 6146 Teacher Retirement/TRS Care

6147	Reserved for Future State Definition
6148	Employee Benefits - Locally Defined (Convert to Object Code 6149 for PEIMS)
℞ 6149	Employee Benefits
6150-6190	Reserved for Future State Definition
6200	PROFESSIONAL AND CONTRACTED SERVICES
6210	Professional Services
℞ 6211	Legal Services
℞ 6212	Audit Services
℞ 6213	Tax Appraisal and Collection
℞ 6214	Lobbying (Effective fiscal year 2008/09; September 1 or July 1 depending on fiscal year end)
6215	Reserved for Future State Definition
6216-6218	Professional Services - Locally Defined (Convert to Object Code 6219 for PEIMS)
℞ 6219	Professional Services
6220	Tuition and Transfer Payments
℞ 6221	Staff Tuition and Related Fees - Higher Education
℞ 6222	Student Tuition - Public Schools

℞ 6223	Student Tuition - Other than Public Schools
℞ 6224	Student Attendance Credits
6225-6226	Reserved for Future State Definition
6227-6228	Tuition - Locally Defined (Convert to Object Code 6229 for PEIMS)
℞ 6229	Tuition and Transfer Payments
6230	Education Service Center Services
6231-6233	Reserved for Future State Definition
6234-6238	Education Service Center Services - Locally Defined (Convert to Object Code 6239 for PEIMS)
℞ 6239	Education Service Center Services
6240	Contracted Maintenance and Repair Services
6241-6243	Reserved for Future State Definition
6244-6248	Contracted Maintenance and Repair - Locally Defined (Convert to Object Code 6249 for PEIMS)
℞ 6249	Contracted Maintenance and Repair
6250	Utilities
6251-6254	Reserved for Future State Definition
6255-6258	Utilities - Locally Defined (Convert to Object Code 6259 for PEIMS)

℞ 6259 Utilities

6260 Rentals - Operating Leases

6261-6263 Reserved for Future State Definition

**6264-6268 Rentals - Operating Leases - Locally Defined (Convert to
Object Code 6269 for PEIMS)**

℞ 6269 Rentals - Operating Leases

6270 - 6280 Reserved for Future State Definition

6290 Miscellaneous Contracted Services

**℞ 6291 Consulting Services (Effective fiscal year 2008/09; September 1
or July 1 depending on fiscal year end)**

6292-6293 Reserved for Future State Definition

**6294-6298 Miscellaneous Contracted Services - Locally Defined (Convert
to Object Code 6299 for PEIMS)**

℞ 6299 Miscellaneous Contracted Services

6300 SUPPLIES AND MATERIALS

6310 Supplies and Materials for Maintenance and/or Operations

℞ 6311 Gasoline and Other Fuels for Vehicles (Including Buses)

6312-6314 Reserved for Future State Definition

**6315-6318 Supplies for Maintenance and/or Operations - Locally Defined
(Convert to Object Code 6319 for PEIMS)**

℞ 6319	Supplies for Maintenance and/or Operations
6320	Textbooks and Other Reading Materials
℞ 6321	Textbooks
6322-6324	Reserved for Future State Definition
6325-6328	Reading Materials - Locally Defined (Convert to Object Code 6329 for PEIMS)
℞ 6329	Reading Materials
6330	Testing Materials
6331-6333	Reserved for Future State Definition
6334-6338	Testing Materials - Locally Defined (Convert to Object Code 6339 for PEIMS)
℞ 6339	Testing Materials
6340	Food Service and Other Resale Items
℞ 6341	Food
℞ 6342	Non-Food
℞ 6343	Items for Sale
℞ 6344	USDA Commodities
6345-6347	Reserved for Future State Definition

6348 Food Supplies - Locally Defined (Convert to Object Code 6349 for PEIMS)

℞ 6349 Food Service Supplies

6350-6380 Reserved for Future State Definition

6390 Supplies and Materials - General

6391-6394 Reserved for Future State Definition

6395-6398 Supplies and Materials - Locally Defined (Convert to Object Code 6399 for PEIMS)

℞ 6399 General Supplies

6400 OTHER OPERATING COSTS

6410 Travel, Subsistence and Stipends

℞ 6411 Travel and Subsistence - Employee Only

℞ 6412 Travel and Subsistence - Students

℞ 6413 Stipends - Non-Employees

6414-6416 Reserved for Future State Definition

6417-6418 Travel and Subsistence - Locally Defined (Convert to Object Code 6419 for PEIMS)

℞ 6419 Travel and Subsistence - Non-Employees

6420 Insurance and Bonding Costs

6421-6424 Reserved for Future State Definition**6425-6428 Insurance and Bonding Costs - Locally Defined (Convert to Object Code 6429 for PEIMS)**

℞ 6429 Insurance and Bonding Costs

6430 Election Costs

6431-6433 Reserved for Future State Definition**6434-6438 Election Costs - Locally Defined (Convert to Object Code 6439 for PEIMS)**

℞ 6439 Election Costs

6440 Depreciation Expense of Proprietary and Nonexpendable Trust Funds

6441-6443 Reserved for Future State Definition**6444-6448 Depreciation Expense - Locally Defined (Convert to Object Code 6449 for PEIMS)**

℞ 6449 Depreciation Expense

6450-6489 Reserved for Future State Definition

6490 Miscellaneous Operating Costs

6491 Reserved for Future State Definition

℞ 6492 Payments to Fiscal Agents of Shared Services Arrangements

℞ 6493	Payments to Member Districts of Shared Services Arrangements
℞ 6494	Reclassified Transportation Expenditures/Expenses
℞ 6495	Dues (Effective fiscal year 2008/09; September 1 or July 1 depending on fiscal year end)
6496	Reserved for Future State Definition
6497-6498	Miscellaneous Operating Costs - Locally Defined (Convert to Object Code 6499 for PEIMS)
℞ 6499	Miscellaneous Operating Costs
6500	DEBT SERVICE
6510	Debt Principal
℞ 6511	Bond Principal
℞ 6512	Capital Lease Principal
℞ 6513	Long-Term Debt Principal
6514-6516	Reserved for Future State Definition
6517-6518	Debt Service - Locally Defined (Convert to Object Code 6519 for PEIMS)
℞ 6519	Debt Principal
6520	Interest Expenditures/Expenses
℞ 6521	Interest on Bonds

℞ 6522	Capital Lease Interest
℞ 6523	Interest on Debt
℞ 6524	Amortization of Bond and Other Debt Related Costs
℞ 6525	Amortization of Premium and Discount on Issuance of Bonds
6526	Reserved for Future State Definition
6527-6528	Interest Expenditures/Expenses - Locally Defined (Convert to Object Code 6529 for PEIMS)
℞ 6529	Interest Expenditures/Expenses
6530-6580	Reserved for Future State Definition
6590	Other Debt Service Expenditures/Expenses
6591-6593	Reserved for Future State Definition
6594-6598	Other Debt Service Expenditures/Expenses - Locally Defined (Convert to Object Code 6599 for PEIMS)
℞ 6599	Other Debt Service Fees
6600	CAPITAL OUTLAY - LAND, BUILDINGS AND EQUIPMENT
6610	Land Purchase and Improvement
6611-6613	Reserved for Future State Definition
6614-6618	Land Purchase and Improvements - Locally Defined (Convert to Object Code 6619 for PEIMS)

℞ 6619	Land Purchase and Improvement
6620	Building Purchase, Construction or Improvements
6621-6623	Reserved for Future State Definition
6624-6628	Building Purchase, Construction or Improvements - Locally Defined (Convert to Object Code 6629 for PEIMS)
℞ 6629	Building Purchase, Construction or Improvements
6630	Furniture and Equipment
℞ 6631	Vehicles per unit cost of \$5,000 or more
6632-6634	Reserved for Future State Definition
6635-6638	Furniture and Equipment - Locally Defined (Convert to Object Code 6639 for PEIMS)
℞ 6639	Furniture, Equipment and Software
6640	Capital Assets - District Defined
℞ 6641	Vehicles per unit cost of less than \$5,000
6642-6643	Reserved for Future State Definition
6644-6648	Capital Assets - Locally Defined (Convert to Object Code 6649 for PEIMS)
℞ 6649	Capital Assets - Furniture and Equipment - Locally Defined Groupings

6650 Capital Assets Under Capital Leases**℞ 6651 Capital Lease of Buildings****6652-6653 Reserved for Future State Definition****6654-6658 Capital Assets Under Capital Lease - Locally Defined (Convert to Object Code 6659 for PEIMS)****℞ 6659 Capital Lease of Furniture, Equipment and Software****6660 Library Books and Media****6661-6664 Reserved for Future State Definition****6665-6668 Library Books and Media - Locally Defined (Convert to Object Code 6669 for PEIMS)****℞ 6669 Library Books and Media****Other Resources/Non-Operating Revenue/ Transfers In
Object Codes****7000 OTHER RESOURCES/NON-OPERATING REVENUES****7010 Estimated Other Resources/Non-Operating Revenues Control-
Local Option****7020 Realized Other Resources/Non-Operating Revenues -Control-
Local Option****7900 Other Resources/Non-Operating Revenue**

7910	Other Resources
℞ 7911	Issuance of Bonds
℞ 7912	Sale of Real and Personal Property
℞ 7913	Proceeds from Capital Leases
℞ 7914	Loan Proceeds - Governmental Fund Types and Expendable Trust Funds Only (Non-Current)
℞ 7915	Operating Transfers In
℞ 7916	Premium or Discount on Issuance of Bonds
℞ 7917	Prepaid Interest
℞ 7918	Special Items
℞ 7919	Extraordinary Items
7920-7939	Reserved for Future State Definition
7940-7948	Other Resources - Locally Defined (Convert to Object Code 7949 for PEIMS)
℞ 7949	Other Resources
7950	Non-Operating Revenues (Proprietary Fund Types and Similar Trust Funds Only)
℞ 7951	Gain on Sale of Real and Personal Property
℞ 7952	National School Breakfast Program

℞ 7953	National School Lunch Program
℞ 7954	United States Department of Agriculture (USDA) Commodities
℞ 7955	Earnings from Temporary Deposits and Investments
℞ 7956	Insurance Recovery
℞ 7957	Contributed Capital
7958-7979	Reserved for Future State Definition
7980-7988	Non-Operating Revenues - Locally Defined (Convert to 7989 for PEIMS)
℞ 7989	Other Non-Operating Revenues
7990	Reserved for Future State Definitions
7991-7999	Reserved for Future State Definition

Other Uses/Non-Operating Expenses/Transfers Out Object Codes

8000	<u>OTHER USES/NON-OPERATING EXPENSES</u>
8010	Appropriated Other Uses/Non-Operating Expenses -Control- Locally Defined
8020	Encumbered Other Uses/Non-Operating Expenses -Control- Locally Defined
8030	Actual Other Uses/Non-Operating Expenses -Locally Defined

8900 Other Uses/Special Items/Extraordinary Items/Non-Operating Expenses

8910 Other Uses

℞ 8911 Operating Transfers Out

℞ 8912 Special Items

℞ 8913 Extraordinary Items

8914-8939 Reserved for Future State Definition

8940-8948 Other Uses - Locally Defined (Convert to Account 8949 for PEIMS)

℞ 8949 Other Uses

8950 Non-Operating Expenses

℞ 8951 Loss on Sale of Real and Personal Property

8952-8959 Reserved for Future State Definition

8960-8988 Non-Operating Expenses - Locally Defined (Convert to Account 8989 for PEIMS)

℞ 8989 Non-Operating Expenses

8990 Reserved for future State Definition

8991-8999 Reserved for Future State Definition

Organization Codes

001-699	Organization Units - Campuses
℞ 001-040	High School Campuses
℞ 041-100	Junior High/Middle School Campuses
℞ 101-698	Elementary School Campuses
℞ 699	Summer School Organization
700	Organization Units - Administrative
℞ 701	Organization Unit - Superintendent's Office
℞ 702	Organization Unit - School Board
℞ 703	Organization Unit - Tax Costs
704-708	Reserved for Future State Definition
709-719	Organization Unit - Direct Costs - Locally Defined (Convert to Organization Code 720 for PEIMS)
℞ 720	Organization Unit - Direct Costs in Function 41 (General Administration)
721-725	Reserved for Future State Definition
726-749	Organization Unit - Indirect Costs - Locally Defined (Convert to Organization Code 750 for PEIMS)

℞ 750	Organization Units - Indirect Costs in Function 41 (General Administration), including Business Office/Personnel/Payroll/Human Resources/Purchasing
℞ 751	Fiscal Agent Shared Services Arrangements - Local Option
752-799	Organization Units - Reserved for Future State Definition
800-997	Organization Units - Locally Defined (Convert to Organization Code 999 for PEIMS)
℞ 998	Unallocated Organization Unit - Local Option
℞ 999	Undistributed Organization Unit

Program Intent Codes

1X	BASIC SERVICES
℞ 11	Basic Educational Services
2X	ENHANCED SERVICES
℞ 21	Gifted and Talented
℞ 22	Career and Technical
℞ 23	Services to Students with Disabilities (Special Education)
℞ 24	Accelerated Education
℞ 25	Bilingual Education and Special Language Programs

℞ 26	Nondisciplinary Alternative Education Programs – AEP Basic Services)
27	Reserved for Future State Definition
℞ 28	Disciplinary Alternative Education Program – DAEP Basic Services
℞ 29	Disciplinary Alternative Education Program – DAEP State Compensatory Education Supplemental Costs
℞ 30	Title I, Part A Schoolwide Activities Related to State Compensatory Education Costs on Campuses with 40% or More Educationally Disadvantaged Students
℞ 31	High School Allotment
3X-6X	Reserved for Future State Definition
71-8X	Reserved for use by Education Service Centers
9X	OTHER
℞ 91	Athletics and Related Activities
℞ 99	Undistributed

Appendix 6 - Account Code Matrices and Accounting Spreadsheets

Account code matrices. The matrices provide additional guidance concerning the use of the standard account code system in the Resource Guide and the predominant coding relationships between account code categories, such as fund codes and program intent codes. ([Excel](#)) ([pdf](#))

Revenue matrix for the Statement of Activities. This spreadsheet provides additional guidance concerning program vs. general revenues. ([Excel](#)) ([pdf](#))

Major fund calculation spreadsheet. This spreadsheet can be used to calculate the major funds according to GASB guidance. ([Excel](#)) ([pdf](#))

Net asset calculation spreadsheet. This spreadsheet can be used to calculate net asset balances. ([Excel](#)) ([pdf](#))

Appendix 7 - Example Accounting Entries

With the implementation of GASB Statement No. 34, the basic financial statements require that the transactions be recorded on the fund basis as well as the government-wide basis. There are two methods of achieving the reporting requirements for both sets of financial statements. The most common method is the reclassification approach, which uses the historic fund accounting software system during the year for all transactions and prepares reclassification journal entries at year-end to produce the government-wide financial statements. The dual-track approach records entries under both types of measurement focus (traditional short-term current financial resources and long-term economic resources). Until more software provides the ability to track financial transactions using the dual-track approach, the resource guide assumes the user is using the reclassification approach. The disadvantages of the reclassification approach are that the accounting system does not have the information to produce government-wide financial statements readily, and the spreadsheets used for preparation of the reclassification entries create audit trail problems.

Since the resource guide assumes use of the reclassification approach, there are continued references to General Capital Asset Accounts and the General Long-Term Debt Fund throughout the resource guide.

Accounting for Interfund Transactions

Interfund service provided and used Transactions

Interfund service provided and used transactions are transactions between funds that are part of the same reporting entity but the nature of the exchange suggests the existence of normal buyer/seller relationships. An example is where the school district has an Internal Service Fund operation that provides services or sells products to the governmental funds. An operation accounted for through the Internal Service Fund bills other funds on a cost reimbursement basis. Revenues are recognized by the Internal Service Fund (revenue account 5754, interfund service provided and used transactions), and expenditures are recorded in the governmental fund using the appropriate expenditure object code.

Illustration

Assume that a school district operates a vehicle motor pool accounted for in the Internal Service Fund. Costs are maintained on each vehicle, including depreciation expense. The use of vehicles is charged to the appropriate governmental fund on a cost reimbursement

basis. The Internal Service Fund has billed the General Fund for the use of a school bus for transporting high school children on extracurricular trips. Cost records indicate that the bus cost \$1 per mile to operate and that the bus traveled 1,000 miles for a total cost of \$1,000. The following entries are necessary to record this interfund service provided and used transaction between the fund providing and billing for the service (the Internal Service Fund) and the fund receiving and paying for the services (the General Fund):

A. Record transportation charge to General Fund in the Internal Service Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
751-00-1110-00-000-Y-00-0-00	\$1,000	
Revenues - Interfund service provided and used Transactions		
751-00-5754-00-000-Y-00-0-00		\$1,000

B. Record amount charged for transportation (extracurricular trips) to the General Fund by the Internal Service Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Reclassified Transportation		
199-36-6494-00-999-Y-99-0-00	\$1,000	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$1,000

Operating Transfers

The following are examples of operating transfers:

- Transfer of funds by the General Fund to an Enterprise Fund as part of an operating subsidy.
- Transfer of funds from a Special Revenue Fund or the General Fund to a Debt Service Fund to support principal interest payments.
- Transfer from an Enterprise Fund to the General Fund in order to finance general governmental expenditures.

Operating transfers must be treated consistently by all funds involved in the transfers. At the end of the period, the total amount of operating transfers out should equal the amount of operating transfers in for the governmental reporting entity.

Illustration

For example, a \$100,000 operating transfer from the General Fund to the Capital Projects Fund would be recorded as follows:

A. Record an operating transfer between funds.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Operating Transfers Out		
199-00-8911-00-999-Y-99-0-00	\$100,000	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$100,000
Cash and Temporary Investments		
699-00-1110-00-000-Y-00-0-00	\$100,000	
Operating Transfers In		
699-00-7915-00-000-Y-00-0-00		\$100,000

Reimbursements

Illustration

Assume that an expenditure of \$1,000 for instructional general supplies is recorded in the General Fund (199). Subsequent review of purchase orders and the invoice indicate that \$400 of these supplies were applicable to the ESEA, Title I, Part A - Improving Basic Programs program in the Special Revenue Fund (211). The following entries are required to reimburse the General Fund and to appropriately charge expenditures to the Special Revenue Fund:

A. Reimburse the General Fund for Special Revenue Fund - ESEA Title I, Part A - Improving Basic Programs, general supplies, P. O. #01003, invoice date 9/10/20XX.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$400	
Expenditures - General Supplies		
199-11-6399-00-101-Y-24-0-00		\$400

B. Record expenditures for general supplies, P. O. #01003, invoice date 9/10/20XX.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - General Supplies		
211-11-6399-00-101-Y-24-0-00	\$400	
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00		\$400

Interfund Loans

Illustration

Assume that the ESEA Title I, Part A - Improving Basic Programs program has not been advanced adequate funds for its immediate operations, and funds are forthcoming from the federal government. Expenditures of \$5,000 have been made for the program, and an interfund loan from the General Fund is made to allow payment of incurred expenditures. The following entries are made to record the interfund loan and its subsequent repayment:

A. Record interfund loan from the General Fund to the ESEA Title I, Part A - Improving Basic Programs Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Due from Special Revenue Fund		
199-00-1262-00-000-Y-00-0-00	\$5,000	
Cash and Temporary Investments		

199-00-1110-00-000-Y-00-0-00		\$5,000
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B. Record interfund loan from General Fund to the ESEA Title I, Part A - Improving Basic Programs Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00	\$5,000	
Due to General Fund		
211-00-2171-00-000-Y-00-0-00		\$5,000

C. Repay interfund loan to General Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Due to General Fund		
211-00-2171-00-000-Y-00-0-00	\$5,000	
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00		\$5,000

D. Record repayment of interfund loan by fund 211.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$5,000	
Due from Special Revenue Fund		
199-00-1262-00-000-Y-00-0-00		\$5,000

Interfund Loans – Education Service Center Setting

Illustration

Assume that an Education Service Center (ESC) operates a print shop which provides printing services to all the departments/offices in the ESC. The print shop operations are accounted for in an Internal Service Fund. During the year, charges to departments/offices are based on a rate structure which considered cost per unit sufficient to maintain a break-even reimbursement basis for the ESC. The following departments/offices had charges for the month of December:

<u>Function</u>	<u>Department</u>	<u>Amount</u>
12	Media Services	\$450
13	Curriculum Assistance	625
53	Computer Services	100
34	Bus Driver Training	75
11	Migrant Education (federally funded)	<u>175</u>
		<u>\$1,425</u>

- A. Record print charges to other funds in the Print Shop Internal Service Fund assuming charges are not immediately settled in cash.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Due from General Fund		
752-00-1261-00-000-Y-00-0-00	\$1,250	
Due from Special Revenue Fund		
752-00-1262-00-000-Y-00-0-00	\$175	
Revenues - Interfund service provided and used Transactions		
752-00-5754-00-000-Y-00-0-00		\$1425

- B. Record amount charged for printing services to the General Fund and Special Revenue Funds by the Print Shop Internal Service Fund. As noted above, assume the charges are not immediately settled in cash.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - General Supplies		
102-12-6399-00-XXX-Y-99-0-00	\$450	
102-13-6399-00-XXX-Y-99-0-00	\$625	
102-53-6399-00-XXX-Y-99-0-00	\$100	
Due to Internal Service Fund		
102-00-2176-00-000-Y-00-0-00		\$1175
Expenditures - General Supplies		
199-34-6399-00-XXX-Y-99-0-00	\$ 75	
Due to Internal Service Fund		
199-00-2176-00-000-Y-00-0-00		\$75

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - General Supplies		
212-11-6399-00-XXX-Y-24-0-00	\$175	
Due to Internal Service Fund		
212-00-2176-00-000-Y-00-0-00		\$175

Accounting For Encumbrances

Services

Illustration #1

An original purchase order for supplies is estimated to be \$1,000. When the invoice is received, the supplies cost \$900. The following entries reflect the recording of the encumbrance, the recording of the invoice and liquidation of the encumbrance, and the payment of the invoice.

A. Encumber the purchase order.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Encumbrances - General Supplies		
199-11-6399-00-001-Y-11-0-00	\$1,000	
Reserve for Encumbrances		
199-00-4210-00-000-Y-00-0-00		\$1,000

B. When invoice and goods are received, record the expenditure and liquidate the purchase order.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - General Supplies		
199-11-6399-00-001-Y-11-0-00	\$900	
Accounts Payable		
199-00-2110-00-000-Y-00-0-00		\$900
Reserve for Encumbrances		
199-00-4210-00-000-Y-00-0-00	\$1,000	
Encumbrances - General Supplies		
199-11-6399-00-001-Y-11-0-00		\$1,000

C. Pay the invoice.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
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<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accounts Payable		
199-00-2110-00-000-Y-00-0-00	\$900	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$900

Illustration #2

A purchase order is issued for \$1,000 for supplies at high school campus 001 for Basic Services. A partial shipment of goods was received. The encumbered amount for the goods received is \$500. The correct price is \$200. In this situation where the price differential may be considered significant, an adjustment of the encumbrance should be made based upon the goods to be received later. It is assumed that the goods to be received will also be correctly priced at \$200.

A. Encumber the purchase order.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Encumbrances - General Supplies		
199-11-6399-00-001-Y-11-0-00	\$1,000	
Reserve for Encumbrances		
199-00-4210-00-000-Y-00-0-00		\$1,000

B. When the partial shipment and invoice are received, record the expenditure and liquidate the portion of the purchase order related to the partial shipment.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - General Supplies		
199-11-6399-00-001-Y-11-0-00	\$200	
Accounts Payable		
199-00-2110-00-000-0-00-0-00		\$200
Reserve for Encumbrances		
199-00-4210-00-000-Y-00-0-00	\$500	
Encumbrances - General Supplies		
199-00-6399-00-001-Y-11-0-00		\$500

C. Adjust the remaining balance on the purchase order to the estimated amount outstanding.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
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<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Reserve for Encumbrances		
199-00-4210-00-000-Y-00-0-00	\$300	
Encumbrances - General Supplies		
199-11-6399-00-001-Y-11-0-00		\$300

D. Pay the invoice for the partial shipment.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accounts Payable		
199-00-2110-00-000-Y-00-0-00	\$200	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$200

Outstanding Encumbrances at Year End

This example shows the entries necessary when an outstanding encumbrance remains at year end. Every effort should be made to liquidate outstanding encumbrances prior to the end of the year.

Illustration

A. Purchase orders totaling \$1,020 are outstanding at the end of the fiscal year. All purchase orders are valid and are to be re-encumbered in the next fiscal year. Close encumbrances at year-end.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Reserve for Encumbrances		
199-00-4210-00-000-Y-00-0-00	\$1,020	
Encumbrances - General Supplies		
199-11-6399-00-001-Y-11-0-00		\$1,020

B. Record the encumbrance and open the Reserve for Encumbrances at the beginning of the succeeding fiscal year.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Encumbrances - General Supplies		
199-11-6399-00-001-Y-11-0-00	\$1,020	
Reserve for Encumbrances		
199-00-4210-00-000-Y-00-0-00		\$1,020

Note: All optional summary entries to the Encumbrance Control account or Expenditure Control account also require detail posting to the Budget Analysis Ledger accounts.

Accounting for Property Taxes

Levies and Collections

Illustration

Sample tax entries are shown below. These entries show how to record tax levies, collection of taxes, current taxes becoming delinquent, and collection of taxes previously written off as uncollectible.

- A. Record the tax levy. For illustrative purposes, assume that the levy is \$2,000,000 and that \$400,000 of the levy is estimated to be uncollectible.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Receivables - Property Taxes, Current		
199-00-1210-00-000-Y-00-0-00	\$2,000,000	
Allowance for Uncollectible Taxes		
199-00-1230-00-000-Y-00-0-00		\$400,000
Deferred Revenue		
199-00-2310-00-000-Y-00-0-00		\$1,600,000

- B. As collections are made, record the receipt of current property taxes. Assume that \$850,000 is received.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$850,000	
Receivables - Property Taxes, Current		
199-00-1210-00-000-Y-00-0-00		\$850,000
Deferred Revenue		

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
199-00-2310-00-000-Y-00-0-00	\$850,000	
Revenues - Taxes, Current Year Levy		
199-00-5711-00-000-Y-00-0-00		\$850,000

Taxes not paid by January 31 (or other time as specified by statute or legal provision) become delinquent and subject to penalties and interest. Further penalties are incurred as of July 1.

From time to time it is possible that taxes previously included in the allowance for uncollectibles may be collected. If this occurs, an entry is necessary to reinstate revenue as follows:

C. Adjust the allowance for uncollectible taxes and record the tax revenue.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Allowance for Uncollectible Taxes		
199-00-1230-00-000-Y-00-0-00	\$12,000	
Revenues - Taxes, Prior Years		
199-00-5712-00-000-Y-00-0-00		\$12,000

D. Record the deposit.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$12,000	
Deferred Revenue		
199-00-2310-00-000-Y-00-0-00		\$12,000

Accounting for Taxes Receivable

Illustration #1

Recording revenues starts with the budget process. The following assumptions are made to illustrate the recording of taxes.

This example shows collection of Maintenance and Operations (M&O) Taxes.

Description	Amount
Taxes levied for current year (10/1)	\$1,500,000
Allowance for uncollectible taxes (based on prior experience)	(50,000)
Estimated prior year taxes to be received during current year	80,000
Actual taxes collected for current year at 8/31	1,456,000
Actual taxes collected on prior periods delinquent taxes	80,000
Penalties and interest collected on both current and prior year taxes	5,000

Note: Control accounts may optionally be used in conjunction with subsidiary ledgers.

A. Record estimated revenues per the official budget.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Estimated Revenues - Taxes, Current Year Levy		
199-00-5711-00-000-Y-00-0-00	\$1,450,000	
Estimated Revenues - Taxes, Prior Years		
199-00-5712-00-000-Y-00-0-00	\$80,000	
Unreserved, Undesignated Fund Balance		
199-00-3600-00-000-Y-00-0-00		\$1,530,000

B. Record the current year tax levy on the date of the levy.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Receivables - Property Taxes - Current		
199-00-1210-000-Y-00-0-00	\$1,500,000	
Allowance for Uncollectible Taxes		
199-00-1230-000-Y-00-0-00		\$50,000
Deferred Revenue		
199-00-2310-000-Y-00-0-00		\$1,450,000

C. As current year taxes are received during the year, record the tax receipts and recognize tax revenue.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$1,300,000	
Receivables - Property Taxes - Current		
199-00-1210-00-000-Y-00-0-00		\$1,300,000
Deferred Revenue		
199-00-2310-00-000-Y-00-0-00	\$1,300,000	
Revenues - Taxes, Current Year Levy		
199-00-5711-00-000-Y-00-0-00		\$1,300,000

D. As prior year taxes are received during the year, record the tax receipts and recognize the tax revenue, including any penalty and interest.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$82,500	
Receivables - Property Taxes - Delinquent		
199-00-1220-00-000-Y-00-0-00		\$80,000
Deferred Revenue		
199-00-2310-00-000-Y-00-0-00	\$80,000	
Revenues - Taxes, Prior Years		
199-00-5712-00-000-Y-00-0-00		\$80,000
Revenues - Penalty, Interest and Other Tax Revenue		
199-00-5719-00-000-Y-00-0-00		\$2,500

E. When current year taxes become delinquent, reclassify as delinquent.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Receivables - Property Taxes - Delinquent		
199-00-1220-00-000-Y-00-0-00	\$200,000	
Receivables - Property Taxes - Current		
199-00-1210-00-000-Y-00-0-00		\$200,000

F. As current year taxes are collected after the date they become delinquent, record the tax receipts and recognize the tax revenue, including any penalty and interest.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$158,500	
Receivables - Property Taxes - Delinquent		
199-00-1221-00-000-Y-00-0-00		\$156,000
Deferred Revenue		
199-00-2310-00-000-Y-00-0-00	\$156,000	
Revenues - Taxes, Current Year		
199-00-5711-00-000-Y-00-0-00		\$156,000
Revenues - Penalty, Interest and Other Tax Revenue		
199-00-5719-00-000-Y-00-0-00		\$2,500

G. If applicable, adjust the allowance for uncollectible taxes.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Allowance for Uncollectible Taxes		
199-00-1230-00-000-Y-00-0-00	\$6,000	
Deferred Revenue		
199-00-2310-00-000-Y-00-0-00		\$6,000

If, during succeeding years, greater or lesser amounts than estimated are collected, an adjusting entry must be made to the estimated uncollectible receivable account. Assuming that in the year following the above example, \$5,000 in delinquent taxes were received and that the previous years estimate of uncollectible taxes was overstated \$3,000, the following entries would be recorded.

A. Record the receipt of delinquent taxes.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$5,000	
Receivables - Property Taxes - Delinquent		
199-00-1220-00-000-Y-00-0-00		\$5,000

B. Record prior year tax revenues received for the year.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Deferred Revenue		
199-00-2310-00-000-Y-00-0-00	\$5,000	
Revenues - Taxes, Prior Years		
199-00-5712-00-000-Y-00-0-00		\$5,000

C. Adjust the estimate of uncollectible taxes for prior years based on actual collections.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Allowance for Uncollectible Taxes		
199-00-1230-00-000-Y-00-0-00	\$3,000	
Deferred Revenue		
199-00-2310-00-000-Y-00-0-00		\$3,000

Illustration #2

This example shows the recording of Maintenance and Operations (“M&O”) revenue and the recording of the pro rata of administrative costs of the Consolidated Taxing District by a school district. Additionally, the school district acts as an agent for the Consolidated Taxing District and collects M&O taxes on behalf of the Consolidated Taxing District.

Consolidated Taxing District (CTD):

A school district that has contracted with the board of trustees of a CTD for the collection of M&O tax revenues must account for those funds in an Agency Fund (841). As a school district receives M&O taxes on behalf of the Consolidated Taxing District, the M&O tax revenues are to be deposited in the depository bank account(s) of the contracted collection agent. For collection purposes, however, a component school district may initially deposit the monies into its clearing account, at the depository bank. The contracted collection agent will then distribute the proportionate share of revenues belonging to the component school districts to those school districts. The entries shown below account for receipt of M&O taxes and collection all of the tax revenues for the Consolidated Taxing District by a school district. .

Component School District - Fund 199 - Not Collecting Levy Of Consolidated Taxing District:

Description	Amount
Estimated M&O Revenue	\$15,150,000
Estimated Administrative Cost to Consolidated Taxing District	12,000
Actual M&O Revenues	15,150,000
Actual Administrative Cost to Consolidated Taxing District	11,520

A. Record the budget for the revenue.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Estimated Revenues - Taxes, Current Year Levy		
199-00-5711-00-000-Y-00-0-00	\$15,150,000	
Unreserved, Undesignated Fund Balance		
199-00-3600-00-000-Y-00-0-00		\$15,150,000

B. Record the appropriations for the expenditures.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Unreserved, Undesignated Fund Balance		
199-00-3600-00-000-Y-00-0-00	\$12,000	
Appropriations - Tax		

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Appraisal and Collection		
199-41-6213-00-703-Y-99-0-00		\$12,000

C. Record amounts due from the Consolidated Taxing District for M&O tax revenues.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Due from Consolidated Taxing District		
199-00-1243-00-000-Y-00-0-00	\$15,150,000	
Deferred Revenue		
199-00-2310-00-000-Y-00-0-00		\$15,150,000

D. Record M&O tax revenues received.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$15,150,000	
Due from Consolidated Taxing District		
199-00-1243-00-000-Y-00-0-00		\$15,150,000

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Deferred Revenue		
199-00-2310-00-000-Y-00-0-00	\$15,150,000	
Revenues - Taxes, Current Year Levy		
199-00-5711-00-000-Y-00-0-00		\$15,150,000

E. Record pro rata portion of administrative cost for the Consolidated Taxing District.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Tax Appraisal and Collection		
199-41-6213-00-703-Y-99-0-00	\$11,520	
Accounts Payable		
199-00-2110-00-000-Y-00-0-00		\$11,520

F. Record payment of pro rata portion of administrative cost for the Consolidated Taxing District.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accounts Payable		
199-00-2110-00-000-Y-00-0-00	\$11,520	

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$11,520

Closing Entries:

A. Close estimated and realized revenues to fund balance at year-end.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Revenues - Taxes, Current Year Levy		
199-00-5711-00-000-Y-00-0-00	\$15,150,000	
Unreserved, Undesignated Fund Balance		
199-00-3600-00-000-Y-00-0-00		\$15,150,000
Unreserved, Undesignated Fund Balance		
199-00-3600-00-000-Y-00-0-00	\$15,150,000	
Estimated Revenues - Taxes,		
Current Year Levy		
199-00-5711-00-000-Y-00-0-00		\$15,150,000

B. Close estimated and actual to fund balance at year-end.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Appropriations - Tax Appraisal and Collection		
199-41-6213-00-703-Y-99-0-00	\$12,000	
Unreserved, Undesignated Fund Balance		
199-00-3600-00-000-Y-00-0-00		\$12,000
Fund Balance		
199-00-3600-00-000-Y-00-0-00	\$11,520	
Expenditures - Tax Appraisal and Collection		
199-41-6213-00-703-Y-99-0-00		\$11,520

Component School District - Acting As A Contracted Collection Agent For A Consolidated Taxing District To Collect All Maintenance & Operations ("M&O") Taxes:

A. Record amount due to Consolidated Taxing District for Tier 1 tax collections for school district.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
841-00-1110-00-000-Y-00-0-00	\$50,359,398	
Due to Government Unit - Taxes		

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
841-00-2184-00-000-Y-00-0-00		\$50,359,398

B. Record payment of Tier 1 taxes to Component School District.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Due to Government Unit - Taxes		
841-00-2184-00-000-Y-00-0-00	\$50,359,398	
Cash and Temporary Investments		
841-00-1110-00-000-Y-00-0-00		\$50,359,398

C. Record Memorandum entries in agency fund for administrative costs of Consolidated Taxing District.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Administrative Expenditures		
841-41-6XXX-00-750-Y-99-0-00	\$39,000	
Cash and Temporary Investments		
841-00-1110-00-000-Y-00-0-00		\$39,000
Cash and Temporary Investments		
841-00-1110-00-000-Y-00-0-00	\$50,000	
Local Revenues Resulting from Services		
Rendered to Other School Districts		
841-00-5729-00-801-Y-00-0-00		\$24,000
841-00-5729-00-802-Y-00-0-00		\$20,000
841-00-5729-00-803-Y-00-0-00		\$6,000

Note: A component school district records the Tier 1 revenues and its pro rata share of the Consolidated Taxing District administrative costs in its General Fund. The component school district, acting as the tax collector for the Consolidated Taxing District, records the initial collection of taxes in agency fund 841. (See text at beginning of this illustration for appropriate depository procedures.)

Accounting for Inventory

This procedure explains the journal entries necessary to record transactions related to accounting for and reporting of inventories based on each of two accounting methods.

Assume the following:

Description	Amount
Inventories at 09/01/9X	\$5,000
Purchases of Inventory During Year	8,000
Usage During Year	7,000
Inventories at 08/31/9Y	6,000

Illustration #1

Consumption Method - Where inventory items are expensed at the time of requisition. This method provides the greatest control over and the most accurate accounting of the inventory (assets) available to the local education agency and when used, provides for the financial position and results of operation to be presented accurately.

A. Record purchase of inventory.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Inventories - Supplies and Materials		
199-00-1310-00-000-Y-00-0-00	\$8,000	
Accounts Payable		
199-00-2110-00-000-Y-00-0-00		\$8,000

B. Record usage expensed when requisitioned.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures		
199-XX-63XX-00-XXX-Y-XX-0-00	\$7,000	

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Inventories - Supplies and Materials		
199-00-1310-00-000-Y-00-0-00		\$7,000

Illustration #2

Purchase Method - Inventory is expensed at the time a liability is created. This method is often used in small operations to avoid administrative costs that are excessive to the benefit to be gained and where expenditures tend to be equalized over a period of years. No reserve is reflected on the balance sheet.

A. Record the inventory expense and liability.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures		
199-XX-63XX-00-XXX-Y-XX-0-00	\$8,000	
Accounts Payable		
199-00-2110-00-000-Y-00-0-00		\$8,000

Illustration #3

Assume that a school district receives \$100,000 of federal commodities. The school district records its food service operations in a Special Revenue Fund.

A. Record receipt of commodities

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - USDA Commodities		
240-35-6344-00-XXX-Y-XX-0-00	\$100,000	
Revenue - USDA Commodities		
240-00-5923-00-0000-Y-00-0-00		\$100,000

B. Inventory of commodities is taken at year end and the value of such inventories calculated at \$1200.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Inventory		
240--00-1310-00-000-Y-00-0-00	\$1,200	
Revenue - USDA Commodities		
240-00-5923-00-0000-Y-00-0-00		\$1,200
Expenditures - USDA Commodities		
240-35-6344-00-XXX-Y-XX-0-00	\$1,200	
Deferred Revenue		
240-00-2310-00-000-Y-00-0-00		\$1,200

Note: The entry above records the value of inventory on hand at year end, as well as reducing the revenues and expenditures for inventory which have not been used as of year end.

Accounting for Capital Assets Subject to Depreciation

Illustration

Assume that a school district has purchased a vehicle at a cost of \$15,500. This vehicle is used in a central motor pool accounted for in an Internal Service Fund. It is estimated that the vehicle will have a useful life of five years and will have a salvage value of \$500. For simplicity of accounting, assume further that the vehicle was delivered at the beginning of the fiscal year. The straight-line method is used to determine depreciation expense.

Entries to record the purchase of vehicle #001 are:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Vehicles		
751-00-1543-00-000-Y-00-0-00	\$15,500	
Cash and Temporary Investments		
751-00-1110-00-000-Y-00-0-00		\$15,500

A master record is established for the vehicle, and the following information is recorded:

Description	Data
Vehicle Number:	001
Model/Make:	199X/Ford
Body Style/Capacity:	4 x 4 half-ton truck/6
License/Serial Number:	942-843/1B4GW12W7ES24572
Type of Engine:	302 V8
Delivery Date/Odometer Reading:	9-1-XX/00007
Estimated Life:	5 Years
Cost/Estimated Salvage Value:	\$15,500/\$500
Annual Depreciation:	\$3,000

A. At the end of the first year, depreciation expense is recorded:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Depreciation Expense		
751-41-6449-00-999-Y-99-0-00	\$3,000	
Accumulated Depreciation - Vehicles		
751-00-1574-00-000-Y-00-0-00		\$3,000

B. Record closing entries on vehicle #001 for the first year.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Net Assets - Unrestricted		
751-00-3900-00-000-Y-00-0-00	\$3,000	
Depreciation Expense		
751-41-6449-00-999-Y-99-0-00		\$3,000

C. At the end of the first year, the balance sheet, as it relates solely to vehicle #001, reflects the following:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Assets:		
Vehicles		
751-00-1543-00-000-Y-00-0-00	\$15,500	
Accumulated Depreciation - Vehicles		
751-00-1574-00-000-Y-00-0-00	(\$3,000)	
Equity:		
Net Assets - Unrestricted		
751-00-3900-00-000-Y-00-0-00		\$12,500
Totals	\$12,500	\$12,500

- D. The recording of straight-line depreciation expense for vehicle #001 for any subsequent year is the same as for the first year, and the balance sheet, as it relates solely to vehicle #001, reflects the following at the close of the second year:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Assets:		
Vehicles		
751-00-1543-00-000-Y-00-0-00	\$15,500	
Accumulated Depreciation - Vehicles		
751-00-1574-00-000-Y-00-0-00	(\$6,000)	
Equity:		
Net Assets - Unrestricted		\$9,500
751-00-3900-00-000-Y-00-0-00		
Totals	<u>\$9,500</u>	<u>\$9,500</u>

- E. Assuming that the school district keeps vehicle #001 for its entire five year estimated life, the balance sheet, as it relates solely to vehicle #001, reflects the following at the close of the fifth year and for all other years thereafter:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Assets:		
Vehicles		
751-00-1543-00-000-0-00-0-00	\$15,500	
Accumulated Depreciation - Vehicles		
751-00-1574-00-000-0-00-0-00	(\$15,000)	
Equity:		
Net Assets - Unrestricted		
751-00-3900-00-000-0-00-0-00		\$500
Totals	<u>\$ 500</u>	<u>\$500</u>

Assume that the school district sells vehicle #001 for \$250 after it has been completely depreciated. Note that the \$250 non-operating expense - loss on sale of real and personal property equity is equal to the \$500 salvage value determined at the time that the vehicle was purchased less the \$250 sale price. The following entries are made:

F. Record sale of vehicle #001.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
751-00-1110-00-000-Y-00-0-00	\$250	
Accumulated Depreciation - Vehicles		
751-00-1574-00-000-Y-00-0-00	\$15,000	
Loss on Sale of Real and Personal Property		
751-41-8951-00-999-Y-99-0-00	\$250	
Vehicles		
751-00-1543-00-000-Y-00-0-00		\$15,500

Assume that the same situation exists above the vehicle #001, except that the school district sells the vehicle for \$2,000 after the close of the third year, but prior to its total depreciation. The following entries are made:

G. Record sale of vehicle #001.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
751-00-1110-00-000-Y-00-0-00	\$2,000	
Accumulated Depreciation - Vehicles		
751-00-1574-00-000-Y-00-0-00	\$9,000	
Loss on Sale of Real and Personal Property		
751-00-8951-00-000-Y-00-0-00	\$4,500	
Vehicles		
751-00-1543-00-000-Y-00-0-00		\$15,500

Accounting for Debt Transactions

Illustration #1

The following represents an example of how to account for short term loans, warrants and notes. Assume that the General Fund is the recipient of the proceeds of a \$100,000 tax anticipation note (TAN) and the note is to be repaid within the 12-month period.

A. Issue \$100,000 of tax anticipation notes and record receipt of the funds (\$95,000), net of issuance costs (\$5,000).

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$95,000	
Expenditures - Other Debt Service Fees		
199-71-6599-00-999-Y-99-0-00	\$5,000	
Loans Payable - Current Year		
199-00-2122-00-000-Y-00-0-00		\$100,000

B. Record interest costs of \$3,000.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Interest on Debt		
199-71-6523-00-999-Y-99-0-00	\$3,000	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$3,000

C. Repay the TAN within the 12-month period.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Loans Payable - Current Year		
199-00-2122-00-000-Y-00-0-00	\$100,000	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$100,000

Short-term debt transactions, relating to repayment of debt principal, are not reflected on the statement of revenues and expenditures, nor are they included in the General Long-Term Debt Fund. These entries are recorded on the Balance Sheet only. Expenditures for issuance fees and interest costs are reflected on the statement of revenues and expenditures.

Illustration #2

The accounting treatment for long-term notes, warrants and loans is based on the source of funds that will be used for repayment of the long-term debt. Debt repaid from current operations is accounted for differently than debt repaid from the levy of a property tax.

- A. A \$12,000 long-term loan is approved for the General Fund by the Board of Education repayable over 10 years at 6% interest. Debt is to be repaid from current operations and is to be used for building improvements.
1. Record the budget amendment in the appropriate fund. Include in the amendment the loan proceeds, building improvements, and the principal and interest on the loan for the first year.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Estimated Other Resources - Loan Proceeds		
199-00-7914-00-000-Y-00-0-00	\$12,000	
Unreserved, Undesignated Fund Balance		
199-00-3600-00-000-Y-00-0-00		\$12,000
Unreserved, Undesignated Fund Balance		
199-00-3600-00-000-Y-00-0-00	\$13,560	
Appropriations - Building Purchase, Construction or Improvements		
199-81-6629-00-999-Y-99-0-00		\$12,000
Appropriations - Interest on Debt		
199-71-6523-00-999-Y-99-0-00		\$360
Appropriations - Long-Term Debt Principal		
199-71-6513-00-999-Y-99-0-00		\$1,200

2. Record deposit of loan proceeds in the General Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$12,000	
Other Resources - Loan Proceeds		
199-00-7914-00-000-Y-00-0-00		\$12,000

3. Record the liability for the loan in the General Long-Term Debt Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Invested in Capital Assets, Net of Related Debt		
902-00-3200-00-000-Y-00-0-00	\$12,000	
Loans Payable - Long-Term		
902-00-2520-00-000-Y-00-0-00		\$12,000

4. Record the invoice for building improvements as completed.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Building Purchase,		
Construction or Improvements		
199-81-6629-00-999-Y-99-0-00	\$12,000	
Accounts Payable		
199-00-2110-00-000-Y-00-0-00		\$12,000

5. Record the payment of the invoice.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accounts Payable		
199-00-2110-00-000-Y-00-0-00	\$12,000	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$12,000

6. Record invoice for first semi-annual payment with interest.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Interest on Debt		
199-71-6523-00-999-Y-99-0-00	\$360	
Expenditures - Long-Term Debt Principal		
199-71-6513-00-999-Y-99-0-00	\$1,200	
Accounts Payable		
199-00-2110-00-000-Y-00-0-00		\$1,560

7. Record payment of loan interest and principal.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accounts Payable		
199-00-2110-00-00-Y-00-0-00	\$1,560	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$1,560

8. Reduce the General Long-Term Debt Fund by the amount of the loan principal paid.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Loans Payable - Long-Term		
902-00-2520-00-000-Y-00-0-00	\$1,200	
Invested in Capital Assets, Net of Related Debt		
902-00-3200-00-000-Y-00-0-00		\$1,200

B. A debt obligation is to be repaid from the levy of a property tax.

Assume the following for this illustration:

- A bond issue has been authorized and sold in the amount of \$500,000.
- After bond proceeds are received, interest has been earned in the amount of \$25,000.
- During the first year, the building renovation costs are \$50,000.
- The first payments for principal and interest are \$80,000 and \$20,000, respectively.
- Dedicated tax revenues are realized in the amount of \$100,000.

1. Record the budget for the bond proceeds and building renovations.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Estimated Other Resources - Sale of Bonds		
699-00-7911-00-000-Y-00-0-00	\$500,000	
Unreserved Fund Balance		
699-00-3600-00-000-Y-00-0-00		\$500,000
Unreserved Fund Balance		
699-00-3600-00-000-Y-00-0-00	\$50,000	
Appropriations - Building Purchase, Construction or Improvements		
699-81-6629-00-999-Y-99-0-00		\$50,000

2. Record the budget for the estimated interest earned.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Estimated Revenues - Earnings from Temporary Deposits and Investments		
699-00-5742-00-000-Y-00-0-00	\$25,000	
Unreserved Fund Balance		
699-00-3600-00-000-Y-00-0-00		\$25,000

3. Record issuance of bonds.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
699-00-1110-00-000-Y-00-0-00	\$500,000	
Other Resources - Sale of Bonds		
699-00-7911-00-000-Y-00-0-00		\$500,000

4. Record interest earned.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
699-00-1110-00-000-Y-00-0-00	\$25,000	
Revenues - Earnings from Temporary		
Deposits and Investments		
699-00-5742-00-000-Y-00-0-00		\$25,000

5. In the General Long Term Debt Account Group, record the long-term bond payable in subsequent years.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Invested in Capital Assets, Net of Related Debt		
902-00-3200-00-000-Y-00-0-00	\$500,000	
Bonds Payable - Long-Term		
902-00-2510-00-000-Y-00-0-00		\$500,000

6. Record the partial expenditure on construction contract by the school district using bond proceeds.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Building Purchase, Construction		
or Improvements		
699-81-6629-00-999-Y-99-0-00	\$50,000	
Accounts Payable		
699-00-2110-00-000-Y-00-0-00		\$50,000

7. Record the payment of the invoice.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accounts Payable		
699-00-2110-00-00-Y-00-0-00	\$50,000	
Cash and Temporary Investments		
699-00-1110-00-000-Y-00-0-00		\$50,000

8. Record the partial building renovation in the general capital asset accounts.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Construction in Progress		
901-00-1530-00-000-Y-00-0-00	\$50,000	
Investment in Capital Assets, Net of Related Debt		
901-00-3200-00-000-Y-00-0-00		\$50,000

9. Record the estimated revenues and appropriations in the Debt Service Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Estimated Revenues - Taxes, Current Year Levy		
599-00-5711-00-000-Y-00-0-00	\$100,000	
Appropriations - Bond Principal		
599-71-6511-00-999-Y-99-0-00		\$80,000
Appropriations - Interest on Bonds		
599-71-6521-00-999-Y-99-0-00		\$20,000

10. Record tax collections for the year.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
599-00-1110-00-000-Y-00-0-00	\$100,000	
Receivables - Property Taxes - Current		
599-00-1210-00-000-Y-00-0-00		\$100,000
Deferred Revenue		
599-00-2310-00-000-Y-00-000	\$100,000	
Revenues - Taxes, Current Year Levy		
599-00-5711-00-000-Y-00-0-00		\$100,000

11. Record bond principal and interest expenditures for the current year.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Bond Principal		
599-71-6511-00-999-Y-99-0-00	\$80,000	
Expenditures - Interest on Bonds		
599-71-6521-00-999-Y-99-0-00	\$20,000	
Cash and Temporary Investments		
599-00-1110-00-000-Y-00-0-00		\$100,000

12. Reduce reserves in the General Long-Term Debt Group by the amount paid.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Bonds Payable - Long-Term		
902-00-2510-00-000-Y-00-0-00	\$80,000	
Invested in Capital Assets, Net of Related Debt		
902-00-3200-00-000-Y-00-0-00		\$80,000

Illustration #3

The following illustration reflects an example of accounting for a capital lease.

The Local Independent School District enters into an agreement to lease equipment. This agreement has a provision where title to the equipment will pass from the lessor to the school district at the end of eleven years.

- Payments of \$10,000 are due on September 1 of each year, beginning with September 1, 199X.
- The fair value of the equipment on September 1, 199X, is \$60,000, with an estimated life of twenty years with no salvage value.
- An implicit interest rate of 15% is used by the lessor in computing the lease payments (rounded from \$60,188 to \$60,000 for simplicity purposes in determining the value over the eleven year lease-purchase period).

Lease Amortization Schedule:

Date	Annual Lease Payment	Interest on Unpaid Obligation	Reduction of Lease Obligation	Balance of Lease Obligation
				\$60,000
9/1/96	\$10,000		\$10,000	50,000
9/1/97	10,000	\$7,500	2,500	47,500
9/1/98	10,000	7,125	2,875	44,625

A. The method of accounting for the above lease amortization schedule for a Governmental Fund Type is shown below.

1. Record the equipment in the general capital asset accounts.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Other Equipment		
901-00-1569-00-000-Y-00-0-00	\$60,000	
Investment in Capital Assets, Net of Related Debt		
901-00-3200-00-000-Y-00-0-00		\$60,000

2. Record the capital lease in the General Long-Term Debt Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Invested in Capital Assets, Net of Related Debt		
902-00-3200-00-000-Y-00-0-00	\$60,000	
Capital Leases Payable - Long-Term		
902-00-2531-00-000-Y-00-0-00		\$60,000

3. Record the expenditure and capital lease proceeds in the General Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Capital Lease of Buildings, Furniture and Equipment		
199-81-6659-00-999-Y-11-0-00	\$60,000	
Proceeds from Capital Leases		
199-00-7913-00-000-Y-00-0-00		\$60,000

4. Record the first year's payment on the lease/purchase.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Capital Lease Principal		
199-71-6512-00-999-Y-99-0-00	\$10,000	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$10,000

5. Adjust the capital lease payable in the General Long-Term Debt Fund by the principal amount paid.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Capital Leases Payable - Long-Term		
902-00-2531-00-000-Y-00-0-00	\$10,000	
Invested in Capital Assets, Net of Related Debt		
902-00-3200-00-000-Y-00-0-00		\$10,000

6. In the subsequent fiscal year, record the second year's payment in the General Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Capital Lease Interest		
199-71-6522-00-999-Y-99-0-00	\$7,500	
Expenditures - Capital Lease Principal		
199-71-6512-00-999-Y-99-0-00	\$2,500	

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$10,000

7. Adjust the General Long-Term Debt Fund for the amount paid in the second year.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Capital Leases Payable - Long-Term		
902-00-2531-00-000-Y-99-0-00	\$2,500	
Invested in Capital Assets, Net of Related Debt		
902-00-3200-00-000-Y-00-0-00		\$2,500

8. In the subsequent fiscal year, record the third year's payment in the General Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Capital Lease Interest		
199-71-6522-00-999-Y-99-0-00	\$7,125	
Expenditures - Capital Lease Principal		
199-71-6512-00-999-Y-99-0-00	\$2,875	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$10,000

9. Adjust the General Long-Term Debt Fund for the amount paid in the third year.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Capital Leases Payable - Long-Term		
902-00-2531-00-000-Y-00-0-00	\$2,875	
Invested in Capital Assets, Net of Related Debt		
902-00-3200-00-000-Y-00-0-00		\$2,875

B. The method of accounting for the above lease amortization schedule for a Proprietary Fund Type (a Print Shop Internal Service Fund) is:

1. Record the acquisition and the capital lease payable in the appropriate proprietary fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Other Equipment		

752-00-1569-00-000-Y-00-0-00	\$60,000	
Capital Leases Payable - Long-Term		
752-00-2531-000-Y-00-0-00		\$60,000

2. Record first year's payment.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Capital Leases Payable - Long-Term		
752-00-2531-00-000-Y-00-0-00	\$10,000	
Cash and Temporary Investments		
752-00-1110-00-000-Y-00-0-00		\$10,000

3. Record the first year's expenditures, including depreciation.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenses - Capital Lease Interest		
752-71-6522-00-999-Y-99-0-00	\$7,500	
Expenses - Depreciation		
752-81-6449-00-999-Y-99-0-00	\$3,000	
Accrued Interest Payable		
752-00-2430-00-000-Y-00-0-00		\$7,500
Accumulated Depreciation - Other Equipment		
752-00-1579-00-000-Y-00-0-00		\$3,000

4. Record second year's payment.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accrued Interest Payable		
752-00-2430-00-000-Y-00-0-00	\$7,500	
Capital Leases Payable - Long-Term		
752-00-2531-00-000-Y-00-0-00	\$2,500	
Cash and Temporary Investments		
752-00-1110-00-000-Y-00-0-00		\$10,000

Illustration #4

The following illustration reflects an example of accounting for advance refunding bonds.

For example, on April 16, 199X, a school district issued \$67,665,000 in General Obligation Bonds to advance refund \$68,300,000 outstanding bonds, which will require payment of \$68,665,000 to the escrow agent. The net proceeds of \$65,665,000 (after payment of \$2,000,000 in underwriting fees, insurance, and other issuance costs) plus an additional \$3,000,000 of monies from the Debt Service Fund were used to purchase governmental securities for the Escrow Fund held by the trustee bank under the new formal agreement established by the underwriters and bond counsel for the district. These securities will provide funds for the retirement of the old bond issues as they become due. As a result, the old refunded bonds in the amount of \$68,300,000 are considered to be defeased.

The following entries are required for the above example based on guidelines in GASB Statement No. 7:

A. Record removal of defeased bond on issuance of advanced refunding bonds.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Bond Payable - Long-Term (old)		
902-00-2510-00-000-Y-00-0-00	\$68,300,000	
Bonds Payable - Long-Term (new)		
902-00-2510-00-000-Y-00-0-00		\$67,665,000
Invested in Capital Assets, Net of Related Debt		
902-00-3200-00-000-Y-00-0-00		\$635,000

B. Record sale of refunding bonds.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
599-00-1110-00-000-Y-00-0-00	\$65,665,000	
Expenditures - Other Debt Service Fees		
599-71-6599-00-999-Y-99-0-00	\$2,000,000	
Other Resources - Sale of Bonds		
599-00-7911-00-000-Y-00-0-00		\$67,665,000

C. Record transfer to escrow agent.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Other Debt Service Fees		
599-71-6599-00-999-Y-99-0-00	\$3,000,000	
Other Uses - Payment to Escrow Agent		
599-71-8949-00-999-Y-0099-00-00	\$65,665,000	
Cash and Temporary Investments		
599-00-1110-00-000-Y-00-0-00		\$68,665,000

Illustration #5

The following illustration reflects an example of accounting for refunding bonds.

As an example, assume that refunding bonds are sold for \$42,500,000 to retire old bonds in the amount of \$40,000,000, with accrued interest of \$500,000 and a prepayment penalty of \$1,000,000 with an issuance cost of \$1,000,000. The following entries would be required:

A. Record removal of old bonds on issuance of refunding bonds.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Invested in Capital Assets, Net of Related Debt		
902-00-3200-00-000-Y-00-0-00	\$2,500,000	
Bond Payable - Long-Term (old)		
902-00-2510-00-000-Y-00-0-00	\$40,000,000	
Bond Payable - Long-Term (new)		
902-00-2510-00-000-Y-00-0-00		\$42,500,000

B. Record sale of refunding bonds.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
599-00-1110-00-000-Y-00-0-00	\$41,500,000	
Expenditures - Other Debt Service Fees		
599-71-6599-00-999-Y-99-0-00	\$1,000,000	
Other Resources - Sale of Bonds		
599-00-7911-00-000-Y-00-0-00		\$42,500,000

C. Record retirement of old bonds.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Other Uses - Payment to Escrow Agent		
599-00-8949-00-999-Y-0099-0-00	\$40,000,000	
Expenditures - Interest on Bonds		
599-71-6521-00-999-Y-99-0-00	\$500,000	
Expenditures - Other Debt Service Fees		
599-71-6599-00-999-Y-99-0-00	\$1,000,000	
Cash and Temporary Investments		
599-00-1110-00-000-Y-00-0-00		\$41,500,000

Note: In the rare instance of the defeasance of revenue bonds recorded in proprietary fund types consult GASB Statements No. 7 and 23 for proper accounting and reporting treatment.

Illustration #6

In the examples illustrated below, assume that a school district has entered into a personal property finance contract, also known as Capital Acquisition Program (CAP). Proceeds are to be used for the purchase of specified types of maintenance equipment, and, according to the resolution of the Board of Trustees at the time the personal property finance contract was approved, payment of principal and interest from the Debt Service Fund is to be made from dedicated maintenance tax revenues and other current revenue over an eight year period, as predetermined by a variable payment schedule made part of the contract. Assume further that the total loan principal is \$4,590,000; fees payable on the contract are \$96,608; interest revenues from the contractor are \$22,814; and \$50,000 is expended for maintenance department vehicles during the first year of the contract. The first payments for principal and interest are made during the second year of the contract, and amount to \$665,000 and \$551,504, respectively. Also, dedicated maintenance tax revenues, which are earmarked for use to pay indebtedness of the Debt Service Fund, are realized in the amount of \$1,193,690 during the second year of the contract.

Note: If the repayment of indebtedness is to be made from the General Fund, then the following entries for the Debt Service Fund would be reflected as corresponding entries of the General Fund.

Accounting entries are illustrated as follows:

A. Record the budget for CAPs loan proceeds and appropriations for fees and vehicles expenditures of the General Fund for the current year.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Estimated Other Resources - Loan Proceeds		
199-00-7914-00-000-Y-00-0-00	\$4,590,000	
Appropriations - Other Debt Service Fees		
199-71-6539-00-999-Y-99-0-00		\$96,608
Appropriations - Vehicles		
199-81-6631-00-999-Y-99-0-00		\$50,000
Reserved Fund Balance - Reserve for Capital		
Acquisition Program		
199-00-3470-00-000-Y-00-0-00		\$4,443,392

B. Record budget for Debt Service Fund for the current year.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Estimated Revenues - Earnings from Temporary		
Deposits and Investments		
599-00-5742-00-000-Y-00-0-00	\$22,814	
Reserved Fund Balance - Reserve for Capital		
Acquisition Program Retirement		
of Long-Term Debt		
599-00-3420-00-000-Y-00-0-00		\$22,814

C. Record issuance of loan, the deposit of proceeds with the fiscal agent, and the payment of fees to the fiscal agent.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$4,493,392	
Expenditures - Other Debt Service Fees		
199-71-6599-00-999-Y-99-0-00	\$96,608	
Other Resources - Loan Proceeds		
199-00-7914-00-000-Y-00-0-00		\$4,590,000

D. Record receipt of accrued interest on loan proceeds held by fiscal agent.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
599-00-1110-00-000-Y-00-0-00	\$22,814	
Earnings from Temporary Deposits		
and Investments		
599-00-5742-00-000-Y-00-0-00		\$22,814

E. Record long-term loan payable in subsequent years.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Invested in Capital Assets, Net of Related Debt		
902-00-3200-00-000-Y-00-0-00	\$4,590,000	
Loans Payable - Long-Term		
902-00-2520-00-000-Y-00-0-00		\$4,590,000

F. Record purchase of equipment by school district using loan proceeds held by fiscal agent

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Vehicles		
199-81-6631-00-999-Y-99-0-00	\$50,000	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$50,000

G. Record cost of vehicles in general capital asset accounts.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Vehicles		
901-00-1543-00-000-Y-00-0-00	\$50,000	
Investment in Capital Assets, Net of Related Debt		
901-00-3200-00-000-Y-00-0-00		\$50,000

H. Record closing entries for current year temporary accounts.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Reserved Fund Balance - Reserve for		
Capital Acquisition Program		
199-00-3470-00-000-Y-00-0-00	\$4,443,392	
Appropriations - Fees		
199-71-6599-00-999-Y-99-0-00	\$96,608	
Appropriations - Vehicles		
199-81-6631-00-999-Y-99-0-00	\$50,000	
Estimated Other Resources - Loan Proceeds		
199-00-7914-00-000-Y-00-0-00		\$4,590,000
Other Resources - Loan Proceeds		

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
199-00-7914-00-000-Y-00-0-00	\$4,590,000	
Expenditures - Other Debt Service Fees		
199-71-6599-00-999-Y-99-0-00		\$96,608
Expenditures - Vehicles		
199-81-6631-00-999-Y-99-0-00		\$50,000
Reserved Fund Balance - Reserve for		
Capital Acquisition Program		
199-00-3470-00-000-Y-00-0-00		\$4,443,392

I. Record closing entries for current year for temporary accounts in Debt Service Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Reserved Fund Balance - Reserve for Capital		
Acquisition Program Retirement		
of Long Term Debt		
599-00-3470-00-000-Y-00-0-00	\$22,814	
Estimated Revenues - Earnings from Temporary		
Deposits and Investments		
599-00-5742-00-000-Y-00-0-00		\$22,814

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Earnings from Temporary Deposits and Investments		
599-00-5742-00-000-Y-00-0-00	\$22,814	
Reserved Fund Balance - Reserve for Capital Reserve for		
Acquisition Program		
Retirement of Long-Term Debt		
599-00-3470-00-000-Y-00-0-00		\$22,814

J. Record closing entries for current year temporary accounts.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Invested in Capital Assets, Net of Related Debt		
902-00-3200-00-000-Y-00-0-00	\$22,814	
Invested in Capital Assets, Net of Related Debt		
902-00-3200-00-000-Y-00-0-00		\$22,814

Accounting entries in subsequent years for the purchase of personal property with loan proceeds held by the fiscal agent are made in the same manner as those illustrated above for the purchase of vehicles, and types of personal property purchased must be in accordance with terms of the personal property finance contract. Accounting entries for retirement of the loan, beginning with installments payable during the second year of the contract, are illustrated as follows:

K. Record estimated revenues and expenditures for the budget for the subsequent year for the Debt General Service Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Reserved Fund Balance - Reserve for Capital		
Acquisition Program Retirement		
of Long-Term Debt		
599-00-3420-00-000-Y-00-0-00	\$22,814	
Estimated Revenues - Taxes, Current Year Levy		
599-00-5711-00-000-Y-00-0-00	\$1,193,690	
Appropriations - Long-Term Debt Principal		
599-71-6513-00-999-Y-99-0-00		\$665,000
Appropriations - Interest on Debt		
599-71-6523-00-999-Y-99-0-00		\$551,504

L. Record portion of maintenance tax levy that is dedicated to the payment of long-term debt.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Receivables - Property Taxes - Current		
599-00-1210-00-000-Y-00-0-00	\$1,193,690	
Deferred Revenue		
599-00-2310-00-000-Y-00-0-00		\$1,193,690

M. Record receipt of portion of maintenance tax receipts dedicated to be used for the payment of long-term loans and to accordingly recognize tax revenues.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
599-00-1110-00-000-Y-00-0-00	\$1,193,690	
Deferred Revenue		
599-00-2310-00-000-Y-00-0-00	\$1,193,690	
Receivables - Property Taxes - Current		
599-00-1210-00-000-Y-00-0-00		\$1,193,690
Revenues - Taxes, Current Year Levy		
599-00-5711-00-000-Y-00-0-00		\$1,193,690

N. Record loan principal and interest expenditures for the current year.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Long-Term Debt Principal		
599-71-6513-00-999-Y-99-0-00	\$665,000	
Expenditures - Interest on Debt		
599-71-6523-00-999-Y-99-0-00	\$551,504	
Cash and Temporary Investments		
5199-00-1110-00-000-Y-00-0-00		\$1,216,504

O. Record closing entries for reduction of long-term debt.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Loans Payable - Long-Term		
902-00-2520-00-000-Y-00-0-00	\$665,000	
Invested in Capital Assets, Net of Related Debt		
902-00-200-00-000-Y-00-0-00		\$665,000

Accounting for Accounts Payable and Cash Disbursements

The use of accrual accounting by definition requires the recording of expenditures and liabilities in the accounting period in which they are incurred. Ordinarily, an expenditure and a liability are considered to be incurred upon receipt of a commodity or performance of a service, within the terms of a purchase order or contract. The recording of such an expenditure is made without regard to cash disbursements as shown below.

Illustration

- A. When invoices and goods are received, or service is performed, record the invoice and the liability. For this illustration, general supplies of \$1,000 were purchased for the athletic teams in high school (75% of total) and the middle school (25% of total).

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - General Supplies		
199-36-6399-00-001-Y-91-0-00	\$750	
Expenditures - General Supplies		
199-36-6399-00-041-Y-91-0-00	\$250	
Accounts Payable		
199-00-2110-00-000-Y-00-0-00		\$1,000

- B. When cash is disbursed to reduce a liability, the following entry is made:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accounts Payable		
199-00-2110-00-000-Y-00-0-00	\$1,000	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$1,000

Accounting for Federal Grants

Illustration #1

The school district is approved to operate a federally-financed grant funded through TEA. For purposes of this illustration, the approved indirect cost rate is 2% and the grant does not have expenditures budgeted for stipends, food, debt service, tuition for higher education, or capital outlay, thus the indirect cost rate is applicable to all budgeted expenditures. Also, this illustration is intended to show examples of accounting for a grant that is partly financed by advances and partly financed by reimbursement.

- A. The total grant of \$102,000 is for the twelve-month project period beginning July 1, 199X and ending June 30, 199Y. Indirect cost is budgeted in the General Fund and the remainder of the grant is budgeted in the Special Revenue Fund (ESEA Title I, Part A - Improving Basic Programs).

1. Record the project budget in the Special Revenue Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Estimated Revenues - Federal Revenues		
Distributed by TEA (ESEA Title I, Part A)		
211-00-5929-00-000-Y-00-0-00	\$102,000	
Estimated Revenues - Federal Revenues		
Distributed by TEA (ESEA Title I, Part A - Indirect Cost)		
211-00-5929-01-000-Y-00-0-00		\$2,000
Appropriations		
211-XX-(61XX-64XX)-00-XXX-Y-24-0-00		\$100,000

- B. The project is advanced \$25,000 by TEA. This money has not been earned and is not revenue. Since indirect cost is based on applicable budgeted expenditures, any amount due to the General Fund cannot be determined at this time.

1. Record receipt of cash advance from TEA.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00	\$25,000	
Deferred Revenue		
211-00-2310-00-000-Y-00-0-00		\$25,000

- C. The first quarterly report is issued showing total expenditures of \$26,000; the cash advance plus \$1,000 of district funds that are to be reimbursed to the school district were used during the period for the project. Indirect cost was earned on the basis of the expenditures, and is credited as revenue to the General Fund. Cash was disbursed at various times to retire project liabilities.

1. Record project expenditures and revenues.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures		
211-XX-(61XX-64XX)-00-XXX-Y-24-0-00	\$26,000	
Deferred Revenue		
211-00-2310-00-000-Y-00-0-00	\$25,000	
Due from TEA		
211-00-1241-00-000-Y-00-0-00	\$1,520	
Account Payable		
211-00-2110-00-000-Y-00-0-00		\$26,000
Revenues - Federal Revenues Distributed by TEA		
(ESEA Title I, Part A)		
211-00-5929-00-000-Y-00-0-00		\$26,520

2. To record indirect cost revenue.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Revenues - Federal Revenues Distributed by TEA		
(ESEA Title I, Part A)		
211-00-5929-01-000-Y-00-0-00	\$520	
Due to General Fund		
199-00-2171-00-000-Y-00-0-00		\$520
Due from Special Revenue Fund		

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
199-00-1262-00-000-Y-00-0-00	\$520	
Revenues - Federal Revenues Distributed by		
TEA (ESEA Title I, Part A)		
199-00-5929-00-000-Y-00-0-00		\$520

3. Record payment of project liabilities.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accounts Payable		
211-00-2110-00-000-Y-00-0-00	\$26,000	
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00		\$26,000

- D. On the basis of the first quarterly report, a warrant in the amount of \$27,920 is received from TEA, reimbursing the school district for \$1,520 in earned revenue and advancing \$26,400 for project use during the second quarter.

1. Record receipt of revenue and cash advance from TEA.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00	\$27,400	
Due to General Fund		
211-00-2171-00-000-Y-00-0-00	\$520	
Due from TEA		
211-00-1241-00-000-Y-00-0-00		\$1,520
Deferred Revenue		
211-00-2310-00-000-Y-00-0-00		\$26,400
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$520	
Due from Special Revenue Fund		
199-00-1262-00-000-Y-00-0-00		\$520

- E. The second quarterly report is issued showing total expenditures of \$21,000 which is \$5,400 less than the amount advanced for the second quarter. Indirect cost of \$420, based on the amount of expenditures, is credited as revenue to the General Fund,

further reducing deferred revenues to \$4,980. Cash was disbursed at various times to retire project liabilities.

1. Record project expenditures and revenues.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures		
211-XX-(61XX-64XX)-00-XXX-Y-24-0-00	\$21,000	
Deferred Revenue		
211-00-2310-00-000-Y-00-0-00	\$21,420	
Accounts Payable		
211-00-2110-00-000-Y-00-0-00		\$21,000
Revenues - Federal Revenues Distributed by TEA (ESEA Title I, Part A)		
211-00-5929-00-000-Y-00-0-00		\$21,000
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00		\$420
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$420	
Revenues - Federal Revenues Distributed by TEA (ESEA Title I, Part A)		
199-00-5929-00-000-Y-00-0-00		\$420

2. Record retirement of project liabilities.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accounts Payable		
211-00-2110-00-000-Y-00-0-00	\$21,000	
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00		\$21,000

F. On the basis of the second quarterly report, a warrant is received from TEA advancing \$18,700 for project use during the third quarter.

1. Record receipt of cash advance from TEA.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
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Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00	\$18,700	
Deferred Revenue		
211-00-2310-00-000-Y-00-0-00		\$18,700

G. The third quarterly report is issued showing total expenditures of \$18,000 which is \$5,680 less than revenues deferred during previous quarters. Indirect cost of \$360, based on the amount of expenditures, is credited as revenue to the General Fund, further reducing deferred revenues to \$5,320. Cash was disbursed at various times to retire project liabilities. No additional cash advances are to be made by TEA for this project.

1. Record project expenditures and revenues.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures		
211-XX-(61XX-64XX)-00-XXX-Y-24-0-00	\$18,000	
Deferred Revenue		
211-00-2310-00-000-Y-00-0-00	\$18,360	
Accounts Payable		
211-00-2110-00-000-Y-00-0-00		\$18,000
Revenues - Federal Revenues Distributed by TEA		
(ESEA Title I Part A)		
211-00-5929-00-000-Y-00-0-00		\$18,000
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00		\$360
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$360	
Revenues - Federal Revenues Distributed by TEA		
(ESEA, Title I, Part A)		
199-00-5929-00-000-Y-00-0-00		\$360

2. Record retirement of project liabilities.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accounts Payable		
211-00-2110-00-000-Y-00-0-00	\$18,000	
Cash and Temporary Investments		

211-00-1110-00-000-Y-00-0-00		\$18,000
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- H. The final completion report is issued showing total expenditures of \$20,000 for the fourth quarter and indirect cost revenue earned of \$400. Since expenditures and indirect cost exceed revenues deferred from previous quarters by \$15,080, a receivable from TEA is recorded. Cash was disbursed at various times to retire project liabilities.

1. Record project expenditures, revenues, and receivables.

Account	Debit	Credit
Expenditures		
211-XX-(61XX-64XX)-00-XXX-Y-24-0-00	\$20,000	
Deferred Revenue		
211-00-2310-00-000-Y-00-0-00	\$5,320	
Due from TEA		
211-00-1241-00-000-Y-00-0-00	\$15,080	
Accounts Payable		
211-00-2110-00-000-Y-00-0-00		\$20,000
Revenues - Federal Revenues Distributed by TEA (ESEA Title I, Part A)		
211-00-5929-00-000-Y-00-0-00		\$20,000
Due to General Fund		
211-00-2171-00-000-Y-00-0-00		\$400
Due from Special Revenue Fund		
199-00-1262-00-000-Y-00-0-00	\$400	
Revenues - Federal Revenues Distributed by TEA (ESEA Title I, Part A)		
199-00-5929-00-000-Y-00-0-00		\$400

2. Record retirement of project liabilities.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accounts Payable		
211-00-2110-00-000-Y-00-0-00	\$20,000	
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00		\$20,000

I. A warrant in the amount of \$15,080 is received from TEA, and the project is closed.

1. Record receipt of reimbursement from TEA.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00	\$14,680	
Due to General Fund		
211-00-2171-00-000-Y-00-0-00	\$400	
Due from TEA		
211-00-1241-00-000-Y-00-0-00		\$15,080
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$400	
Due from Special Revenue Fund		
199-00-1262-00-000-Y-00-0-00		\$400

2. Close the project.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Appropriations		
199-XX-(61XX-64XX)-00-XXX-Y-24-0-00	\$2,000	
Estimated Revenues - Federal Revenues		
Distributed by TEA (ESEA Title I, Part A)		
199-00-5929-00-000-Y-00-0-00		\$2,000
Revenues - Federal Revenues Distributed by TEA		
(ESEA Title I, Part A)		
211-00-5929-00-000-Y-00-0-00	\$85,000	
Appropriations		
211-XX-(61XX-64XX)-00-XXX-Y-24-0-00	\$100,000	
Estimated Revenues - Federal Revenues Distributed by TEA		
(ESEA Title I, Part A)		
211-00-5929-00-000-Y-00-0-00		\$100,000
Expenditures		
211-00-(61XX-64XX)-00-XXX-Y-24-0-00		\$85,000

Illustration #2

The purpose of this example is to show the entries necessary to close a federally-funded project where the school district has a liability to the granting agency as a result of cash advances exceeding earned revenue. The project illustrated in this example is the same project as previously illustrated, except that a grant total of \$86,000 was advanced, exceeding total revenues earned by \$1,000.

- A. The final completion report is issued showing total expenditures of \$20,000 for the fourth quarter and indirect cost revenue earned of \$400. Since expenditures and indirect cost are \$1,000 less than revenues deferred, a payable to TEA is recorded.

1. Record project expenditures, revenues and payables.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Deferred Revenue		
211-00-2310-00-000-Y-00-0-00	\$21,400	
Expenditures		
211-XX-(61XX-64XX)-00-XXX-Y-24-0-00	\$20,000	
Accounts Payable		
211-00-2110-00-000-Y-00-0-00		\$20,000
Revenues - Federal Revenues Distributed by		
TEA (ESEA Title I, Part A)		
211-00-5929-00-000-Y-00-0-00		\$20,000
Due to General Fund		
211-00-2171-00-000-Y-00-0-00		\$400
Due to TEA		
211-00-2181-00-000-Y-00-0-00		\$1,000
Due from Special Revenue Fund		
199-00-1262-00-000-Y-00-0-00	\$400	
Revenues - Federal Revenues Distributed by TEA		
(ESEA Title I, Part A)		
199-00-5929-00-000-Y-00-0-00		\$400

- B. Throughout the fourth quarter project liabilities were being paid. On July 15, 199X all remaining project liabilities are paid and the project is closed.

1. Record payment of project liabilities.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accounts Payable		
211-00-2110-00-000-Y-00-0-00	\$20,000	
Due to General Fund		
211-00-2171-00-000-Y-00-0-00	\$400	
Due to TEA		
211-00-2181-00-000-Y-00-0-00	\$1,000	
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00		\$21,400
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$400	
Due from Special Revenue Fund		
199-00-1262-00-000-Y-00-0-00		\$400

2. Close the project.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Appropriations		
199-XX-(61XX-64XX)-00-XXX-Y-24-0-00	\$2,000	
Estimated Revenues - Federal Revenues Distributed		
by TEA (ESEA Title I, Part A)		
199-00-5929-00-000-Y-00-0-00		\$2,000
Revenues - Federal Revenues Distributed by TEA		
(ESEA Title I, Part A)		
211-00-5929-00-000-Y-00-0-00	\$85,000	
Appropriations		
211-00-(61XX-64XX)-00-XXX-Y-24-0-00	\$100,000	
Estimated Revenues - Federal Revenues Distributed		
by TEA (ESEA Title I, Part A)		
211-00-5929-00-000-Y-00-0-00		\$100,000
Expenditures		
211-00-(61XX-64XX)-00-XXX-Y-24-0-00		\$85,000

Illustration #3

E-Rate is a discount (usually fairly large) available to schools and libraries for telecommunications services, Internet access, and internal wiring to connect classrooms to the Internet. The school district is either billed at the discounted rate or reimbursed by the vendor or Federal Communications Commission (FCC) after paying the full rate. There are inconsistencies nationally among school districts due to differences based on the reimbursement vs. discount treatment. The National Center for Education Statistics (NCES) recommends netting the discount against the expenditure if the amounts occur in the same fiscal year. The purpose of this example is to show the entries necessary to record a federally-funded project where the school district has recorded the expenditure at the discounted rate, using a locally-defined contra-account. If the district paid the full \$20,000 initially and received a reimbursement in the following year, the reimbursement would be credited to a revenue account.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Utilities		
289-12-6259-00-101-Y-11-0-00	\$20,000	
E-rate Discounts		
289-12-6259-10-101-Y-11-0-00		\$4,000
Cash and Temporary Investments		
289-00-1110-00-000-Y-00-0-00		\$16,000

Accounting for Capital Leases Repaid with Federal Funds

Illustration

A school district enters into a lease-purchase (capital lease) agreement for an elementary school computer lab to be used in its ESEA Title I, Part A - Improving Basic Programs program. The computer lab purchase totals \$100,000. The school district signs a five year lease-purchase agreement. The agreement requires a down-payment of \$20,000. Payments of \$20,000 are to be made annually in years two through five at an annual interest rate of 5%.

Year 1

- A. Record the expenditure for the computer lab, the receipt of the lease-purchase proceeds and the down-payment. (Note: The expenditure and receipt should not be included on the Title I quarterly expenditure report. Therefore, these amounts will represent reconciling items on a school district's Schedule of Federal Financial Assistance in its annual audit report.)

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Capital Lease of Furniture and Equipment		
211-11-6659-00-101-Y-24-0-00	\$100,000	
Other Resources - Proceeds from Capital Leases		
211-00-7914-00-000-Y-00-0-00		\$80,000
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00		\$20,000

- B. Record the computer lab acquisition in the general capital asset accounts.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Assets Purchased Under Capital Leases -		
Furniture and Equipment		
901-00-1559-00-000-Y-00-0-00	\$100,000	
Investment in Capital Assets, Net of Related Debt		
901-00-3200-00-000-Y-00-0-00		\$100,000

- C. Record the liability for the balance of the lease-purchase in the General Long-Term Debt Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Invested in Capital Assets, Net of Related Debt		
902-00-3200-00-000-Y-00-0-00	\$80,000	
Leases Payable - Long-Term		
902-00-2531-00-000-Y-00-0-00		\$80,000

Year 2

- A. Record payment of lease-purchase principal and interest.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Capital Lease Principal		
211-71-6512-00-999-Y-99-0-00	\$20,000	
Capital Lease Interest		

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
211-71-6522-00-999-Y-99-0-00	\$4,000	
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00		\$24,000

B. Record payment of lease-purchase principal in the General Long-Term Debt Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Capital Leases Payable - Long-Term		
902-00-2531-00-000-Y-00-0-00	\$20,000	
Invested in Capital Assets, Net of Related Debt		
902-00-3200-00-000-Y-00-0-00		\$20,000

Year 3

A. Record payment of lease-purchase principal and interest.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Capital Lease Principal		
211-71-6512-00-999-Y-99-0-00	\$20,000	
Capital Lease Interest		
211-71-6522-00-999-Y-99-0-00	\$3,000	
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00		\$23,000

B. Record payment of lease-purchase principal in the General Long-Term Debt Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Capital Leases Payable - Long-Term		
902-00-2531-00-000-Y-00-0-00	\$20,000	
Invested in Capital Assets, Net of Related Debt		
902-00-3200-00-000-Y-00-0-00		\$20,000

Years 4 and 5

Record entries in the same manner as for years 2 and 3.

Accounting for Gifts and Bequests

Illustration #1

In the following example, the school district has accepted a cash gift of \$1,000 from a private benefactor to be used at the discretion of the school board for general operations. Accounting entries are:

A. Record receipt of revenue resulting from donation.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$1,000	
Gifts and Bequests		
199-00-5744-00-000-Y-00-0-00		\$1,000

Illustration #2

In the following example, the donor has given the school district an unconditional gift of land instead of cash. An independent appraiser has valued the land at \$50,000 on the current market. No entry is required in the general fund. The entries in the general capital assets are:

A. Record donated land as a general capital asset.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Land and Improvements		
901-00-1510-00-000-Y-00-0-00	\$50,000	
Investment In Capital Assets, Net of Related Debt		
901-00-3200-00-000-Y-00-0-00		\$50,000

Illustration #3

In the following example, a private donor has contributed \$100 cash to the student council for its general use. The transaction will be accounted for in a Student Activity Account Fund (Agency Fund). Agency funds have no equity, and assets are equal to liabilities. The entries in the Agency Fund are as follows:

A. Record donation from student council.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
845-00-1110-00-000-Y-00-0-00	\$100	
Due to Student Groups		
845-00-2190-00-000-Y-00-0-00		\$100

Note: Refer to Accounting for Agency Funds section for an example of a cash donation from the Agency Fund to a governmental fund type.

Illustration #4

In the following example, a benefactor has contributed \$100,000 with the restriction that the donation and any resulting revenues from its investment be used to furnish the school library with computerized encyclopedias. Entries to record the donation and to establish an expendable trust fund are as follows:

A. Record donation and purchase of capital assets.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Restricted Assets - Cash and Temporary Investments		
819-00-1810-00-000-Y-00-0-00	\$100,000	
Expenditures - Library Books and Media		
819-12-6669-00-001-Y-99-0-00	\$100,000	
Accounts Payable		
819-00-2110-00-000-Y-00-0-00		\$100,000
Gifts and Bequests		
819-00-5744-00-000-Y-00-0-00		\$100,000

Note: Capital assets purchased by expendable trust funds are recorded in the general capital asset accounts.

Illustration #5

The following example illustrates entries to establish a nonexpendable trust fund. A benefactor has donated \$500,000 in securities for the purpose of providing student scholarships from interest earnings. The principal is to be held intact. Accounting entries are:

A. Record donation and establish trust fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Restricted Assets - Cash and Temporary Investments		
839-00-1810-00-000-Y-00-0-00	\$500,000	
Gifts and Bequests		
839-00-5744-00-000-Y-00-0-00		\$500,000

B. Record interest earnings on the nonexpendable scholarship fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Restricted Assets - Cash and Temporary Investments		
839-00-1810-00-000-Y-00-0-00	\$40,000	
Payable from Restricted Assets		
839-00-2440-00-000-Y-00-0-00		\$40,000

Accounting for Impairment of Assets

The accounting examples in this section provide guidance about the implementation of GASB Statement 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, which is effective for 2005-2006 school year and fiscal year 2006.

Illustration #1a

This example illustrates the **restoration cost approach under replacement cost option**.

1. A high school building is evacuated after mold contamination. The costs to rehabilitate the building are significant. In this example the impairment loss and the associated insurance recovery were realized in the same fiscal year. If an insurance recovery is received in a subsequent year then it will not be netted against impairment loss and the recovery will be reported as a program revenue, nonoperating revenue or extraordinary item, as appropriate.

Description	Amount
Historical cost of building	\$24,350,000
Accumulated depreciation	\$9,200,000
Carrying value	\$15,150,000
Restoration costs (capitalizable)	\$24,000,000
Remediation costs (noncapitalizable)	\$16,000,000
Total restoration and remediation costs	\$40,000,000
Current replacement cost	\$62,000,000
Ratio restoration costs to current replacement cost	
\$24,000,000/\$62,000,000	38.7%
Insurance recovery during accounting period	\$3,000,000

Description	Amount
Gross loss = 38.7% X \$15,150,000	\$5,864,520
Net impairment loss = Gross loss less insurance recoveries	\$2,864,520
Total effect on statement of activities = Remediation costs + Net Impairment loss	\$18,864,520
Adjusting carrying value	
Carrying value \$15,150,000 less impairment loss \$2,864,520 plus restoration costs \$24,000,000	\$36,285,480

A. Record impairment loss and insurance recovery in Statement of Activities (GASB 34 conversion entry)

Account	Debit	Credit
Loss on impairment		
199-00-8913-00-000-Y-000	\$5,864,520	
Capital asset		
199-00-15XX-00-000-Y-00-0-00		\$5,864,520
Cash		
199-00-1110-00-000-Y-00-0-00	\$3,000,000	
Loss on impairment		
199-00-8913-00-000-Y-000		\$5,864,520
Net loss on recovery		
199-00-8913-00-000-Y-000	\$2,864,520	

B. Record restoration, remediation and insurance recovery in Governmental Funds

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Restoration Costs		
199-81-6XXX-00-999-Y-99-0-00	\$24,000,000	
Cash		
199-00-1110-00-000-Y-00-0-00		\$24,000,000
Remediation Costs		
199-51-6XXX-00-999-Y-99-0-00	\$16,000,000	
Cash		
199-00-1110-00-000-Y-00-0-00		\$16,000,000
Cash		
199-00-1110-00-000-Y-00-0-00	\$3,000,000	
Insurance Recovery		
199-00-7919-00-000-Y-000		\$3,000,000

Illustration #1b

This example illustrates the **restoration cost approach under deflation of restoration costs option**. In this example the impairment loss and the associated insurance recovery were realized in the same fiscal year. If an insurance recovery is received in a subsequent year then it will not be netted against impairment loss and the recovery will be reported as a program revenue, nonoperating revenue or extraordinary item, as appropriate.

Description	Amount
Restoration costs	\$24,000,000
Deflator factor	.81309
Deflated costs	\$19,514,160
Ratio acquisition year dollars = Deflated restoration costs/Historical costs = \$19,514,160/\$24,350,000	80.14%
Apply ratio to carry value to calculate gross loss = 80.14% X \$15,150,000	\$12,141,253
Net impairment (gain) loss = \$12,141,253 - \$3,000,000	\$9,141,253
Total effect on statement of activities for current period = Noncapitalizable costs plus Impairment (gain) loss	\$25,141,253

Description	Amount
Adjusted carrying value = Carrying value \$15,150,000 less gross impairment loss \$12,141,253 plus restoration costs \$24,000,000	\$27,008,747

A. Record impairment loss and insurance recovery in Statement of Activities (GASB 34 conversion entry)

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Loss on impairment		
199-00- 8913 -00-000-Y-000	\$12,141,253	
Capital asset		
901-00-15XX-00-000-Y-00-0-00		\$12,141,253
Cash		
199-00-1110-00-000-Y-00-0-00	\$3,000,000	
Loss on impairment		
199-00- 8913 -00-000-Y-000		\$12,141,253
Net loss on recovery		
199-00- 8913 -00-000-Y-000	\$9,141,253	

B. Record restoration, remediation and insurance recovery in Governmental Funds

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Restoration Costs		
199-81-6XXX-00-999-Y-99-0-00	\$24,000,000	
Cash		
199-00-1110-00-000-Y-00-0-00		\$24,000,000
Remediation Costs		
199-51-6XXX-00-999-Y-99-0-00	\$16,000,000	
Cash		
199-00-1110-00-000-Y-00-0-00		\$16,000,000
Cash		
199-00-1110-00-000-Y-00-0-00	\$3,000,000	
Insurance Recovery		
199-00-7919-00-000-Y-000		\$3,000,000

Accounting for Catastrophic Gains and Losses

Illustration #1

This example illustrates journal entries necessary to record transactions related to catastrophic gains or losses.

1. A classroom is destroyed by fire and a gain will be realized from the resulting repair.

Description	Amount
Insurance Recovery	\$20,000
Cost of Building Repair	17,000
Cost of Equipment Repair	2,000

- A. Record receipt of insurance proceeds.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$20,000	
Revenues - Insurance Recovery		
199-00-5745-00-000-Y-00-0-00		\$20,000

- B. Record payment for contract repair of classroom.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Building Purchase,		
Construction and Improvement		
199-81-6629-00-999-Y-99-0-00	\$17,000	

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Furniture and Equipment		
199-81-6639-00-999-Y-99-0-00	\$2,000	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$19,000

Notes:

(1) The GENERAL CAPITAL ASSET FUND should also be adjusted to remove costs associated with the destroyed classroom and equipment and to add the costs of repairs. Alternatively, the GENERAL CAPITAL ASSET FUND could be adjusted for the amount of the net addition (i.e., betterment) to the assets.

(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.

Accounting for Payroll

Payroll accruals for a ten-month contract of \$29,430 paid on a twelve-month basis are shown below. The daily rate is calculated by dividing the contract amount by the number of days of the contract (\$29,430/187).

ACCRUAL BY DAYS WORKED/MONTH

<u>Month</u>	<u>Days Worked</u>	<u>Daily Rate</u>	<u>Paid</u>	<u>Earned/ Expenditure</u>	<u>Accrual Balance</u>
August	9	\$157.38		\$1,416	\$1,416
September	19	157.38	\$2,453	2,990	1,953
October	18	157.38	2,452	2,833	2,334
November	16	157.38	2,453	2,518	2,399
December	19	157.38	2,452	2,990	2,937
January	19	157.38	2,453	2,990	3,474
February	19	157.38	2,452	2,990	4,012
March	19	157.38	2,453	2,400	4549
April	18	157.38	2,452	2,400	4,929
May	18	157.38	2,453	2,833	5,309
June	13	157.38	2,452	1,889	4,905
July	-	157.38	2,453	-	2,452
August	-		<u>2,452</u>	-	-
TOTAL	<u>187</u>		<u>29,430</u>	<u>29,430</u>	<u>NIL</u>

Illustration #1

1. This example shows some of the entries for a teacher employed on a ten-month contract that begins in August of fiscal year one (FY 1). The entries shown are
 - the accrued salary earned in August, FY 1
 - the salary accrued and paid in September, FY 2
 - the final payment made on the contract in August, FY 2

Note that this illustration is not all-inclusive. For example, it does not address matching expenditures the district might incur (such as, matching FICA and matching TRS expenditures) or district paid health insurance costs. The school district does not use a payroll clearing account.

- A. Record the wages earned in August, FY 1. In this example, the fiscal year code would be “1” to correspond with FY 1. (Normally, the fiscal year code used in the expenditure account should correspond with the current fiscal year. However, if the salary is funded from a federal grant, the fiscal year code should correspond with the grant year for the federal project.)

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Salaries or Wages - Teachers		
and Other Professional Personnel		
199-11-6119-00-101-Y-11-0-00	\$1,416	
Accrued Wages Payable		
199-00-2160-00-000-Y-00-0-00		\$1,416

- B. Record the earned amount at the end of September, FY 2. For this entry (and for the remaining entries in this example), the fiscal year code would be “2” to correspond with FY 2.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Salaries or Wages - Teachers		
and Other Professional Personnel		
199-11-6119-00-101-Y-11-0-00	\$2,990	
Accrued Wages Payable		
199-00-2160-00-000-Y-00-0-00		\$2,990

C. Pay the teacher the net pay and record withholdings payable.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accrued Wages Payable		
199-00-2160-00-000-Y-00-0-00	\$2,452	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$1,895
Payroll Deductions and Withholdings -		
Federal Income Taxes		
199-00-2151-00-000-Y-00-0-00		\$400
Payroll Deductions and Withholdings -		
Teacher Retirement		
199-00-2155-00-000-Y-00-0-00		\$157

D. Pay the withholdings to the appropriate entities.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Payroll Deductions and Withholdings -		
Federal Income Taxes		
199-00-2151-00-000-Y-00-0-00	\$400	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$400
Payroll Deductions and Withholdings -		
Teacher Retirement		
199-00-2155-00-000-Y-00-0-00	\$157	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$157

- E. Since all of the salary has been earned by June, pay the teacher the net pay and record withholdings payable in August.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accrued Wages Payable		
199-00-2160-00-000-Y-00-0-00	\$2,452	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$1,895
Payroll Deductions and Withholdings -		
Federal Income Taxes		
199-00-2151-00-000-Y-00-0-00		\$400
Payroll Deductions and Withholdings -		
Teacher Retirement		
199-00-2155-00-000-Y-00-0-00		\$157

- F. Pay the withholdings to the appropriate vendors.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Payroll Deductions and Withholdings -		
Federal Income Taxes		
199-00-2151-00-000-Y-00-0-00	\$400	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$400
Payroll Deductions and Withholdings -		
Teacher Retirement		
199-00-2155-00-000-Y-00-0-00	\$157	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$157

Illustration #2

1. In this example, a ten-month teacher is paid 50% from local or state funds and 50% from federal funds. The school district uses a payroll clearing account to which salary is transferred at the time earned. September's salary (Month 2) is illustrated below.

A. Record the salary earned from the General Fund (State Compensatory Education).

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Salaries or Wages - Teachers		
and Other Professional Personnel		
199-11-6119-00-101-Y-24-0-00	\$1,495	
Accrued Wages Payable		
199-00-2160-00-000-Y-00-0-00		\$1,495

B. Record the salary earned from the Special Revenue Fund (ESEA Title I, Part A - Improving Basic Programs).

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures - Salaries or Wages - Teachers		
and Other Professional Personnel		
211-11-6119-00-101-Y-24-0-00	\$1,495	
Accrued Wages Payable		
211-00-2160-00-000-Y-00-0-00		\$1,495

C. Record the amount due to the Payroll Clearing Account from the General Fund (50% of teacher's gross pay).

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accrued Wages Payable		
199-00-2160-00-000-Y-00-0-00	\$1,226	
Due to Payroll Fund		
199-00-2177-00-000-Y-00-0-00		\$1,226

D. Record the amount due to the Payroll Clearing Account from the Special Revenue Fund (50% of teacher's gross pay).

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accrued Wages Payable		
211-00-2160-00-000-Y-00-0-00	\$1,226	
Due to Payroll Fund		
211-00-2177-00-000-Y-00-0-00		\$1,226

E. Record the payment of the teacher's gross salary from the General Fund to the Payroll Clearing Account.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Due to Payroll Fund		
199-00-2177-00-000-Y-00-0-00	\$1,226	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$1,226

F. Record the payment of the teacher's gross salary from the Special Revenue Fund to the Payroll Clearing Account.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Due to Payroll Fund		
211-00-2177-00-000-Y-00-0-00	\$1,226	
Cash and Temporary Investments		
211-00-1110-00-000-Y-00-0-00		\$1,226

G. Record the amounts due from the General and Special Revenue Funds in the Payroll Clearing Account.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Due From General Fund		
843-00-1281-00-000-Y-00-0-00	\$1,226	
Due From Special Revenue Fund		
843-00-1282-00-000-Y-00-0-00	\$1,226	
Accrued Wages Payable		
843-00-2160-00-000-Y-00-0-00		\$1,895
Withholding Taxes Payable		
843-00-2151-00-000-Y-00-0-00		\$400
Teacher Retirement Payable		
843-00-2155-00-000-Y-00-0-00		\$157

H. Record the deposit from the General and Special Revenue Funds in the Payroll Clearing Account.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
843-00-1110-00-000-Y-00-0-00	\$2,452	
Due from General Fund		
843-00-1261-00-000-Y-00-0-00		\$1,226
Due from Special Revenue Fund		
843-00-1262-00-000-Y-00-0-00		\$1,226

I. Record the payment of the teacher's salary, the withholding liabilities, and the amounts due from the General and Special Revenue Funds in the Payroll Clearing Account.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accrued Wages Payable		
843-00-2160-00-000-Y-00-0-00	\$1,895	
Cash and Temporary Investments		
843-00-1110-00-000-Y-00-0-00		\$1,895

J. Record the payment of the withholding liabilities to the appropriate vendors.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Payroll Deductions and Withholdings -		
Federal Income Taxes		
843-00-2151-00-000-Y-00-0-00	\$400	
Cash and Temporary Investments		
843-00-1110-00-000-Y-00-0-00		\$400

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Payroll Deductions and Withholdings -		
Teacher Retirement		
843-00-2155-00-000-Y-00-0-00	\$157	
Cash and Temporary Investments		
843-00-1110-00-000-Y-00-0-00		\$157

Accounting for Proprietary and Fiduciary Fund Types

Illustration #1

The following illustrates a fictitious Enterprise Fund operation for an elementary school owned store. This store is operated out of facilities on a school campus. Equipment used by the store includes a cash register and a copying machine, both of which are depreciated on a straight-line method. Other assets include cash, a temporary investment, and first-in, first-out merchandise inventory. The school district furnishes the facility, accounting services, and utilities. Part-time employees operate the store during certain hours throughout the day, and are involved in selling notebooks, pencils, pens, and other merchandise to students, teachers and others.

At the beginning of the year, the school store had a trial balance as follows:

Trial Balance 9/1/9X:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
749-00-1110-00-000-Y-00-0-00	\$6,000	
Accrued Interest Receivable		
749-00-1250-00-000-Y-00-0-00	\$200	
Inventories - Supplies and Materials		
749-00-1310-00-000-Y-00-0-00	\$2,300	
Furniture and Equipment		
749-00-1539-00-000-Y-00-0-00	\$4,000	
Accumulated Depreciation - Furniture		
and Equipment		
749-00-1573-00-000-Y-00-0-00	(\$1,000)	
Accrued Wages Payable		
749-00-2160-00-000-Y-00-0-00		\$200

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Net Assets - Unrestricted		
749-00-3900-00-000-Y-00-0-00		<u>\$11,300</u>
	<u>\$ 11,500</u>	<u>\$ 11,500</u>

During the course of the year, the school store operation resulted in cash sales that amounted to \$20,000, and interest was received in the amount of \$600, plus an accrual of \$100 in additional interest earned. Merchandise inventory purchased for the year amounted to \$7,000, annual expenses included salaries of \$2,000 (including \$150 accrual), cost of merchandise sold was \$8,000, and depreciation expense for equipment was \$500. Also, a certificate of deposit with a face value of \$10,000 and a vending machine costing \$1,000 were purchased. In summary, the following entries were recorded:

A. Record assets and revenues.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
749-00-1110-00-000-Y-00-0-00	\$20,600	
Accrued Interest Receivable		
749-00-1250-00-000-Y-00-0-00	\$100	
Accrued Interest Receivable		
749-00-1250-00-000-Y-00-0-00		\$200
Revenues - Cocurricular, Enterprising		
Services or Activities		
749-00-5759-00-000-Y-00-0-00		\$20,000
Earnings from Temporary Deposits and Investments		
749-00-5742-00-000-Y-00-0-00.		\$500

B. Record assets, disbursements, expenditures, expenses, and liabilities.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
749-00-1110-01-000-Y-00-0-00	\$10,000	
Inventories - Supplies and Materials		
749-00-1310-00-000-Y-00-0-00	\$7,000	
Furniture and Equipment		
749-00-1539-00-000-Y-00-0-00	\$1,000	
Accrued Wages Payable		
749-00-2160-00-000-Y-00-0-00	\$200	
Expenses - Salaries or Wages for Support Personnel		
749-36-6129-00-101-Y-99-0-00	\$2,000	
Expenses - Items for Sale		
749-36-6443-00-101-Y-99-0-00	\$8,000	
Expenses - Depreciation		
749-36-6449-00-101-Y-99-0-00	\$500	
Cash and Temporary Investments		
749-00-1110-00-000-Y-00-0-00		\$20,050
Inventories - Supplies and Materials		
749-00-1310-00-000-Y-00-0-00		\$8,000
Accumulated Depreciation -		
Furniture and Equipment		
749-00-1573-00-000-Y-00-0-00		\$500
Accrued Wages Payable		
749-00-2160-00-000-Y-00-0-00		\$150

C. Record closing entries for the year.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Net Assets - Unrestricted		
749-00-3900-00-000-Y-00-0-00	\$10,500	
Revenues - Cocurricular, Enterprising		
Services or Activities		
749-00-5759-00-000-Y-00-0-00	\$20,000	
Earnings from Temporary Deposits and Investments		
749-00-5742-00-000-Y-00-0-00	\$500	
Net Assets - Unrestricted		
749-00-3900-00-000-Y-00-0-00		\$20,500
Expenses - Salaries and Wages for		
Support Personnel		
749-36-6129-00-101-Y-99-0-00		\$2,000
Expenses - Items for Sale		
749-36-6443-00-101-Y-99-0-00		\$8,000
Expenses - Depreciation		
749-36-6499-00-101-Y-99-0-00		\$500

At the close of the year, the school store's trial balance and financial statements appear as follows:

Trial Balance 8/31/9X:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
749-00-1110-00-000-Y-00-0-00	\$16,550	
Accrued Interest Receivable		
749-00-1250-00-000-Y-00-0-00	\$100	
Inventories - Supplies and Materials		
749-00-1310-00-000-Y-00-0-00	\$1,300	
Furniture and Equipment		
749-00-1539-00-000-Y-00-0-00	\$5,000	
Accumulated Depreciation - Furniture		
and Equipment		
749-00-1573-00-000-Y-00-0-00	(\$1,500)	
Accrued Wages Payable		
749-00-2160-00-000-Y-00-0-00		\$150
Net Assets - Unrestricted		
749-00-3900-00-000-Y-00-0-00	—	\$21,300
	<u>\$21,450</u>	<u>\$21,450</u>

Statement of Revenues, Expenses, and Changes in Fund Net Assets:

Operating Revenues:	Detail	Total
Sales	\$20,000	
Total Revenues		\$20,000
Operating Expenses:		
Salaries or Wages for Support Personnel	\$2,000	
Items for Sale	\$8,000	
Depreciation	<u>\$500</u>	
Total Expenses		<u>\$10,500</u>
Operating Income		\$ 9,500
Nonoperating Revenues (expenses)		
Earnings from Temporary Deposits		
and Investments	<u>\$500</u>	
Net Nonoperating		
Revenues (Expenses)		<u>\$500</u>
Net Income		\$10,000
Equity:		
Net Assets 9/01/XX		<u>\$11,300</u>
Net Assets 8/31/YY		<u>\$21,300</u>

Statement of Cash Flows:

Cash Flows from Operating Activities:	Detail	Total
Cash Received from Customers	\$20,000	
Cash Payments to Suppliers	(\$7,000)	
Cash Payments to Employees	(\$2,050)	
Net Cash Provided by (Used for)		
Operating Activities		\$10,950
Cash Flows From Non-Capital		
Financing Activities		-
Cash Flows from Capital and		
Related Financing Activities:		
Acquisition of Capital Assets	(\$1,000)	
Net Cash Provided (Used for) Capital		
and Related Financing Activities		(\$1,000)
Cash Flows from Investing		
Activities:		
Interest and Dividends on Investments	\$600	
Purchase of Investment Securities	(\$10,000)	
Net Cash Provided (Used for)		
Investing Activities		<u>(\$9,400)</u>
Net Increase in Cash and Cash		
Equivalents		\$550
Cash and Cash Equivalents at		
Beginning of the Year		<u>\$1,000</u>
Cash and Cash Equivalents at End of Year		<u>\$1,550</u>

Reconciliation of Operating Income to Net Cash Provided

By Operating Activities	Detail	Total
Operating Income (Loss)		<u>\$9,500</u>
Adjustments to Reconcile Operating		
Income to Net Cash Provided		
Operations		
Depreciation	\$500	
Changes to Assets and Liabilities:		
Decrease (Increase) in Inventories	1,000	
Increase (Decrease) in Payables	<u>(50)</u>	
Total Adjustments		<u>\$1,450</u>
Net Cash Provided by (Used for)		
Operating Activities		<u>\$10,950</u>

Illustration #2

Nonexpendable Trust Funds are defined as unbudgeted funds where principal is held intact, and revenues resulting from interest, royalties or other earnings are used only for specified purposes. Examples of this type of fund include scholarship funds and loan funds. The Permanent School Fund administered by the State of Texas is a good example of a Nonexpendable Trust Fund.

Example:

1. Assume that a school district has a scholarship fund that pays college tuition to designated outstanding graduates of the high school. This fund was established by a private donation of a blue chip preferred stock valued at \$500,000, and dividends and other fund revenues are used to pay tuition costs. The scholarship fund is accounted for in a Nonexpendable Trust Fund.

At the beginning of the year, the Nonexpendable Trust Fund had a trial balance as follows:

A. Trial Balance 9/01/XX:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Other Receivables - Dividends		
849-00-1290-00-000-Y-00-0-00	\$5,000	
Restricted Assets - Cash and Temporary		
Investments		
849-00-1810-00-000-Y-00-0-00	\$501,000	
Reserved Fund Balance - Other Reserves		
of Fund Balance		
849-00-3490-00-000-Y-00-0-00		\$6,000
Contributed Capital		
849-00-3200-00-000-Y-00-0-00		\$500,000
	<u>\$506,000</u>	<u>\$506,000</u>

During the course of the year, dividends were received in the amount of \$5,000, and additional dividends were declared for \$7,000. The fund paid tuition costs of \$4,500 for the benefit of scholarship recipients, a certificate of deposit with a face value of \$1,000 was purchased, and resulting interest of \$50 was accrued. In summary, the following entries were recorded:

A. Record assets and revenues.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accrued Interest Receivable		
849-00-1250-00-000-Y-00-0-00	\$50	
Other Receivables - Dividends		
849-00-1290-00-000-Y-00-0-00	\$7,000	
Restricted Assets - Cash and Temporary		
Investments		
849-00-1810-00-000-Y-00-0-00	\$5,000	
Other Receivables - Dividends		
849-00-1290-00-000-Y-00-0-00		\$5,000
Revenues - Earnings from Permanent Funds		
and Endowments		
849-00-5741-00-000-Y-00-0-00		\$7,000
Earnings from Temporary Deposits		
and Investments		
849-00-5742-00-000-Y-00-0-00		\$50

B. Record investment, purchase and operating expenditures.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Restricted Assets - Cash and Temporary Investments		
849-00-1810-00-000-Y-00-0-00	\$1,000	
Expenses - Student Tuition - Higher Education		
or Non-Public Schools		
849-61-6223-00-999-Y-11-0-00	\$4,500	
Restricted Assets - Cash and		
Temporary Investments		
849-00-1810-00-000-Y-00-0-00		\$5,500

C. Record closing entries for the year.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Reserved Fund Balance - Other Reserves		
of Fund Balance		
849-00-3490-00-000-Y-00-0-00	\$4,500	
Earnings from Permanent Funds		
and Endowments		
849-00-5741-00-000-Y-00-0-00	\$7,000	
Earnings from Temporary Deposits		
and Investments		
849-00-5742-00-000-Y-00-0-00	\$50	
Reserved Fund Balance - Other		
Reserves of Fund Balance		
849-00-3490-00-000-Y-00-0-00		\$7,050
Expenses - Student Tuition - Higher Education		
or Non-Public Schools		
849-61-6223-00-999-Y-11-0-00		\$4,500

At the close of the year, the Nonexpendable Trust Fund's trial balance and financial statements appear as follows:

Trial Balance 8/31/XX:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accrued Interest Receivable		
849-00-1250-00-000-Y-00-0-00	\$50	
Other Receivables - Dividends		
849-00-1290-00-000-Y-00-0-00	\$7,000	
Restricted Assets - Cash and Investments		
849-00-1810-00-000-Y-00-0-00	\$501,500	
Reserved Fund Balance - Other Reserves		
of Fund Balances		

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
849-00-3490-00-000-Y-00-0-00		\$8,550
Contributed Capital		
849-00-3200-00-000-Y-00-0-00		<u>\$500,000</u>
	<u>\$508,550</u>	<u>\$508,550</u>

Statement of Revenues, Expenses and Changes in Equity:

Description	Detail	Total
Operating Revenues:		
Earnings from Permanent Funds and Endowments	-	
Earnings from Temporary Deposits and Investments	-	
Total Revenues		\$0
Operating Expenses:		
Tuition	<u>\$4,500</u>	
Operating Income (Loss)		(\$4,500)
Nonoperating Revenues (expenses):		
Earnings from Endowments	\$7,000	
Earnings from Temporary Deposits		
and Investments	<u>\$50</u>	
Net Nonoperating		
Revenues (Expenses)		<u>\$ 7,050</u>
Net Income		<u>\$ 2,550</u>
Equity:		
Reserve for Endowments 9/1/XX		<u>\$ 6,000</u>
Reserve for Endowments 8/31/XX		\$ 8,550
Contributed Capital		<u>\$500,000</u>
Total Equity 8/31/XX		<u>\$508,550</u>

Statement of Cash Flows:

Description	Detail	Total
Cash Flows from Operating Activities:		
Payments to Scholarship Recipients	<u>(\$4,500)</u>	
Net Cash Provided by (Used for)		
Operating Activities		(\$4,500)
Cash Flows From Non-capital		
Financing Activities		-
Cash Flows from Capital &		
Related Financing Activities		-
Cash Flows from Investing		
Activities:		
Interest and Dividends on Investments	\$5,000	
Purchase of Investment Securities	<u>(\$1,000)</u>	
Net Cash Provided (Used for)		
Investing Activities		<u>\$4,000</u>
Net Increase in Cash and Cash		
Equivalents		(\$500)
Cash and Cash Equivalents at		
Beginning of the Year		<u>\$1,000</u>
Cash and Cash Equivalents at End of		
Year		<u>\$500</u>

Reconciliation of Operating Income to Net Cash Provided

By Operating Activities:

By Operating Activities:	Detail	Total
Operating Income (Loss)		(\$4,550)
Adjustments to Reconcile Operating		
Income to Net Cash Provided		
Operations		
Depreciation		-
Changes to Assets and Liabilities:		-
Total Adjustments		-
Net Cash Provided by (Used for)		
Operating Activities		<u>(\$4,550)</u>

Accounting for Agency Funds

Illustration #1

This example is of a clearing account arrangement and shows a situation where school picture money (where pictures are sponsored by the Student Council) is accounted for in an Agency Fund. In this case, the Student Council contracts with a photographer. The Student Council sells pictures for \$11 a package and pays the photographer \$10 for each package sold. A total of 100 packages are sold by the Student Council.

- A. In the Agency Fund, record the sale of pictures, the amount due to the Student Council (profit) and the invoice to the photographer.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
845-00-1110-00-000-Y-00-0-00	\$1,100	
Accounts Payable		
865-00-2110-00-000-Y-00-0-00		\$1,000
Due to Student Groups		
865-00-2190-00-000-Y-00-0-00		\$100

- B. In the Agency Fund, pay the invoice to the photographer.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Accounts Payable		
865-00-2110-00-000-Y-00-0-00	\$1,000	
Cash and Temporary Investments		
865-00-1110-00-000-Y-00-0-00		\$1,000

Illustration #2

Local school district policy recognizes certain class funds and other types of student organization activities. This policy, in part, provides that high school classes may raise monies through extracurricular activities, i.e., car washes, bake sales, etc., and use the monies for purposes set forth in school board approved class organization by-laws. A member of the high school faculty acts as the class sponsor. The local policy provides that balances remaining after graduation of the class become the property of the school district. In the below example, the senior class has raised monies for class organization use.

During the year, the class raised funds by sponsoring car washes on Saturdays. Car wash facilities and supplies were donated by various service station dealers throughout the school district.

Trial Balance 9/1/9X

Agency Fund

199X-Y Senior Class:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
865-00-1110-00-000-Y-00-0-00	\$2,200	
Accrued Interest Receivable		
865-00-1250-00-000-Y-00-0-00	\$200	
Due to Student Groups		
865-00-2190-00-000-Y-00-0-00		<u>\$2,400</u>
Total	<u>\$2,400</u>	<u>\$2,400</u>

Trust and Agency Fund - Senior Class:

A. Record receipts from car washes and interest on investments.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
865-00-1110-00-000-Y-00-0-00	\$1,300	
Due to Student Groups		
865-00-2190-00-000-Y-00-0-00		\$1,100
Accrued Interest Receivable		
865-00-1250-00-000-Y-00-0-00		\$200

The class votes to spend its money on a senior trip during the senior days prior to graduation exercises, a purpose authorized in the class by-laws. It is estimated that expenses of this trip will be \$2,300. The class sponsor is advanced \$2,300 to pay anticipated expenses. Expenses documented after-the-fact amount to \$2,200, and the class sponsor returns \$100.

B. Record cash advance to class sponsor.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Due to Student Groups		
865-00-2190-00-000-Y-00-0-00	\$2,300	
Cash		
865-00-1110-00-000-Y-00-0-00		\$2,300

C. Record cash returned by class sponsor.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
865-00-1110-00-000-Y-00-0-00	\$100	
Due to Student Groups		
865-00-2190-00-000-Y-00-0-00		\$100

In accordance with local school board policy, unused funds of a graduating class become the property of the school district, and the fund is closed for the 19XX-YY Senior Class.

Trial Balance 8/31/9Y

Trust and Agency Fund

19XX-YY Senior Class:

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
865-00-1110-00-000-Y-00-0-00	\$1,480	
Due to Student Groups		
865-00-2190-00-000-Y-00-0-00		\$1,480
	\$1,480	\$1,480

The following entries were also made to close out the senior class fund:

Trust and Agency Fund-Senior Class:

A. Close out the fund for the senior class.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Due to Student Groups		
865-00-2190-00-000-Y-00-0-00	\$1,480	
Cash and Temporary Investments		
865-00-1110-00-000-Y-00-0-00		\$1,480

General Fund:

B. Record donation from the senior class in the General Fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$1,480	
Revenues - Gifts and Bequests		
199-00-5744-00-000-Y-00-0-00		\$1,480

Market Changes in Investments

Illustration #1

This example shows accounting entries under GASB Statement 31 (to be recorded at least quarterly) for purchase of securities at cost, other securities at fair value at the beginning of the fiscal period, and for recording changes in fair value and sale of securities during the fiscal period. Changes in fair value must be **reported** quarterly as required by the Public Funds Investment Act, but are only required to be **recorded** annually under GASB 31. School districts may record the entries more frequently than annually if desired. Districts may record book value separate from market value through use of separate locally defined codes for asset values and investment incomes. School districts are not permitted to distinguish realized gains and losses from unrealized gains and losses on the face of the financial statements, but separate investment income codes may be used to record realized and unrealized (market) changes (gain and losses). Districts are permitted to disclose information on realized gains and losses in the footnotes to the financial statements if certain additional interpretive information is included. The examples that follow explain the use of locally defined codes to track book values and market gains and losses.

A. Record purchase of securities at cost.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Temporary Investments		
199-00-1116-00-000-Y-00-0-00	\$10,000	
Cash in Banks		
199-00-1101-00-000-Y-00-0-00		\$10,000

B. Analysis of Change in Value of Investment Activity

		A	B	C	D	E	F
Security	Cost	Beg. Value	Purchases	Sales	Subtotal	End Value	Change
		09/01/XX				08/31/XX	
1	\$10,000	\$0	\$10,000		\$10,000	\$10,120	\$120
2	5,000	5,500			5,500	5,640	140
3	10,000	9,000			9,000	9,900	900
4	10,000	10,000		9,800	200	0	(200)
Total	\$35,000	\$24,500	\$10,000	\$9,800	\$24,700	\$25,660	\$960

Column D = Columns A + B - Column C

Column F = Column E - Column D

C. Record net gain in fair value of investments.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Temporary Investments		
199-00-1117-00-000-Y-00-0-00	\$960	
Investment Income		
199-00-5748-00-000-Y-00-0-00		\$960

2. Illustration #2

This example shows accounting entries where there is a net loss in the valuation of investments at year end.

A. Record purchase of securities at cost.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Temporary Investments		
199-00-1116-00-000-Y-00-0-00	\$10,000	
Cash in Banks		
199-00-1101-00-000-Y-00-0-00		\$10,000

B. Analysis of Change in Value of Investment Activity

		A	B	C	D	E	F
Security	Cost	Beg. Value	Purchases	Sales	Subtotal	End Value	Change
		09/01/XX				08/31/XX	
1	\$10,000	\$0	\$10,000		\$10,000	\$10,020	\$20
2	5,000	5,500			5,500	5,640	140
3	10,000	9,000			9,000	9,000	0
4	10,000	10,000		9,800	200	0	(200)
Total	\$35,000	\$24,500	\$10,000	\$9,800	\$24,700	\$24,660	(40)

Column D = Columns A + B - Column C

Column F = Column E - Column D

C. Record net loss in fair value of investments.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Investment Income		
199-00-5748-00-000-Y-00-0-00	\$40	
Temporary Investments		
199-00-1117-00-000-Y-00-0-00		\$40

Appendix 8 - Other Federal Regulations

Outline for Appendix 8

Introduction

- A General Requirements (Part 3, Compliance Supplement)
 - 1 Activities Allowed or Unallowed
 - 2 Allowable Costs/Cost Principles
 - a List of Selected Items of Costs Contained in OMB Cost Principles Circulars
 - b OMB A-87
 - c OMB A-21
 - d OMB A122-
 - 3 Cash Management
 - 4 Davis Bacon Act
 - 5 Eligibility
 - 6 Equipment and Real Property Management
 - 7 Matching, Level of Effort, Earmarking
 - 8 Period of Availability of Federal Funds
 - 9 Procurement and Suspension and Debarment
 - 10 Program Income
 - 11 Real Property Acquisition and Relocation Assistance
 - 12 Reporting
 - 13 Subrecipient Monitoring
 - 14 Special Tests and Provisions
- B Matrix of Compliance Requirements (Part 2, Compliance Supplement)
- C Agency Program Requirements
 - 1 Department of Education Cross-Cutting Section (Part 4, Compliance Supplement)
 - 2 Special Revenue Fund Program Requirements – ESEA
 - a 84.010 Title I
 - b 84.011 Migrant
 - c 84.041 Impact Aid
 - d 84.186 Safe Drug-Free
 - e 84.287 Twenty-First Century
 - f 84.298 State Grants for Innovative Programs
 - g 84.318 Ed Tech
 - h 84.357 Reading First
 - i 84.365 English Acquisition
 - j 84.366 Math & Science
 - k 84.367 Improving Teacher Quality

- 3 Special Revenue Fund Program Requirements – Other
 - a 84.002 Adult Basic Ed
 - b 84.027/173 Special Ed
 - c 84.048 Vocational Ed
 - d 84.181 Special Ed Infants
 - e 84.938 Hurricane Ed Recovery
- D Clusters of Programs (Part 5, Compliance Supplement)
- E Internal Control (Part 6, Compliance Supplement)
- F Guidance for Auditing Programs Not Included (Part 7, Compliance Supplement)
- G General/Special Revenue
 - 1 USDA (Child Nutrition)
 - 2 Additional Guidance Related to CNP
- H Other State Requirements

Introduction

The compliance requirements in this procedure are excerpted from [OMB Circular A-102](#); [OMB Circular A-133](#); the [OMB Circular A-133 Compliance Supplement - March 2009](#); and the Code of Federal Regulations (CFR). These are requirements applicable to Texas school districts, and independent auditors are to use them in testing for compliance with provisions of federal grants or contracts. These requirements have been paraphrased and in some cases expounded upon to apply specifically to Texas school districts, and are to be considered in conjunction with OMB cost principles, indirect costs and child nutrition program requirements.

On June 30, 1997, the United States Office of Management and Budget (OMB) released OMB Circular A-133 Compliance Supplement - Provisional, as amended 6/98 and OMB [Circular A-133](#), Audits of States, Local Governments and Non-Profit Organizations. On June 27, 2003, OMB amended Circular A-133 to increase the audit threshold to an aggregate expenditure of \$500,000 in Federal funds. The Compliance Supplement is amended regularly, most recently in March 2009.

Part A of this appendix applies to all federally-funded grants or contracts. Additionally, Part C applies also to those programs that must be accounted for through the Special Revenue Funds. Part G applies to certain other federally-funded programs for which the auditor is to test for compliance. Federal revenues recorded in the General Fund are to be identified in the auditor's report in the notes to the financial statements. Each program tested by the auditor will usually have an application or a contract listing assurances or conditions for funding and program operations, and such assurances or conditions must also be taken under consideration. However, the auditor is not required to perform any other tests for compliance with requirements not specified in the various procedures of the Financial Accountability System Resource Guide.

Included in Parts A - General Requirements, C - Special Revenue Fund Program Requirements and G - General/Special Revenue/Enterprise Fund Federally-Funded Programs or Revenues and Child Nutrition Programs are suggested audit procedures that can be used to test for compliance. These are not the only procedures an auditor can use, nor are they mandatory procedures. An auditor can use any procedure, as long as it supports his or her opinion regarding compliance and noncompliance with the specified requirements. Additionally, the auditor should ensure that the compliance requirements and procedures included herein represent the most recent guidelines and regulations.

Under the Education Flexibility Partnership Act of 1999, which is effective until the No Child Left Behind Act is reauthorized, the Secretary delegated to the Texas Education Agency the authority to waive certain Federal statutory or regulatory requirements affecting the State and its districts and schools. The School to Work Opportunities Act also provides waiver authority. **In planning an audit, auditors should ascertain, from the audited SEA and LEAs, whether ED (or TEA, as an Ed-Flex State) granted any written waivers to the State or the LEAs.**

Appendix 8.A. General Requirements for All Federal Programs (Part 3, Compliance Supplement)

INTRODUCTION

The objectives of most compliance requirements for Federal programs administered by States, local governments, Indian tribal governments, and non-profit organizations are generic in nature. For example, most programs have eligibility requirements for individuals or organizations. While the criteria for determining eligibility vary by program, the objective of the compliance requirement that only eligible individuals or organizations participate is consistent across all programs.

Rather than repeat these compliance requirements, audit objectives, and suggested audit procedures for each of the programs contained in Part 4 – Agency Program Requirements and Part 5 – Clusters of Programs, they are provided once in this part. For each program in this Compliance Supplement (this Supplement), Part 4 or Part 5 contains additional information about the compliance requirements that arise from laws and regulations applicable to each program, including the requirements specific to each program that should be tested using the guidance in this part.

Administrative Requirements

The administrative requirements that apply to most programs arise from two sources: the “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments” (also known as the “A-102 Common Rule”) and 2 CFR part 215 (hereafter, OMB Circular A-110 and, as appropriate, specific citation to 2 CFR part 215), “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations,” and the agencies’ codification (or other form of implementation) of OMB Circular A-110. The applicable guidance followed depends on the type of organization undergoing audit. Other administrative compliance requirements that are not of the type covered in the A-102 Common Rule or OMB Circular A-110 and are unique to a single program or a cluster of programs are provided in the Special Tests and Provisions sections of Parts 4 and 5.

State, Local, and Indian Tribal Governments

Government wide guidance for administering grants and cooperative agreements to States, local governments, and Indian tribal governments is contained in the A-102 Common Rule, which was codified by each Federal funding agency in its title of the *Code of Federal Regulations*. The A-102 Common Rule section numbers are referred to without the Federal agency’s part number (e.g., §____.37 would refer to sections in all agency regulations). This allows auditors to refer to the same section numbers when discussing administrative issues with different Federal funding agencies.

These requirements, which incorporate the cost principles by reference, apply to all grants and sub grants to governments, except grants and sub grants to State or local (public) institutions of higher education and hospitals, and except where they are inconsistent with Federal statutes or with regulations authorized in accordance with the exception provision of the A-102 Common Rule. Block grants authorized by the Omnibus Budget Reconciliation Act of 1981 and several other specifically identified programs are exempted from the A-102 Common Rule. Appendix I to this Supplement specifies legislation and programs where exclusions exist. In some cases the A-102 Common Rule permits States to follow their own laws and procedures, e.g., when addressing equipment management. These are noted in the sections that follow. The auditor will have to refer to an individual State’s rules in those situations.

Non-Profit Organizations

The major source of requirements applicable to institutions of higher education, hospitals and other non-profit organizations is OMB Circular A-110, which incorporates the cost principles by reference. The provisions of OMB Circular A-110 are codified in agency regulations, generally following the section numbers in the circular. The OMB Circular A-110 section numbers in this part of the Supplement are shown as 2 CFR part 215 references. However, unlike the A-102 Common Rule, with OMB approval, agencies could modify certain provisions of A-110 to meet their special needs. OMB Circular A-110 states “Federal agencies responsible for awarding and administering grants . . . shall adopt the language in the circular unless different provisions are

required by Federal statute or are approved by OMB.” OMB Circular A-110 states in 2 CFR section 215.4 that “Federal awarding agencies may apply more restrictive requirements to a class of recipients when approved by OMB.” Federal awarding agencies may apply less restrictive requirements when awarding small awards, except for those requirements which are statutory. Exceptions on a case-by-case basis may also be made by Federal awarding agencies.

Appendix II to this supplement contains a list of agencies that have codified OMB Circular A-110 and the CFR citations for these codifications. These remain unchanged by the reissuance of A-110 in Title 2 of the CFR. Auditors should reference A-110 provisions using 2 CFR part 215 and/or agency implementing citations, as appropriate.

Subrecipients

Governmental subrecipients are subject to the provisions of the A-102 Common Rule. However, the A-102 Common Rule permits States to impose their own requirements on their governmental subrecipients, e.g. equipment management or procurement. Thus, in some circumstances, the auditor may need to refer to State rules and regulations rather than Federal requirements.

All subrecipients who are institutions of higher education, hospitals, or other non-profits, regardless of the type of organization making the subaward, shall follow the provisions of OMB Circular A-110, as implemented by the agency, when awarding or administering sub grants except under block grants authorized by the Omnibus Budget Reconciliation Act of 1981 and the Job Training Partnership Act where State rules apply instead.

Compliance Requirements, Audit Objectives, and Suggested Audit Procedures

Auditors shall consider the compliance requirements and related audit objectives in Part 3 and Part 4 or 5 (for programs included in this Supplement) in every audit of non-Federal entities 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. In making a determination not to test a compliance requirement, the auditor must conclude that the requirement either does not apply to the particular non-Federal entity or that noncompliance with the requirement could not have a material effect on a major program (e.g., the auditor would not be expected to test Procurement if the non-Federal entity charges only small amounts of purchases to a major program). The descriptions of the compliance requirements in Parts 3, 4, and 5 are generally a summary of the actual compliance requirements. The auditor should refer to the referenced citations (e.g., laws and regulations) for the complete statement of the compliance requirements.

The suggested audit procedures are provided to assist auditors in planning and performing tests of non-Federal entity compliance with the requirements of Federal programs. Auditor judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objective and whether alternative audit procedures are needed.

The suggested procedures are in lieu of specifying audit procedures for each of the programs included in this Supplement. This approach has several advantages. First, it provides guidelines to assist auditors in designing audit procedures that are appropriate in the circumstance. Second,

it helps auditors develop audit procedures for programs that are not included in this Supplement. Finally, it simplifies future updates to this Supplement.

The suggested audit procedures for compliance testing may be accomplished using dual-purpose testing.

Internal Control

Consistent with the requirements of OMB Circular A-133, this Part includes generic audit objectives and suggested audit procedures to test internal control. However, the auditor must determine the specific procedures to test internal control on a case-by-case basis considering factors such as the non-Federal entity's internal control, the compliance requirements, the audit objectives for compliance, the auditor's assessment of control risk, and the audit requirement to test internal control as prescribed in OMB Circular A-133.

The suggested audit procedures for internal control testing may be accomplished using dual-purpose testing.

Improper Payments

Under OMB budgetary guidance and Public Law (Pub. L.) No. 107-300, Federal agencies are required to review Federal awards and, as applicable, provide an estimate of improper payments. Improper payments mean:

1. Any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements, and includes any payment to an ineligible recipient; and
2. Any payment for an ineligible service, any duplicate payment, any payment for services not received, and any payment that does not account for credit for applicable discounts.

Auditors should be alert to improper payments, particularly when testing the following parts of section III. – A, “Activities Allowed or Unallowed,” B, “Allowable Costs/Cost Principles,” E, “Eligibility,” and, in some cases N, “Special Tests and Provisions.”

American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act (Pub. L. No. 111-5) (Recovery Act) has significant implications for audits performed under OMB Circular A-133. Auditors should specifically ask auditees about and be alert to recipient and subrecipient expenditure of funds provided by the Recovery Act. A more detailed discussion of the effect of the Recovery Act on single audits is included in Appendix VII, which also contains references to where additional information can be obtained.

OMB Circular A-133 [Compliance Supplement March 2009](#), Part 3, Compliance Requirements, 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 the Appendix 8.C. section of the Resource Guide (FASRG) which includes Part 4 of the OMB Circular A-133 Compliance Supplement – March 2009.

Appendix 8.A.1. A. ACTIVITIES ALLOWED OR UNALLOWED

Compliance Requirements

The specific requirements for activities allowed or unallowed are unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. For programs listed in the Compliance Supplement, the specific requirements of the governing statutes and regulations are included in Part 4 - Agency Program Requirements or Part 5 - Clusters of Programs, as applicable. This type of compliance requirement specifies the activities that can or cannot be funded under a specific program.

Source of Governing Requirements

The requirements for activities allowed or unallowed are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
2. Determine whether Federal awards were expended only for allowable activities.

Suggested Audit Procedures -- Internal Control

1. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for activities allowed or unallowed and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures -- Compliance

1. Identify the types of activities which are either specifically allowed or prohibited by the laws, regulations, and the provisions of contract or grant agreements pertaining to the program.
2. When allowability is determined based upon summary level data, perform procedures to verify that:
 - a. Activities were allowable.

- b. Individual transactions were properly classified and accumulated into the activity total.
- 3. When allowability is determined based upon individual transactions, select a sample of transactions and perform procedures to verify that the transaction was for an allowable activity.
- 4. The auditor should be alert for large transfers of funds from program accounts which may have been used to fund unallowable activities.

Appendix 8.A.2. B. ALLOWABLE COSTS/COST PRINCIPLES

Applicability of OMB Cost Principles Circulars

The following OMB cost principles circulars prescribe the cost accounting policies associated with the administration of Federal awards by: (1) States, local governments, and Indian tribal governments (State rules for expenditures of State funds apply for block grants authorized by the Omnibus Budget Reconciliation Act of 1981 and for other programs specified in Appendix I); (2) institutions of higher education; and (3) non-profit organizations. Federal awards administered by publicly owned hospitals and other providers of medical care are exempt from OMB's cost principles circulars, but are subject to requirements promulgated by the sponsoring Federal agencies (e.g., the Department of Health and Human Services' 45 CFR part 74, Appendix E). The cost principles applicable to a non-Federal entity apply to all Federal awards received by the entity, regardless of whether the awards are received directly from the Federal Government or indirectly through a pass-through entity. The circulars describe selected cost items, allowable and unallowable costs, and standard methodologies for calculating indirect costs rates (e.g., methodologies used to recover facilities and administrative costs (F&A) at institutions of higher education). Federal awards include Federal programs and cost-type contracts and may be in the form of grants, contracts, and other agreements.

Source of Governing Requirements

The requirements for allowable costs/cost principles are contained in the A-102 Common Rule (§____.22), OMB Circular A-110 (2 CFR section 215.27), program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

The three cost principles circulars are as follows:

- **OMB Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments” (2 CFR part 225).**
- **OMB Circular A-21, “Cost Principles for Educational Institutions” (2 CFR part 220)** - All institutions of higher education are subject to the cost principles contained in OMB Circular A-21, which incorporates the four Cost Accounting Standards Board (CASB) Standards and the Disclosure Statement (DS-2) requirements, as described in OMB Circular A-21, sections C.10 through C.14 and Appendices A and B.
- **OMB Circular A-122, “Cost Principles for Non-Profit Organizations” (2 CFR part 230)** - Non-profit organizations are subject to OMB Circular A-122, except those non-profit organizations listed in OMB Circular A-122, Attachment C that are subject to the commercial cost principles contained in the Federal Acquisition Regulation (FAR) at 48 CFR part 31. Also, by contract terms and conditions, some non-profit organizations may be subject to the CASB's Standards and the Disclosure Statement (DS-1) requirements.

Although these cost principles circulars have been reissued in Title 2 of the CFR for ease of access, the Compliance Supplement refers to them by the circular title and numbering. Auditors should refer to them in the same manner.

The cost principles articulated in the three OMB cost principles circulars are in most cases substantially identical, but a few differences do exist. These differences are necessary because of the nature of the Federal/State/local/non-profit organizational structures, programs administered, and breadth of services offered by some grantees and not others. Appendix 8.A.2.a (Exhibit 1 of Part 3 of the Compliance Supplement, Selected Items of Cost, lists the treatment of the selected cost items in the different circulars.

Appendix 8.A.2.a LIST OF SELECTED ITEMS OF COST CONTAINED IN OMB COST PRINCIPLES CIRCULARS

The following exhibit provides a listing of selected items of costs contained in each of the OMB cost principles circulars based on the changes contained in the Federal Register notice dated May 10, 2004 (69 FR 25970-25995)

(http://www.whitehouse.gov/omb/fedreg/2004/040510_cost_principles.pdf). The exhibit lists the selected items of costs along with a cursory description of their allowability. The reader is strongly cautioned not to rely exclusively on this summary exhibit but to place primary reliance on the referenced circular text.

Several cost items are unique to one type of entity and not to other entities (e.g., commencement & convocation costs are only applicable to universities). The numbers in parentheses refer to the cost item in the applicable circulars. The reader is strongly cautioned not to rely exclusively on the summary but to place primary reliance on the referenced circular text.

Selected Items of Cost			Exhibit 1
Selected Cost Item	OMB Circular A-87, Attachment B State, Local, & Indian Tribal Gov'ts	OMB Circular A-21, Section J Educational Institutions	OMB Circular A-122, Attachment B Non-Profit Organizations
Advertising & public relations costs	(1) Allowable with restrictions	(1) Allowable with restrictions	(1) Allowable with restrictions
Advisory councils	(2) Allowable with restrictions	(2) Allowable with restrictions	(2) Allowable with restrictions
Alcoholic beverages	(3) Unallowable	(3) Unallowable	(3) Unallowable
Alumni/ae activities	Not specifically addressed	(4) Unallowable	Not specifically addressed
Audit costs and related services	(4) Allowable with restrictions and as addressed in OMB Circular A-133	(5) Allowable with restrictions and as addressed in OMB Circular A-133	(4) Allowable with restrictions and as addressed in OMB Circular A-133
Bad Debts	(5) Unallowable	(6) Unallowable	(5) Unallowable

Selected Items of Cost			Exhibit 1
Selected Cost Item	OMB Circular A-87, Attachment B State, Local, & Indian Tribal Gov'ts	OMB Circular A-21, Section J Educational Institutions	OMB Circular A-122, Attachment B Non-Profit Organizations
Bonding Costs	(6) Allowable with restrictions	(7) Allowable with restrictions	(6) Allowable with restrictions
Commencement & convocations	Not specifically addressed	(8)-Unallowable with exceptions	Not specifically addressed
Communication costs	(7)-Allowable	(9)-Allowable	(7)-Allowable
Compensation for personal services	(8)-Unique criteria for support	(10)-Unique criteria for support	(8)-Unique criteria for support
Compensation for personal services - organization - furnished automobile	Not specifically addressed	(10.g)- Unallowable for that portion of costs attributed to personal use	(8.g) Unallowable for that portion of costs attributed to personal use
Compensation for personal services - sabbatical leave costs	Not specifically addressed	(10.f(4)) Allowable with restrictions	Not specifically addressed
Compensation for personal services - severance pay	(8)- Allowable with restrictions	(10.h)-Allowable with restrictions	(8.k)-Allowable with restrictions
Contingency provisions	(9)-Unallowable with exceptions	(11)-Unallowable with exceptions	(9)-Unallowable with exceptions
Deans of faculty and graduate schools	Not addressed	(12)-Allowable	Not addressed
Defense & prosecution of criminal & civil proceedings & claims	(10)-Allowable with restrictions	(13)-Allowable with restrictions (Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringement)	(10)-Allowable with restrictions (Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringement)

Selected Items of Cost			Exhibit 1
Selected Cost Item	OMB Circular A-87, Attachment B State, Local, & Indian Tribal Gov'ts	OMB Circular A-21, Section J Educational Institutions	OMB Circular A-122, Attachment B Non-Profit Organizations
Depreciation and use allowances	(11)-Allowable with qualifications	(14)-Allowable with qualifications	(11)-Allowable with qualification
Disbursing Services	(16)-Allowable	Not specifically addressed	Not specifically addressed
Donations & contributions	(12)-Unallowable (made by recipient); not reimbursable but value may be used as cost sharing or matching (made to recipient)	(15)-Unallowable (made by recipient); not reimbursable but value may be used as cost sharing or matching (made to recipient)	(12)-Unallowable (made by recipient); not reimbursable but value may be used as cost sharing or matching (made to recipient)
Employee morale, health, and welfare costs	(13)-Allowable with restrictions	(16)-Allowable with restrictions	(13)-Allowable with restrictions
Entertainment costs	(14)-Unallowable	(17)-Unallowable	(14)-Unallowable
Equipment and other capital expenditures	(15)-Allowability based on specific requirements	(18)-Allowability based on specific requirements	(15)-Allowability based on specific requirements
Fines and penalties	(16)-Unallowable with exception	(19)-Unallowable with exception	(16)-Unallowable with exception
Fundraising and investment management costs	(17)-Unallowable with exceptions	(20)-Unallowable with exceptions (Fundraising)	(17)-Unallowable with exceptions
Gains and losses on depreciable assets	(18)-Allowable with restrictions (Gains and losses on disposition of depreciable property and other capital assets and substantial relocation of Federal programs)	(21)-Allowable with restrictions	(18)-Allowable with restrictions
General government expenses	(19)-Unallowable with exceptions	Not specifically addressed	Not specifically addressed

Selected Items of Cost			Exhibit 1
Selected Cost Item	OMB Circular A-87, Attachment B State, Local, & Indian Tribal Gov'ts	OMB Circular A-21, Section J Educational Institutions	OMB Circular A-122, Attachment B Non-Profit Organizations
Goods or services for personal use	(20)-Unallowable	(22)-Unallowable	(19)-Unallowable
Housing & personal living expenses	Not specifically addressed	(23)-Unallowable	(20)-Unallowable as overhead costs
Idle facilities and idle capacity	(21) Idle facilities - unallowable with restrictions; idle capacity – allowable with restrictions	(24) Idle facilities - unallowable with restrictions; idle capacity – allowable with restrictions	(21) Idle facilities - unallowable with restrictions; idle capacity – allowable with restrictions
Insurance & indemnification	(22)-Allowable with restrictions	(25)-Allowable with restrictions	(22)-Allowable with restrictions
Interest	(23)-Allowable with restrictions	(26)-Allowable with restrictions	(23)-Allowable with restrictions
Interest – substantial relocation	Not specifically addressed	(26.b(6)) Possible adjustment in relocated within 20 years	(23.a(6)(d)) Possible adjustment in relocated within 20 years
Labor relations costs	Not specifically addressed	(27)-Allowable	(24)-Allowable
Lobbying	(24)-Unallowable	(28)-Unallowable with exceptions	(25)-Unallowable with exceptions
Lobbying - executive lobbying costs	(24.b)-Unallowable	(28.h)-Unallowable	(25.d)-Unallowable
Losses on other sponsored agreements or contracts	Not specifically addressed	(29)-Unallowable	(26)-Unallowable (Losses on other awards or contracts)
Maintenance and repair costs	(25)-Allowable with restrictions (Maintenance, operations, and repairs)	(30)-Allowable with restrictions	(27)-Allowable with restrictions
Materials and supplies costs	(26)-Allowable with restrictions	(31)-Allowable with restrictions	(28)-Allowable with restrictions
Meetings and conferences	(27)-Allowable with restrictions	(32)-Allowable with restrictions	(29)-Allowable with restrictions

Selected Items of Cost			Exhibit 1
Selected Cost Item	OMB Circular A-87, Attachment B State, Local, & Indian Tribal Gov'ts	OMB Circular A-21, Section J Educational Institutions	OMB Circular A-122, Attachment B Non-Profit Organizations
Memberships, subscriptions, & professional activity costs	(28)-Allowable as a direct cost for civic, community & social organizations with Federal Approval; unallowable for lobbying organizations	(33)-Unallowable for civic, community or social organizations	(30)-Allowable for civic& community organizations with Federal approval; unallowable for social organizations
Organization Costs	Not specifically addressed	Not specifically addressed	(31)-Unallowable except Federal prior approval
Page charges in professional journals	(34.b)-Allowable with restrictions (addressed under "Publication and printing costs")	(39.b)-Allowable with restrictions (addressed under "Publication and printing costs")	(32)-Allowable with restrictions
Participant support costs	Not specifically addressed	Not specifically addressed	(33)-Allowable with prior approval of the awarding agency
Patent costs	(29)-Allowable with restrictions	(34)-Allowable with restrictions	(34)-Allowable with restrictions
Plant and homeland security costs	(30)-Allowable with restrictions	(35)-Allowable with restrictions	(35)-Allowable with restrictions
Pre-agreement costs	(31)-Allowable with restrictions (Pre-award costs)	(36)-Unallowable unless approved by the Federal sponsoring agency	(36)-Allowable with restrictions
Professional service costs	(32)-Allowable with restrictions	(37)-Allowable with restrictions	(37)-Allowable with restrictions
Proposal costs	(33)-Allowable with restrictions	(38)-Allowable with restrictions	Not specifically addressed
Publication & printing costs	(34)-Allowable with restrictions	(39)-Allowable with restrictions	(38)-Allowable with restrictions
Rearrangement and alterations costs	(35)-Allowable (ordinary and normal); allowable with Federal prior approval (special)	(40)-Allowable (ordinary and normal); Allowable with Federal prior approval (special)	(39)-Allowable (ordinary and normal); Allowable with prior Federal approval (special)

Selected Items of Cost			Exhibit 1
Selected Cost Item	OMB Circular A-87, Attachment B State, Local, & Indian Tribal Gov'ts	OMB Circular A-21, Section J Educational Institutions	OMB Circular A-122, Attachment B Non-Profit Organizations
Reconversion costs	(36)-Allowable with restrictions	(41)-Allowable with restrictions	(40)-Allowable with restrictions
Recruiting costs	(1.c)-Allowable with restrictions (addresses costs of advertising only)	(42)-Allowable with restrictions	(1)-Allowable with restrictions
Relocation costs	Not specifically addressed	(42.d)-Allowable with restrictions	(42)-Allowable with restrictions
Rental cost of buildings and equipment	(37)-Allowable with restrictions	(43)-Allowable with restrictions	(43)-Allowable with restrictions
Royalties and other costs for use of patents	(38)-Allowable with restrictions	(44)-Allowable with restrictions	(44)-Allowable with restrictions
Scholarships and student aid costs	Not specifically addressed	(45)-Allowable with restrictions	Not specifically addressed
Selling & marketing costs	(39)-Unallowable with exceptions	(46)-Unallowable with exceptions	(45)-Unallowable with exceptions
Specialized service facilities	Not specifically addressed	(47)-Allowable with restrictions	(46)-Allowable with restrictions
Student activity costs	Not specifically addressed	(48)-Unallowable unless specifically provided for in the sponsored agreements	Not specifically addressed
Taxes	(40)-Allowable with restrictions	(49)-Allowable with restrictions	(47)-Allowable with restrictions
Termination costs applicable to sponsored agreements	(41)-Allowable with restrictions	(50)-Allowable with restrictions	(48)-Allowable with restrictions
Training costs	(42)-Allowable for employee development	(51)-Allowable for employee development	(49)-Allowable with limitations
Transportation costs	Not specifically addressed	(52)-Allowable with restrictions	(50)-Allowable

Selected Items of Cost			Exhibit 1
Selected Cost Item	OMB Circular A-87, Attachment B State, Local, & Indian Tribal Gov'ts	OMB Circular A-21, Section J Educational Institutions	OMB Circular A-122, Attachment B Non-Profit Organizations
Travel costs	(43)-Allowable with restrictions	(53)-Allowable with restrictions	(51)-Allowable with restrictions
Trustees (travel expense)	Not specifically addressed	(54)-Allowable with restrictions	(52)-Allowable with restrictions

Appendix 8.A.2.b OMB CIRCULAR A-87, COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS

Introduction

OMB Circular A-87 (A-87) establishes principles and standards for determining allowable direct and indirect costs for Federal awards. This section is organized into the following areas of allowable costs: State/Local-Wide Central Service Costs; State/Local Department or Agency Costs (Direct and Indirect); and State Public Assistance Agency Costs.

Cognizant Agency

A-87, Attachment A, paragraph B.6. defines “cognizant agency” as the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under A-87 on behalf of all Federal agencies. OMB publishes a listing of cognizant agencies (*Federal Register*, 51 FR 552, January 6, 1986). This listing is available on the Internet at:

http://www.whitehouse.gov/omb/financial/fin/fr-notice_cost_negotiation_010686.pdf.

References to cognizant agency in this section should not be confused with the cognizant Federal agency for audit responsibilities, which is defined in OMB Circular A-133, Subpart D.

§ _____.400(a).

Availability of Other Information

Additional information on cost allocation plans and indirect cost rates is found in the Department of Health and Human Services (HHS) publications: *A Guide for State, Local and Indian Tribal Governments* (ASMB C-10); *Review Guide for State and Local Governments State/Local-Wide Central Service Cost Allocation Plans and Indirect Cost Rates*; and the *DCA Best Practices Manual for Reviewing Public Assistance Cost Allocation Plans* which are available on the Internet at <http://rates.psc.gov/fms/dca/asmb%20c-10.pdf> and <http://rates.psc.gov/fms/dca/PA%20BPM.pdf>, respectively..

Allowable Costs - State/Local-Wide Central Service Costs

Most governmental entities provide services, such as accounting, purchasing, computer services, and fringe benefits, to operating agencies on a centralized basis. Since the Federal awards are performed within the individual operating agencies, there must be a process whereby these central service costs are identified and assigned to benefiting operating agency activities on a reasonable and consistent basis. The State/local-wide central service cost allocation plan (CAP) provides that process. (Refer to A-87, Attachment C, State/Local-Wide Central Service Cost Allocation Plans, for additional information and specific requirements.)

The allowable costs of central services that a governmental unit provides to its agencies may be allocated or billed to the user agencies. The State/local-wide central service CAP is the required documentation of the methods used by the governmental unit to identify and accumulate these costs, and to allocate them or develop billing rates based on them.

Allocated central service costs (referred to as Section I costs) are allocated to benefiting operating agencies on some reasonable basis. These costs are usually negotiated and approved for a future year on a “fixed-with-carry-forward” basis. Examples of such services might include general accounting, personnel administration, and purchasing. Section I costs assigned to an

operating agency through the State/local-wide central service CAP are typically included in the agency's indirect cost pool.

Billed central service costs (referred to as Section II costs) are billed to benefiting agencies and/or programs on an individual fee-for-service or similar basis. The billed rates are usually based on the estimated costs for providing the services. An adjustment will be made at least annually for the difference between the revenue generated by each billed service and the actual allowable costs. Examples of such billed services include computer services, transportation services, self- insurance, and fringe benefits. Section II costs billed to an operating agency may be charged as direct costs to the agency's Federal awards or included in its indirect cost pool.

1. Compliance Requirements - State/Local-Wide Central Service Costs

a. Basic Guidelines

- (1) The basic guidelines affecting allowability of costs (direct and indirect) are identified in A-87, Attachment A, paragraph C.
- (2) To be allowable under Federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C.1):
 - (a) Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Attachment A, paragraph C.2 for additional information on reasonableness of costs.)
 - (b) Be allocable to Federal awards under the provisions of A-87. (Refer to A-87, Attachment A, paragraph C.3 for additional information on allocable costs.)
 - (c) Be authorized or not prohibited under State or local laws or regulations.
 - (d) Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.
 - (e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
 - (f) 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.
 - (g) Be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87.
 - (h) Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.
 - (i) Be net of all applicable credits. (Refer to A-87, Attachment A, paragraph C.4 for additional information on applicable credits.)
 - (j) Be adequately documented.

b. Selected Items of Cost

- (1) Sections 1 through 43 of A-87, Attachment B, provide the principles to be applied in establishing the allowability or unallowability of certain items

of cost. (For a listing of costs, refer to Appendix 8.A.2.a (Exhibit 1 of Part 3 of the Compliance Supplement.) These principles apply whether a cost is treated as direct or indirect. Failure to mention a particular item of cost in this section of A-87 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.

- (2) 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 A-87, Attachment A.

c. *Submission Requirements*

- (1) Submission requirements are identified in A-87, Attachment C, paragraph D.
- (2) A State is required to submit a State-wide central service CAP to HHS for each year in which it claims central service costs under Federal awards.
- (3) A local government that has been designated as a “major local government” by OMB is required to submit a central service CAP to its cognizant agency annually. This listing is posted on the OMB website at (<http://www.whitehouse.gov/omb/management>). All other local governments claiming central service costs must develop a CAP in accordance with the requirements described in A-87 and maintain the plan and related supporting documentation for audit. Local governments are not required to submit the plan for Federal approval unless they are specifically requested to do so by the cognizant agency. If a local government receives funds as a subrecipient only, the primary recipient will be responsible for negotiating and/or monitoring the local government’s plan.
- (4) All central service CAPs will be prepared and, when required, submitted within the 6 months prior to the beginning of the governmental unit’s fiscal years in which it proposes to claim central service costs. Extensions may be granted by the cognizant agency.

d. *Documentation Requirements*

- (1) The central service CAP must include all central service costs that will be claimed (either as an allocated or a billed cost) under Federal awards. Costs of central services omitted from the CAP will not be reimbursed.
- (2) The documentation requirements for all central service CAPs are contained in A-87, Attachment C, paragraph E. All plans and related documentation used as a basis for claiming costs under Federal awards must be retained for audit in accordance with the record retention requirements contained in the A-102 Common Rule.

- e. *Required Certification* - No proposal to establish a central service CAP, whether submitted to a Federal cognizant agency or maintained on file by the governmental unit, shall be accepted and approved unless such costs have been certified by the governmental unit using the Certificate of Cost Allocation Plan as set forth in A-87, Attachment C.

- f. *Allocated Central Service Costs (Section I Costs)* - A carry-forward adjustment is not permitted for a central service activity that was not included in the previously approved plan or for unallowable costs that must be reimbursed immediately (A-87, Attachment C, paragraph G.3).
 - g. *Billed Central Service Costs (Section II Costs)*
 - (1) Internal service funds for central service activities are allowed a working capital reserve of up to 60 days cash expenses for normal operating purposes (A- 87, Attachment C, paragraph G.2). A working capital reserve exceeding 60 days may be approved by the cognizant Federal agency in exceptional cases.
 - (2) Adjustments of billed central services are required when there is a difference between the revenue generated by each billed service and the actual allowable costs (A-87, Attachment C, paragraph G.4). The adjustments will be made through one of the following methods:
 - (a) A cash refund to the Federal Government for the Federal share of the adjustment, if revenue exceeds costs,
 - (b) Credits to the amounts charged to the individual programs,
 - (c) Adjustments to future billing rates, or
 - (d) Adjustments to allocated central service costs (Section I) if the total amount of the adjustment for a particular service does not exceed \$500,000.
 - (3) 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 (A-87, Attachment B, paragraph 22).
2. ***Audit Objectives - State/Local-Wide Central Service Costs***
- a. Obtain an understanding of internal control over the compliance requirements for central service costs, assess risk, and test internal control as required by OMB Circular A-133 § __.500(c).
 - b. Determine whether the governmental unit complied with the provisions of A-87 as follows:
 - (1) Direct charges to Federal awards were for allowable costs.
 - (2) Charges to cost pools allocated to Federal awards through the central service CAPs were for allowable costs.
 - (3) The methods of allocating the costs are in accordance with the applicable cost principles, and produce an equitable and consistent distribution of costs, which benefit from the central service costs being allocated (e.g., cost allocation bases include all activities, including all State departments and agencies and, if appropriate, non-State organizations which receive services).
 - (4) Cost allocations were in accordance with central service CAPs approved by the cognizant agency or, in cases where such plans are not subject to approval, in accordance with the plan on file.
3. ***Suggested Internal Control Audit Procedures - State/Local-Wide Central Service Costs***

- a. Using the guidance provided in Part 6 - Internal Control for allowable costs/cost principles, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
 - b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
 - c. Consider the results of the testing of internal control in assessing the risk of non-compliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.
- 4. *Suggested Compliance Audit Procedures - State/Local-Wide Central Service Costs***
- a. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.
 - (1) In reviewing the State/local-wide central service costs, the auditor may not need to test all central service costs (allocated or billed) every year; for example, the auditor in obtaining sufficient evidence for the opinion may consider testing each central service at least every 5 years, and perform additional testing for central services with operating budgets of \$5 million or more.
 - (2) If the local governmental entity is not required to submit the central service CAP and related supporting documentation, the auditor should consider the risk of the reduced level of oversight in designing the nature, timing and extent of compliance testing.
 - b. *General Audit Procedures for State/Local-Wide Central Service CAPs* - The following procedures apply to direct charges to Federal awards as well as charges to cost pools that are allocated wholly or partially to Federal awards or used in formulating indirect cost rates used for recovering indirect costs under Federal awards.
 - (1) Test a sample of transactions for conformance with:
 - (a) The criteria contained in the “Basic Guidelines” section of A-87, Attachment A, paragraph C.
 - (b) The principles to establish allowability or unallowability of certain items of cost (A-87, Attachment B).
 - (2) If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would have not been incurred if the other cost had not been incurred. When an unallowable cost is incurred, directly associated costs are also

unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.

c. *Special Audit Procedures for State/Local-Wide Central Service CAPs*

- (1) Verify that the central service CAP includes the required documentation in accordance with A-87, Attachment C, paragraph E.
- (2) *Testing of the State/Local-Wide Central Service CAPs - Allocated Section I Costs*
 - (a) If new allocated central service costs were added, review the justification for including the item as Section I costs to ascertain if the costs are allowable (e.g., if costs benefit Federal awards).
 - (b) Identify the central service costs that incurred a significant increase in actual costs from the prior year's costs. Test a sample of transactions to verify the allowability of the costs.
 - (c) Determine whether the bases used to allocate costs are appropriate, i.e., costs are allocated in accordance with relative benefits received.
 - (d) Determine whether the proposed bases include all activities that benefit from the central service costs being allocated, including all users that receive the services. For example, the State-wide central service CAP should allocate costs to all benefiting State departments and agencies, and, where appropriate, non-State organizations, such as local government agencies.
 - (e) Perform an analysis of the allocation bases by selecting agencies with significant Federal awards to determine if the percentage of costs allocated to these agencies has increased from the prior year. For those selected agencies with significant allocation percentage increases, determine that the data included in the bases are current and accurate.
 - (f) Verify that carry-forward adjustments are properly computed in accordance with A-87, Attachment C, paragraph G.3.
- (3) *Testing of the State/Local-Wide Central Service CAPs - Billed Section II Costs*
 - (a) For billed central service activities accounted for in separate funds (e.g., internal service funds), ascertain if:
 - (i) Retained earnings/fund balances (including reserves) are computed in accordance with the applicable cost principles;
 - (ii) Working capital reserves are not excessive in amount (generally not greater than 60 days for cash expenses for normal operations incurred for the period exclusive of depreciation, capital costs, and debt principal costs); and
 - (iii) Adjustments were made when there is a difference between the revenue generated by each billed service and the actual allowable costs.

Note: A 60-day working capital reserve is not automatic. Refer to the HHS publication, *A Guide for State, Local, and Indian Tribal Governments* (ASMB C-10) for guidelines.

- (b) Test to ensure that all users of services are billed in a consistent manner. For example, examine selected billings to determine if all users (including users outside the governmental unit) are charged the same rate for the same service.
- (c) Test that billing rates exclude unallowable costs, in accordance with applicable cost principles and Federal statutes.
- (d) Test, where billed central service activities are funded through general revenue appropriations, that the billing rates (or charges) are developed based on actual costs and were adjusted to eliminate profits.
- (e) For self-insurance and pension funds, ascertain if independent actuarial studies appropriate for such activities are performed at least biennially and that current period costs were allocated based on an appropriate study that is not over two years old.
- (f) Determine if refunds were made to the Federal Government for its share of funds transferred from the self-insurance reserve to other accounts, including imputed or earned interest from the date of the transfer.

Allowable Costs – State/Local Department or Agency Costs - Direct and Indirect

The individual State/local departments or agencies (also known as operating agencies) are responsible for the performance or administration of Federal awards. In order to receive cost reimbursement under Federal awards, the department or agency usually submits claims asserting that allowable and eligible costs (direct and indirect) have been incurred in accordance with A-87.

While direct costs are those that can be identified specifically with a particular final cost objective, the indirect costs are those that have been incurred for common or joint purposes, and not readily assignable to the cost objectives specifically benefited without effort disproportionate to the results achieved. Indirect costs are normally charged to Federal awards by the use of an indirect cost rate.

The indirect cost rate proposal (ICRP) provides the documentation prepared by a State/local department or agency, to substantiate its request for the establishment of an indirect cost rate. The indirect costs include: (1) costs originating in the department or agency carrying out Federal awards, and (2) costs of central governmental services distributed through the State/local-wide central service CAP that are not otherwise treated as direct costs. The ICRPs are based on the most current financial data and are used to either establish predetermined, fixed, or provisional indirect cost rates or to finalize provisional rates (for rate definitions refer to A-87, Attachment E, paragraph B).

1. Compliance Requirements - State/Local Department or Agency Costs - Direct and Indirect

- a. *Basic Guidelines* - Refer to the previous section, “Allowable Costs – State/Local-Wide Central Service Costs, 1.a - Compliance Requirements-Basic Guidelines,”

for the guidelines affecting the allowability of costs (direct and indirect) under Federal awards.

- b. *Selected Items of Cost* - Refer to the previous section, “Allowable Costs – State/Local-Wide Central Service Costs, 1.b - Compliance Requirements-Selected Items of Cost,” for the principles to establish allowability or unallowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect.
- c. *Allocation of Indirect Costs and Determination of Indirect Cost Rates*
 - (1) The specific methods for allocating indirect costs and computing indirect cost rates are as follows:
 - (a) *Simplified Method* - This method is applicable where a governmental unit’s department or agency has only one major function, or where all its major functions benefit from the indirect cost to approximately the same degree. The allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures described in the circular (A-87, Attachment E, paragraph C.2).
 - (b) *Multiple Allocation Base Method* - This method is applicable where a governmental unit’s department or agency has several major functions that benefit from its indirect costs in varying degrees. The allocation of indirect costs may require the accumulation of such costs into separate groupings which are then allocated individually to benefiting functions by means of a base which best measures the relative degree of benefit. (For detailed information, refer to A-87, Attachment E, paragraph C.3.)
 - (c) *Special Indirect Cost Rates* - In some instances, a single indirect cost rate for all activities of a department or agency may not be appropriate. Different factors may substantially affect the indirect costs applicable to a particular program or group of programs, e.g., the physical location of the work, the nature of the facilities, or level of administrative support required. (For the requirements for a separate indirect cost rate, refer to A-87, Attachment E, paragraph C.4.)
 - (d) *Cost Allocation Plans* - In certain cases, the cognizant agency may require a State or local governmental unit’s department or agency to prepare a CAP instead of an ICRP. These are infrequently occurring cases in which the nature of the department or agency’s Federal awards makes impracticable the use of a rate to recover indirect costs. A CAP required in such cases consists of narrative descriptions of the methods the department or agency uses to allocate indirect costs to programs, awards, or other cost objectives. Like an ICRP, the CAP must be either submitted to the cognizant agency for review, negotiation and approval, or retained on file for inspection during audits.
- d. *Submission Requirements*

- (1) Submission requirements are identified in A-87, Attachment E, paragraph D.1. All departments or agencies of a governmental unit claiming indirect costs under Federal awards must prepare an ICRP and related documentation to support those costs.
 - (2) A State/local department or agency for which a cognizant Federal agency has been assigned by OMB must submit its ICRP to its cognizant agency. Smaller local government departments or agencies which are not required to submit a proposal to the cognizant Federal agency must develop an ICRP in accordance with the requirements of A-87, and maintain the proposal and related supporting documentation for audit. Where a local government receives funds as a subrecipient only, the primary recipient will be responsible for negotiating and/or monitoring the subrecipient's plan.
 - (3) Each Indian tribal government desiring reimbursement of indirect costs must submit its ICRP to its cognizant agency, which generally is the Department of the Interior.
 - (4) ICRPs must be developed (and, when required, submitted) within 6 months after the close of the governmental unit's fiscal year.
 - e. *Documentation and Certification Requirements*
The documentation and certification requirements for ICRPs are included in A-87, Attachment E, paragraphs D.2 and 3, respectively. The proposal and related documentation must be retained for audit in accordance with the record retention requirements contained in the A-102 Common Rule.
- 2. ***Audit Objectives - State/Local Department or Agency Costs - Direct and Indirect***
 - a. Obtain an understanding of internal control over the compliance requirements for State/local department or agency costs, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
 - b. Determine whether the governmental unit complied with the provisions of A-87 as follows:
 - (1) Direct charges to Federal awards were for allowable costs.
 - (2) Charges to cost pools used in calculating indirect cost rates were for allowable costs.
 - (3) The methods for allocating the costs are in accordance with the applicable cost principles, and produce an equitable and consistent distribution of costs (e.g., all activities that benefit from the indirect cost, including unallowable activities, must receive an appropriate allocation of indirect costs).
 - (4) Indirect cost rates were applied in accordance with approved indirect cost rate agreements (ICRA), or special award provisions or limitations, if different from those stated in negotiated rate agreements.
 - (5) For local departments or agencies that do not have to submit an ICRP to the cognizant Federal agency, indirect cost rates were applied in accordance with the ICRP maintained on file.
- 3. ***Suggested Internal Control Audit Procedures - State/Local Department or Agency Costs- Direct and Indirect***

Refer to the previous section, “Allowable Costs - State/Local-Wide Central Service Costs,” items 3.a through 3.c, for suggested internal control audit procedures.

4. *Suggested Compliance Audit Procedures - State/Local Department or Agency Costs - Direct and Indirect*

- a. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance. If the local department or agency is not required to submit an ICRP and related supporting documentation, the auditor should consider the risk of the reduced level of oversight in designing the nature, timing, and extent of compliance testing.
- b. *General Audit Procedures (Direct and Indirect Costs)* - The following procedures apply to direct charges to Federal awards as well as charges to cost pools that are allocated wholly or partially to Federal awards or used in formulating indirect cost rates used for recovering indirect costs from Federal awards.
 - (1) Test a sample of transactions for conformance with:
 - (a) The criteria contained in the “Basic Guidelines” section of A-87, Attachment A, paragraph C.
 - (b) The principles to establish allowability or unallowability of certain items of cost (A-87, Attachment B).
 - (2) If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would have not been incurred if the other cost had not been incurred. When an unallowable cost is incurred, directly associated costs are also unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.
- c. *Special Audit Procedures for State/Local Department or Agency ICRPs*
 - (1) Verify that the ICRP includes the required documentation in accordance with A-87, Attachment E, paragraph D.
 - (2) *Testing of the ICRP* - There may be a timing consideration when the audit is completed before the ICRP is completed. In this instance, the auditor should consider performing interim testing of the costs charged to the cost pools and the allocation bases (e.g., determine from management the cost pools that management expects to include in the ICRP and test the costs for compliance with A-87). Should there be audit exceptions, corrective action may be taken earlier to minimize questioned costs. In the next year’s audit, the auditor should complete testing and verify management’s representations against the completed ICRP.
 - (a) When the ICRA is the basis for indirect cost charged to a major program, the auditor is required to obtain appropriate assurance that the costs collected in the cost pools and allocation methods are in compliance with the applicable cost principles. The following procedures are some acceptable options the auditor may use to obtain this assurance:

- (i) *Indirect Cost Pool* - Test the indirect cost pool to ascertain if it includes only allowable costs in accordance with A-87.
 - (A) Test to ensure that unallowable costs are identified and eliminated from the indirect cost pool (e.g., capital expenditures, general costs of government).
 - (B) Identify significant changes in expense categories between the prior ICRP and the current ICRP. Test a sample of transactions to verify the allowability of the costs.
 - (C) Trace the central service costs that are included in the indirect cost pool to the approved State/local-wide central service CAP or to plans on file when submission is not required.
- (ii) *Direct Cost Base* - Test the methods of allocating the costs to ascertain if they are in accordance with the applicable provisions of A-87 and produce an equitable distribution of costs.
 - (A) Determine that the proposed base(s) includes all activities that benefit from the indirect costs being allocated.
 - (B) If the direct cost base is not limited to direct salaries and wages, determine that distorting items are excluded from the base. Examples of distorting items include capital expenditures, flow-through funds (such as benefit payments), and subaward costs in excess of \$25,000 per subaward.
 - (C) Determine the appropriateness of the allocation base (e.g., salaries and wages, modified total direct costs).
- (iii) *Other Procedures*
 - (A) Examine the employee time report system results (where and if used) to ascertain if they are accurate, and are based on the actual effort devoted to the various functional and programmatic activities to which the salary and wage costs are charged. (Refer to A-87, Attachment B, paragraph 8.h for additional information on support of salaries and wages.)
 - (B) For an ICRP using the multiple allocation base method, test statistical data (e.g., square footage, audit hours, salaries and wages) to ascertain if the proposed allocation or rate bases are reasonable, updated as necessary, and do not contain any material omissions.

- (3) *Testing of Charges Based Upon the ICRA* - Perform the following procedures to test the application of charges to Federal awards based upon an ICRA:
 - (a) Obtain and read the current ICRA and determine the terms in effect.
 - (b) Select a sample of claims for reimbursement and verify that the rates used are in accordance with the rate agreement, that rates were applied to the appropriate bases, and that the amounts claimed were the product of applying the rate to the applicable base. Verify that the costs included in the base(s) are consistent with the costs that were included in the base year (e.g., if the allocation base is total direct costs, verify that current-year direct costs do not include costs items that were treated as indirect costs in the base year).
- (4) *Other Procedures - No Negotiated ICRA*
 - (a) If an indirect cost rate has not been negotiated by a cognizant Federal agency, as required, the auditor should determine whether documentation exists to support the costs. Where the auditee has documentation, the suggested general audit procedures (direct and indirect costs under paragraph 4.b of this section) should be performed to determine the appropriateness of the indirect cost charges to awards.
 - (b) If an indirect cost rate has not been negotiated by a cognizant agency, as required, and documentation to support the indirect costs does not exist, the auditor should question the costs based on a lack of supporting documentation.

Allowable Costs – State Public Assistance Agency Costs

State public assistance agency costs are (1) defined as all costs allocated or incurred by the State agency except expenditures for financial assistance, medical vendor payments, and payments for services and goods provided directly to program recipients (e.g., day care services); and (2) normally charged to Federal awards by implementing the public assistance cost allocation plan (CAP). The public assistance CAP provides a narrative description of the procedures that are used in identifying, measuring and allocating all costs (direct and indirect) to each of the programs administered or supervised by State public assistance agencies.

Attachment D of A-87 states that since the federally financed programs administered by State public assistance agencies are funded predominantly by HHS, HHS is responsible for the requirements for the development, documentation, submission, negotiation and approval of public assistance CAPs. These requirements are published in Subpart E of 45 CFR part 95. Major Federal programs typically administered by State public assistance agencies include: Temporary Assistance for Needy Families (CFDA 93.558), Medicaid (CFDA 93.778), Supplemental Nutrition Assistance Program (CFDA 10.561), Child Support Enforcement (CFDA 93.563), Foster Care (CFDA 93.658), Adoption Assistance (CFDA 93.659), and Social Services Block Grant (CFDA 93.667).

1. Compliance Requirements - State Public Assistance Agency Costs

- a. *Basic Guidelines* - Refer to the previous section, “Allowable Costs – State/Local-Wide Central Service Costs, 1.a, Compliance Requirements-Basic Guidelines,” for the guidelines affecting the allowability of costs (direct and indirect) under Federal awards.
- b. *Selected Items of Cost* - Refer to the previous section, “Allowable Costs – State/Local-Wide Central Service Costs 1.b, Compliance Requirements-Selected Items of Cost,” for the principles to establish allowability or unallowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect.
- c. *Submission Requirements*
Unlike most State/local-wide central service CAPs and ICRPs, an annual submission of the public assistance CAP is not required. Once a public assistance CAP is approved, State public assistance agencies are required to promptly submit amendments to the plan if any of the following events occur (45 CFR section 95.509):
 - (1) The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes to the Federal law or regulations, or significant changes in the program levels, affecting the validity of the approved cost allocation procedures.
 - (2) A material defect is discovered in the cost allocation plan.
 - (3) The State plan for public assistance programs is amended so as to affect the allocation of costs.
 - (4) Other changes occur which make the allocation basis or procedures in the approved cost allocation plan invalid.
 The amendments must be submitted to HHS for review and approval.
- d. *Documentation Requirements* - A State must claim Federal financial participation for costs associated with a program only in accordance with its approved cost allocation plan. The public assistance CAP requirements are contained in 45 CFR section 95.507.
- e. *Implementation of Approved Public Assistance CAPs* - Since public assistance CAPs are of a narrative nature, the Federal Government needs assurance that the cost allocation plan has been implemented as approved. This is accomplished by funding agencies’ reviews, single audits, or audits conducted by the cognizant audit agency (A-87, Attachment D, paragraph E.1).

2. ***Audit Objectives - State Public Assistance Agency Costs***

- a. Obtain an understanding of internal control over the compliance requirements for State public assistance agency costs, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
- b. Determine whether the governmental unit complied with the provisions of A-87 as follows:
 - (1) Direct charges to Federal awards were for allowable costs.
 - (2) Charges to cost pools allocated to Federal awards through the public assistance CAP were for allowable costs.
 - (3) The approved public assistance CAP correctly describes the actual procedures used to identify, measure, and allocate costs to each of the

programs operated by the State public assistance agency. However, the actual procedures or methods of allocating costs must be in accordance with the applicable cost principles, and produce an equitable and consistent distribution of costs.

- (4) Charges to Federal awards are in accordance with the approved public assistance CAP. This does not apply if the auditor first determines that the approved CAP is not in compliance with the applicable cost principles and/or produces an inequitable distribution of costs.
- (5) The employee time reporting systems are implemented and operated in accordance with the methodologies described in the approved public assistance CAP.

3. *Suggested Internal Control Audit Procedures - State Public Assistance Agency Costs*
Refer to the previous section, “Allowable Costs – State/Local-Wide Central Service Costs” items 3.a through 3.c, for suggested internal control audit procedures.

4. *Suggested Compliance Audit Procedures - State Public Assistance Agency Costs*

- a. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.
- b. Since a significant amount of the costs in the public assistance CAP are allocated based on employee time reporting systems (e.g., effort certification, personnel activity report and/or random moment sampling), it is suggested that the auditor consider the risk when designing the nature, timing, and extent of compliance testing.
- c. *General Audit Procedures* - The following procedures apply to direct charges to Federal awards as well as charges to cost pools that are allocated wholly or partially to Federal awards.
 - (1) Test a sample of transactions for conformance with:
 - (a) The criteria contained in the “Basic Guidelines” section of A-87, Attachment A, paragraph C.
 - (b) The principles to establish allowability or unallowability of certain items of cost (A-87, Attachment B).
 - (2) If the auditor identifies unallowable costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would have not been incurred if the other cost had not been incurred. When an unallowable cost is incurred, directly associated costs are also unallowable. For example, occupancy costs related to unallowable general costs of government are also unallowable.
- d. *Special Audit Procedures for Public Assistance CAPs*
 - (1) Verify that the State public assistance agency is complying with the submission requirements, i.e., an amendment is promptly submitted when any of the events identified in 45 CFR section 95.509 occur.
 - (2) Verify that public assistance CAP includes the required documentation in accordance with 45 CFR section 95.507.

- (3) *Testing of the Public Assistance CAP* - Test the methods of allocating the costs to ascertain if they are in accordance with the applicable provisions of the cost principles and produce an equitable distribution of costs. Appropriate detailed tests may include:
- (a) Examine the results of the employee time reporting systems to ascertain if they are accurate, and are based on the actual effort devoted to the various functional and programmatic activities to which the salary and wage costs are charged.
 - (b) Since the most significant cost pools in terms of dollars are usually allocated based upon the distribution of income maintenance and social services workers efforts identified through random moment time studies, determine whether the time studies are implemented and operated in accordance with the methodologies described in the approved public assistance CAP. For example, verify the adequacy of the controls governing the conduct and evaluation of the study, determine that the sampled observations were properly selected and performed, the documentation of the observations was properly completed, and that the results of the study were correctly accumulated and applied. Testing may include observing or interviewing staff who participate in the time studies to determine if they are correctly recording their activities.
 - (c) Test statistical data (e.g., square footage, case counts, salaries and wages) to ascertain if the proposed allocation bases are reasonable, updated as necessary, and do not contain any material omissions.
- (4) *Testing of Charges Based Upon the Public Assistance CAP* - If the approved public assistance CAP is determined to be in compliance with the applicable cost principles and produces an equitable distribution of costs, verify that the methods of charging costs to Federal awards are in accordance with the approved CAP and the provisions of the approval documents issued by HHS. Detailed compliance tests may include:
- (a) Verify that the cost allocation schedules, supporting documentation and allocation data are accurate and that the costs are allocated in compliance with the approved CAP.
 - (b) Reconcile the allocation statistics of labor costs to completed employee time reporting documents (e.g., personnel activity reports or random moment sampling observation forms).
 - (c) Reconcile the allocation statistics of non-labor costs to allocation data, (e.g., square footage or case counts).
 - (d) Verify direct charges to supporting documents (e.g., purchase orders).
 - (e) Reconcile the costs to the Federal claims.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

Appendix 8.A.2.c OMB CIRCULAR A-21, COST PRINCIPLES FOR EDUCATIONAL INSTITUTIONS

Introduction

OMB Circular A-21 (A-21) establishes principles for determining the costs applicable to research and development, training, and other sponsored work performed by educational institutions under grants, contracts, and other agreements with the Federal Government. These agreements are referred to as sponsored agreements. These principles shall be used in determining the allowable direct and indirect costs under those agreements. At educational institutions, indirect costs are accounted for through Facilities & Administrative (F&A) Cost Proposals. F&A costs, for the purpose of A-21, mean costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity. F&A costs are synonymous with “indirect” costs, as previously used in A-21 and as currently used in Appendices A and B of A-21. As described in A-21, section F.1, the F&A cost categories include: building and equipment depreciation or use allowance; operation and maintenance expenses; interest expenses; general administrative expenses; departmental administration expenses; sponsored project administration expenses; library expenses; and student administration expenses. F&A costs will be referred to as “indirect costs” in this section.

Cognizant Agency

A-21, section G.11.a, defines “cognizant agency” as the Federal agency responsible for negotiating and approving F&A rates for an educational institution on behalf of all Federal agencies. References to “cognizant agency” in this section should not be confused with the cognizant Federal agency for audit responsibilities, which is defined in OMB Circular A-133, Subpart D., § __.400(a). Section G.11 of A-21 assigns cost negotiation cognizance to the Department of Health and Human Services and the Department of Defense, Office of Naval Research.

Availability of Other Information

University Long-Form F&A Cost Proposals

Additional information on indirect cost rates is found in the HHS publication: *Best Practices Manual for Reviewing College and University Long-Form Facilities & Administrative Cost Rate Proposals*, which is available on the Internet at

<http://rates.psc.gov/fms/dca/C&U%20Review%20Manual.pdf>.

Allowable Costs - General Criteria

1. Basic Considerations to Determine Costs

In addition to the general criteria applicable to both direct and indirect costs, the basic guidelines affecting the allowability of costs (direct and indirect) are identified in section C. of A-21. To be allowable under Federal awards, costs must meet the following general criteria:

- a. Be reasonable and necessary for the performance and administration of Federal awards (A-21, section C.3).
- b. Conform with the allocability provisions of A-21 (A-21, section C.4) or Cost Accounting Standards (CAS) Board for educational institutions, as applicable (see 48 CFR part 9905). See “Allowable Costs - Special Requirements - Cost

Accounting Standards and Disclosure Statements” in this section for additional guidance on CAS.)

- c. Be given consistent accounting treatment within and between accounting periods. Consistency in accounting requires that costs incurred for the same purpose, in like circumstances, be treated as either direct costs only or indirect costs only with respect to final cost objectives (A-21, sections C.10 and C.11).
- d. Conform with the allowability of costs provisions of A-21, or limitations in the program agreement, program regulations, or program statute. When the maximum amount of allowable cost under a limitation is less than the total amount determined in accordance with A-21, the amount not recoverable under a sponsored agreement may not be charged to other sponsored agreements (A-21, section C.7).
- e. Be net of all applicable credits, e.g., volume or cash discounts, insurance recoveries, refunds, rebates, trade-ins, adjustments for checks not cashed, and scrap sales (A-21, section C.5).
- f. Be supported by appropriate documentation, such as approved purchase orders, receiving reports, vendor invoices, canceled checks, and time and attendance records, and correctly charged as to account, amount, and period. Documentation requirements for salaries and wages, and time and effort distribution are described in A-21. Documentation may be in an electronic form (A-21, section C.4).
- g. Be applied uniformly to Federal and non-Federal activities.
- h. With respect to fringe benefit allocations, charges, or rates, such allocations, charges, or rates are to be based on the benefits received by different classes of employees within the educational institution.

2. ***Selected Items of Cost***

Section J. of Circular A-21 includes general provisions for selected items of costs. For a listing of these costs, see Exhibit 1 of this part of the Supplement. These principles apply irrespective of whether a particular item of cost is properly treated as a direct cost or an indirect cost. Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather, determination as to allowability in each case should be based on the treatment provided for similar or related items of cost.

Allowable Costs – Direct Costs

1. *Compliance Requirements - Direct Costs*

- a. Direct costs are those costs that can be identified specifically with a particular sponsored project, instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Identification with the sponsored work rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect costs of a sponsored agreement.
- b. Costs incurred for the same purpose in like circumstances must be treated consistently. Where an educational institution treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances shall be treated as a direct cost of all activities of the institution.

2. Audit Objectives - Direct Costs

- a. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
- b. Determine whether the educational institution complied with the provisions of A-21 and CAS as follows:
 - (1) Direct charges to Federal awards were for allowable costs.
 - (2) Cost accounting practice disclosures, described in the Disclosure Statement (DS-2), including amendments, represented actual practice consistently applied. This objective only applies to non-Federal entities that are required to submit the DS-2.
 - (3) Costs are not included as both a direct billing and as a component of indirect costs, e.g., excluded from cost pools, if charged directly to Federal awards.

3. Suggested Internal Control Audit Procedures - Direct Costs

- a. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
- c. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

4. Suggested Compliance Audit Procedures - Direct Costs

- a. Test a sample of transactions for conformance with the following criteria contained in A-21 and CAS, as applicable:
 - a. If the auditor identifies unallowable direct costs, the auditor should be aware that “directly associated costs” might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost, and would not have been incurred if the other cost had not been incurred. For example, fringe benefits are “directly associated” with payroll costs. When an unallowable cost is incurred, directly associated costs are also unallowable.
 - b. Costs were approved by the Federal-awarding agency, if required (see Exhibit 1 in this part of the Supplement for selected items of cost that require agency approval when charged to an award as direct costs).
 - c. Costs were not included as a cost or used to meet cost-sharing requirements of other federally supported activities of the current or a prior period.

- d. Costs represent charges for actual costs, not budgeted or projected amounts.
- e. Costs were estimated, accumulated, and reported consistently (A-21, section C.10).
- f. Costs incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only with respect to final cost objectives (A-21, section C.11).
- g. Costs charged directly to institutional activities (i.e. research and development, instruction, other institutional activities) are accounted for consistent with their disclosed practices, as described in their DS-2, if applicable (A-21, section C.14).
- h. Departmental costs charged direct to institutional activities (i.e. research and development, instruction, other institutional activities) are consistently charged directly, in like circumstances and are in accordance with the provisions of A-21 and CAS. Salaries of administrative and clerical staff should normally be treated as indirect. Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for the administrative or clerical services and the individuals involved can be specifically identified with the project or activity. "Major project" is defined as a project that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments. Examples are found in A-21, Exhibit C.
- i. Costs for general-purpose equipment charged direct to institution activities (i.e., research and development, instruction, other institutional activities) are consistently charged as direct, were approved by the awarding agency, and are in accordance with the provisions of A-21 and CAS.
- j. Salaries and wages charged to Federal awards are allowable to the extent that total compensation to the individual employee conforms to established policies of the institution, are consistently applied, and provided that the charges for work performed directly on sponsored awards have been determined in accordance with and supported by the provisions of A-21, section J.10 as follows:
 - (1) Distribution of salaries and wages is based on payrolls documented in accordance with the generally accepted practices of the institution.
 - (2) Apportionment of employees' salaries and wages which are chargeable to more than one sponsored agreement or other cost objective is accomplished by methods which--
 - (a) Comply with A-21, sections A.2 and C,
 - (b) Produce an equitable distribution of charges for employees' activities, and
 - (c) Distinguish the employees' direct activities from their indirect activities.

- (3) The payroll distribution is based on an after-the-fact confirmation or determination that costs distributed represent actual costs. Confirmation should be by a responsible person with suitable means of verification that the work was performed. Confirmation by the employee is not required if other responsible persons make appropriate confirmations.

Allowable Costs – Indirect Costs

1. *Compliance Requirements - Indirect Costs*

- a. In order to recover indirect costs, educational institutions must prepare indirect cost rate proposals (ICRPs) in accordance with the guidelines provided in A-21. Educational institutions must submit ICRPs to the cognizant agency for approval (A-21, section G.11).
- b. ICRPs prepared by educational institutions are based on the most current financial data supported by the educational institution's accounting system and audited financial statements. These ICRPs can be used to establish either predetermined rates, fixed rates with carry-forward provisions, or provisional rates (A-21, sections G.4, G.5, and G.6). The ICRP to be used to establish indirect cost rates must be certified by the educational institution in accordance with A-21, section K.2.
- c. Indirect costs are those costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity.
- d. As described in A-21, section F.1, the indirect cost categories include: building and equipment depreciation or use allowance; operation and maintenance expenses; interest expenses; general administrative expenses; departmental administration expenses; sponsored project administration expense; library expenses; and student administration expenses. In general the cost groupings established within a category should constitute a pool of items of expense that are considered to be of like nature in terms of their relative contribution to the particular cost objectives to which distribution is appropriate (A-21, section E). Cost categories should be established considering the general guidelines in A-21, section E.2.c.
- e. Indirect costs are defined into two broad categories in A-21, section F.
 - (1) "Facilities" is defined as depreciation and use allowance, interest in debt associated with certain buildings, equipment, and capital improvements, operation and maintenance expenses, and library expenses.
 - (2) "Administration" is defined as general administration and general expenses, departmental administration, sponsored project administration, student administration and services, and all other types of expenditures not listed specifically under one of the facility categories.
- f. Each educational institution's indirect cost rate process must be appropriately designed to determine that Federal sponsors do not in any way subsidize the indirect costs of other sponsors, specifically activities sponsored by industry and foreign governments (A-21, section G.).

- g. Administrative costs charged to sponsored agreements awarded or amended with effective dates beginning on or after the start of the educational institution's first fiscal year which begins on or after October 1, 1991, shall be limited to 26 percent of modified total direct costs, as defined in A-21, section G.2. Educational institutions should not change their accounting or cost allocation methods which were in effect on May 1, 1991, if the effect is to (1) change the charging of a particular type of cost from indirect to direct, or (2) reclassify or increase allocations from the administrative pools to the facilities pools or fringe benefits cost pools (but also see A-21, section G.8).
- h. *Submission Requirement for Standard Format for Long-Form Proposals* - Educational institutions shall use the standard format shown in A-21, Appendix C to submit ICRP to the cognizant agency for indirect costs. The cognizant agency for indirect costs may, on an institution-by-institution basis, grant exceptions from all or portions of Part II of the standard format. This requirement does not apply to educational institutions that use the simplified method for calculating indirect cost rates, as described in A-21, section H.

2. ***Audit Objectives - Indirect Costs***

- a. *For educational institutions that charge indirect costs to Federal awards based on federally approved rate(s):*
 - (1) Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
 - (2) Determine that the rate(s) used to charge indirect costs is consistent with the appropriate cognizant Federal agency rate agreement (A-21, section G.11).
 - (3) Determine that the federally approved rate in effect at the time of the initial award is applied throughout the life of the sponsored agreement. "Life" means each competitive segment of a project. A competitive segment is a period of years approved by the Federal-funding agency at the time of the award (A-21, section G.7).
 - (4) Determine that the federally approved rate(s) were applied to the appropriate distribution base (A-21, section G.2).
 - (5) Determine that indirect costs billed to sponsored agreements are the result of applying the approved rate(s) to the appropriate base amount(s).
- b. *For educational institutions that charge indirect costs to Federal awards based on rate(s) which are not approved by the cognizant Federal agency:*
 - (1) Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
 - (2) Determine the educational institution's cognizant Federal agency for approving indirect cost rates in accordance with A-21, section G.11.
 - (3) Determine whether an ICRP was prepared, certified, and submitted by the educational institution to their cognizant Federal agency. (The Federal agency is responsible for negotiating and approving indirect cost rates). Verify that billings are based on the ICRP.
 - (4) Determine that the submitted rate(s) were applied to the appropriate distribution base (A-21, section G.2).

- (5) Determine that indirect costs billed to sponsored agreements are the result of applying the submitted rate(s) to the appropriate base amount(s).
- c. *For educational institutions that charge indirect costs to Federal awards based on award-specific rate(s) approved by an awarding agency:*
 - (1) Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
 - (2) Determine that the award-specific rate(s) are the result of special circumstances such as required by law or regulation, in accordance with A-21, section G.11.
 - (3) Determine whether indirect cost rates were applied in accordance with the approved special award provisions or limitations. Associated billings were the result of applying the approved rate to the proper base amount.
 - (4) When the maximum amount of allowable indirect costs under a limitation (i.e. an award-specific rate) is less than the total amount determined in accordance with the principles in A-21, the amount not recoverable under a sponsored agreement may not be charged to other sponsored agreements (A-21, section C.7).

3. ***Suggested Internal Control Audit Procedures - Indirect Costs***

- a. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
- c. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

4. ***Suggested Compliance Audit Procedures - Indirect Costs***

- a. Test a sample of transactions for conformance with the following criteria contained in A-21 and CAS, as applicable.
- b. *For educational institutions that charge indirect cost to Federal awards based on federally approved rate(s):*
 - (1) Ascertain if indirect costs or centralized or administrative services costs were allocated or charged to a major program. If not, the following suggested audit procedures do not apply.
 - (2) Obtain and read the current indirect cost rate agreement and determine the terms in effect.

- (3) Select a sample of claims for reimbursement and verify that the rates used are in accordance with the rate agreement, that rates were applied to the appropriate bases, and that the amounts claimed were the product of applying the rate to the applicable base. Verify that the costs included in the base(s) are consistent with the costs that were included in the base year (e.g., if the allocation base is total direct costs, verify that current year direct costs do not include costs items that were treated as indirect costs in the base year).
 - (4) Ascertain if the educational institution's accounting practices for determining direct and indirect costs for the fiscal year being audited are consistent with the accounting practices used to establish the federally approved rate and its DS-2. If accounting changes have occurred, determine if they were approved by the cognizant Federal agency. If accounting changes have not been approved and the accounting changes impact costs charged to federally funded awards, this should be considered a reportable finding. (A-21, section C.14 and CAS, as applicable).
 - c. *For educational institutions that charge indirect cost to Federal awards based on rate(s) which are not approved by the cognizant Federal agency:*
 - (1) If the ICRP has been certified and submitted to the cognizant Federal agency and is based on costs incurred in the year being audited, then the ICRP should be audited for compliance with the provisions of A-21 and CAS, as applicable.
 - (2) If the educational institution has a certified ICRP, which is based on costs incurred in the year being audited, but has not submitted it to their Federal cognizant agency. The ICRP should be audited using the procedures listed below.
 - (a) Test the indirect cost pool groupings for compliance with A-21, section F.
 - (b) Test the indirect cost pools to determine if costs are allowable.
 - (c) Test that indirect costs have been treated consistently when incurred for the same purpose, in like circumstances, as indirect costs only with respect to final cost objectives. No final cost objective shall have allocated to it as a cost any cost, if another cost incurred for the same purpose, in like circumstances, has been included as a direct cost of that or any other final cost objective (A-21, section C.11).
 - (d) Test that the indirect cost pools in the rate proposal were developed consistent with the educational institution's disclosed practices as described in its DS-2, if applicable (A-21, section C.14).
 - (e) Test the *depreciation and use allowance* cost pool to determine if:
 - (i) Computations of depreciation or use allowance are based on the acquisition cost of the assets. Acquisition costs

- exclude (A) the cost of land; (B) any portion of the cost of buildings and equipment borne by the Federal Government, irrespective of where title was originally vested or where it is presently located; and (C) any portion of the cost of buildings and equipment contributed by or for the educational institution where law or agreement prohibit recovery (A-21, section J.14).
- (ii) The depreciation method used to charge the cost of an asset (or group of assets) to accounting periods reflects the pattern of consumption of the asset during its useful life (A-21, section J.14).
 - (iii) Charges for use allowances or depreciation are supported by adequate property records and physical inventories, which must be taken at least once every 2 years (A-21, section J.14).
 - (iv) The depreciation methods used to calculate the depreciation amounts for the ICRP are the same methods used by the educational institution for its financial statements (A-21, section J.12).
 - (v) The allocation method for the depreciation and use allowance cost pool complies with A-21, section F.2.
 - (vi) Gains and losses on the sale, retirement, or other disposition of depreciable property have been appropriately accounted for and complies with A-21, section J.21.
 - (vii) *Large research facilities* – Determine that large research facilities that are included in ICRPs negotiated after January 1, 2000, and on which the design and construction began after July 1, 1998, are compliant with the provisions for determining allowable costs in A-21, section F.2.c.
- (f) Test the *interest* cost pool to determine if:
- (i) Computations for interest comply with the provisions of A-21, section J.26.
 - (ii) The allocation method for the interest cost pool complies with A-21, section F.3.
- (g) Test the *operations and maintenance* cost pool to determine if:
- (i) Costs are appropriately classified in this cost pool (A-21, section F.4).
 - (ii) Rental costs comply with the provision of A-21, section J.43.
 - (iii) The educational institution's accounting practices for classifying (A) rearrangement and alteration costs and (B) reconversion costs, either as direct or indirect, result in consistent treatment in like circumstances.
 - (iv) The allocation method for the operations and maintenance cost pool complies with A-21, section F.4.

- (h) Tests the *library* cost pool to determine if:
 - (i) Costs are appropriately classified in this cost pool (A-21, section F.8).
 - (ii) The allocation method for the library cost pool complies with A-21, section F.8.
 - (iii) If the allocation method is based on a cost analysis study in accordance with A-21, section E.2.d, determine that the study:
 - (A) Results in an equitable distribution of costs and represents the relative benefits derived,
 - (B) Is appropriately documented in sufficient detail for review by the cognizant Federal agency,
 - (C) Is statistically sound,
 - (D) Is performed specifically at the educational institution,
 - (E) Is reviewed every 2 years, and, if necessary, updated, and
 - (F) Assumptions are clearly stated and adequately explained.
- (i) Test the *administrative* cost pools to determine if:
 - (i) Costs are appropriately classified in these cost pools and the distribution bases are compliant with A-21, sections F.5, F.6, and F.7.
 - (ii) The administrative cost components comply with the limitation on reimbursement of administrative cost in A-21, section G.8. If the proposal is based on the alternative method for administrative cost in A-21, section G.9, then the limitation does not apply. If the proposal is based on the alternative method for administrative cost, determine that the educational institution meets the criteria of section G.9 and that this is adequately documented in the proposal.
 - (iii) *Departmental administration expense pool* – test to determine that this cost pool complies with A-21, section F.6.
 - (iv) *Academic Deans' Offices* – test that salaries and operating expenses are limited to those attributable to administrative functions.
 - (v) *Academic Departments* – Salaries and fringes attributable to the administrative work (including bid and proposal preparation) of faculty (including department heads), and other professional personnel conducting research and/or instruction, is allowed at a rate of 3.6 percent of modified total direct costs. This category should not include professional business or administrative officers. Determine that this allowance is added to the computation of the

indirect cost rate for major functions. Test to determine that the expense covered by this allowance is excluded from the departmental cost pool (A-21, section F.6).

Test for consistent treatment, in like circumstances, of other administrative and supporting expenses incurred within academic departments. For example, items such as office supplies, postage, local telephone, and memberships shall normally be treated as indirect costs.

- (3) If the ICRP has been certified and submitted to the cognizant Federal agency, but is based on costs incurred in a fiscal year prior to the fiscal year being audited, a review of the ICRP is not required.
 - (4) If an ICRP has not been prepared and, therefore, the indirect costs charged to Federal awards are not based on a certified ICRP, this may be required to be reported as an audit finding, in accordance with OMB Circular A-133, §__.510(a)(5).
 - (5) *Application of an indirect cost rate(s) not approved by the cognizant agency* – Even though the rate(s) has not been approved by the cognizant agency, an unapproved indirect cost rate(s) should be reviewed for consistent application of the submitted rates to direct cost bases to ensure that the indirect cost rate(s) is applied consistent with the educational institution's policies and procedures that apply uniformly to both federally funded and other activities of the institutions.
- d. *For educational institutions that also have awards containing award-specific rates (approved by the Federal awarding agency) that take precedence over the negotiated rate for purposes of indirect cost recovery:*
- (1) Ascertain that the award-specific rate is in accordance with special circumstances required by law or regulation.
 - (2) Obtain and review the award terms used to establish an award-specific indirect cost rate(s).
 - (3) Select a sample of claims for reimbursement and verify that the award-specific rate(s) used are in accordance with the terms of the award, that rate(s) were applied to the appropriate bases, and that the amounts claimed were the product of applying the rate to the applicable base. Verify that the costs included in the base(s) are consistent with the terms of the agreement.

Allowable Costs – Special Requirements –Cost Accounting Standards and Disclosure Statements

1. Compliance Requirement - CAS and Disclosure Statements

- a. A-21, section C.14 requires educational institutions (institutions) that receive more than \$25 million in Federal funding in a fiscal year to prepare and submit a Disclosure Statement (DS-2) that describes the institution's cost accounting practices. These institutions are required to submit a DS-2 within 6 months after the end of the institution's fiscal year that begins after May 8, 1996, unless the institution is required to submit a DS-2 earlier due to a receipt of a CAS-covered contract in accordance with 48 CFR section 9903.202-1.

- b. These institutions are responsible for maintaining an accurate DS-2 and complying with disclosed cost accounting practices. They are also responsible for filing amendments to the DS-2 when disclosed practices are changed or modified. Amendments should be provided to the cognizant Federal agency for approval.
- c. Federal Acquisition Regulation (FAR) Appendix, 48 CFR section 9903.201-2(c), Types of CAS Coverage, requires educational institutions to comply with all of the CAS specified in 48 CFR part 9905 that are in effect on the effective date of a covered contract. Negotiated contracts in excess of \$500,000 are CAS-covered, except for CAS-covered contracts awarded to Federally Funded Research and Development Centers (FFRDCs) operated by an educational institution, which are subject to 48 CFR part 9904.

2. *Audit Objectives - CAS and Disclosure Statements*

- a. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
- b. Determine whether the educational institution's DS-2 is current, accurate, and complete and that it has been approved by the cognizant Federal agency as adequate and compliant with A-21 and CAS (48 CFR part 9905).
- c. Determine whether the educational institution's actual accounting practices are consistent with its disclosed accounting practices.
- d. Determine whether amendments have been filed with and approved by the cognizant Federal agency.
- e. Determine whether the educational institution's accounting practices for direct and indirect costs comply with CAS applicable to educational institutions (48 CFR part 9905).

3. *Suggested Internal Control Audit Procedures - CAS and Disclosure Statements*

- a. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
- c. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

4. *Suggested Compliance Audit Procedures - CAS and Disclosure Statements*

- a. Obtain a copy of the educational institution's DS-2, amendments, and letters of approval from the cognizant Federal agency.
- b. Read the DS-2 and its amendments and ascertain if the disclosure agrees with the policies prescribed in the educational institution's current policies and procedures documents.

- c. Test that the disclosure agrees with actual practices for the period covered by audit, including whether the practices were consistent throughout the period.
- d. Test direct and indirect charges to Federal awards to determine that the educational institution's practices used in estimating the costs in the proposal were consistent with the institution's cost accounting practices used in accumulating and reporting the costs (A-21, section C.10 and FAR Appendix, 48 CFR section 9905.501).
- e. For those costs which are sometimes charged direct and sometimes charged indirect, test for consistent classification of these costs, when incurred for the same purpose and under like circumstances (A-21, section C.11 and FAR Appendix, 48 CFR section 9905.502). For example:
 - (1) Salaries of administrative and clerical staff are normally treated as indirect costs; however, they may be charged direct to a major project or activity under certain conditions. Sample these costs when they have been charged direct to Federal awards to determine consistent treatment for non-Federal awards, instructional activity, or other institutional activity (A-21, section F.6.).
 - (2) Office supplies, postage, local telephone costs and memberships are normally treated as indirect. Sample these costs when they have been charged direct to Federal awards to determine consistent treatment for non-Federal awards, instructional activity, or other institutional activity (A-21, section F.6.).
- f. Capital expenditures for general and special-purpose equipment may be charged direct to awards with approval of the awarding agency. Sample these costs when they have been charged direct to Federal awards to determine consistent treatment for non-Federal awards, instructional activity, or other institutional activity (A-21, section J.18.).
- g. Test costs direct charged to Federal awards and indirect costs accumulated in the educational institution's accounting system for adequate accounting of unallowable costs (A-21 section C.12 and FAR Appendix, 48 CFR section 9905.505).
- h. Determine that the educational institution's cost accounting period for accumulating costs on Federal awards and indirect cost pools are consistent with the institution's fiscal year. If not, determine that the institution has met the criteria for an exception described in A-21, section C.13 and that it has been approved by the cognizant Federal agency (A-21, section C.13 and FAR Appendix, 48 CFR section 9905.506).

Allowable Costs – Special Requirements – Internal Service, Central Service, Pension, or Similar Activities or Funds

1. *Compliance Requirement*

Charges made from internal service, central service, pension, or similar activities or funds, must follow the applicable cost principles provided in A-21.

2. *Audit Objectives*

Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c). Determine whether charges made from

internal service, central service, pension, or similar activities or funds are in accordance with A-21.

3. *Suggested Internal Control Audit Procedures*

- a. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in OMB Circular §____.500(c)(3), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
- c. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

4. *Suggested Compliance Audit Procedures*

The auditor should consider procedures such as the following:

- a. For activities accounted for in separate funds, ascertain if: (1) retained earnings/fund balances (including reserves) were computed in accordance with A-21; (2) working capital reserves were not excessive in amount (generally not greater than 60 days for cash expenses for normal operations incurred for the period exclusive of depreciation, capital costs and debt principal costs); and (3) refunds were made to the Federal Government for its share of any amounts transferred or borrowed from internal service, central service, pension, insurance, or other similar activities or funds for purposes other than to meet the operating liabilities, including interest on debt, of the fund.
- b. Test that all users of services are billed in a consistent manner.
- c. Test that billing rates exclude unallowable costs, in accordance with A-21.
- d. Test, where activities are not accounted for in separate funds, that billing rates (or charges) are developed based on actual costs and were adjusted to eliminate profits.
- e. For educational institutions that have self-insurance and certain types of fringe benefit programs (e.g., pension funds), ascertain if independent actuarial studies appropriate for such activities are performed at least biennially and that current period costs were allocated based on an appropriate study which is not over 2 years old.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

Appendix 8.A.2.d OMB CIRCULAR A-122, COST PRINCIPLES FOR NON-PROFIT ORGANIZATIONS

Introduction

OMB Circular A-122 (A-122) establishes cost principles for determining costs of grants, contracts, and other agreements with non-profit organizations. The principles are designed to provide that the Federal Government bear its fair share of costs except where restricted or prohibited by law. These principles are used by all Federal agencies in determining the costs of work performed by non-profit organizations under grants, cooperative agreements, and cost reimbursement contracts. All of these instruments are hereafter referred to as “awards.” The principles do not apply to awards under which an organization is not required to account to the Federal Government for actual costs incurred. In addition to the cost principles established by A-122, the Cost Accounting Standards Board (CASB) has promulgated certain accounting standards that must be followed by non-profit organizations receiving procurement contracts that meet a defined dollar threshold. Generally, organizations are exempt from coverage under CAS unless a single CAS-covered contract or subcontract of at least \$7.5 million has been received. After receipt of this trigger contract, CAS coverage is applied to all negotiated awards over \$500,000 unless they meet certain exemptions. These exemptions and the requirements of CAS can be found in 48 CFR Chapter 99.

Cognizant Agency

A-122, Attachment A, paragraph E.1.a defines “cognizant agency” as the Federal agency responsible for negotiating and approving indirect cost rates for non-profit organizations on behalf of all Federal agencies. References to cognizant agency in this section should not be confused with the cognizant Federal agency for audit responsibilities, which is defined in OMB Circular A-133, Subpart D, §____.400(a).

Availability of Other Information

Additional information on indirect cost rate determination for non-profit organizations can be found at the following web sites:

- Department of Labor -
<http://www.dol.gov/oasam/programs/boc/costdeterminationguide/main.htm>
- Department of Health and Human Services -
http://rates.psc.gov/fms/dca/np_exall2.html
- Department of Education -
<http://www.ed.gov/about/offices/list/ocfo/fipao/abouticg.html> - [how-are indirect cost rates determined.](#)

Allowable Costs – General Criteria

1. Basic Considerations to Determine Cost

The basic considerations used to determine costs (direct and indirect) are identified in A-122, Attachment A, paragraph A and include the following:

- a. *Composition of cost* – The total cost of an award is the sum of the allowable direct and allocable indirect costs less any applicable credits. The term “applicable credits” refers to those receipts, or reduction of expenditures that operate to offset or reduce expense items that are allocable to awards as direct or indirect costs.
- b. *Allowable costs* – A cost is allowable under an award if the cost meets the following general criteria:
 - (1) Be reasonable for the performance of the award and be allocable in accordance with A-122.
 - (a) A cost is reasonable if, in its nature or 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. Consideration should be given to:
 - (i) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.
 - (ii) The restraints or requirements imposed by such factors as generally accepted sound business practices, arms-length bargaining, Federal and State laws and regulations, and terms and conditions of the award.
 - (iii) Whether the individuals concerned acted with prudence in the circumstances.
 - (iv) Significant deviations from the established practices of the organization that may unjustifiably increase the award costs.
 - (b) A cost is allocable to a particular cost objective, such as a grant, contract, project, service or other activity, in accordance with the relative benefits received. Any cost allocable to a particular award or other cost objective under A-122 may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or terms of the award. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:
 - (i) Is incurred specifically for the award.
 - (ii) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received.
 - (iii) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.
 - (2) Conform to any limitations or exclusions set forth in A-122 or in the award.
 - (3) Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization.
 - (4) Be accorded consistent treatment.

- (5) Be determined in accordance with generally accepted accounting principles (GAAP).
- (6) Not be included as a cost or used to meet cost-sharing or matching requirements of any other federally financed program in either the current or a prior period.
- (7) Be adequately documented.
- (8) Be net of all applicable credits.

2. ***Selected Items of Cost***

A-122, Attachment B, paragraphs 1 through 52, provides principles to be applied in establishing the allowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect. Failure to mention a particular item of cost is not intended to imply that it is unallowable; rather, determination as to allowability in each case should be based on the treatment or principles provided for similar or related items of cost.

Allowable Costs – Direct Costs

1. ***Compliance Requirements - Direct Costs***

Direct costs are those that can be identified specifically with a particular final cost objective, i.e., award, project or other activity of the organization. Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where accounting treatment for such cost is consistently applied to all final cost objectives. Certain direct costs are unallowable for computing charges to Federal awards, nonetheless they must be treated as direct costs for determining indirect cost rates and be allocated their share of indirect costs if they represent activities that (a) include the salaries of personnel, (b) occupy space, and (c) benefit from the organization's indirect costs. The cost of activities performed primarily as a service to members, clients, or the general public when significant and necessary to the organization's mission must be treated as direct costs—whether or not allowable—and be allocated a share of indirect costs. Examples can be found in A-122, Attachment A, subparagraph B.4. If the auditor identifies unallowable direct costs, the auditor should be aware that directly associated costs might have been charged. Directly associated costs are costs incurred solely as a result of incurring another cost that would not have been incurred if the other cost had not been incurred. For example, fringe benefits are directly associated with payroll costs. When a payroll cost is determined to be unallowable, then the directly associated fringe benefit would be determined unallowable as well.

2. ***Audit Objectives - Direct Costs***

- a. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
- b. Determine whether the organization complied with the provisions of A-122 and CAS (if applicable) as follows:
 - (1) Direct charges to Federal awards were for allowable costs.
 - (2) Unallowable costs, determined to be direct costs, should be included in the allocation base for the purpose of computing an indirect cost rate.

3. ***Suggested Internal Control Audit Procedures - Direct Costs***

- a. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
- c. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

4. *Suggested Compliance Audit Procedures - Direct Costs*

Test direct costs charged to Federal awards with the following criteria:

- a. Costs were approved by the Federal awarding agency, if required. (See Exhibit 1, Selected Items of Cost, in this part of the Supplement.)
- b. Costs conform to the allowability of cost provisions of A-122, or limitations in the program agreement, program regulations, or program statute.
- c. Costs represent charges for actual costs, not budgeted or projected amounts.
- d. Costs are given consistent accounting treatment within and between accounting periods. Consistency in accounting requires that costs incurred for the same purpose, in like circumstances, be treated as either direct costs only or indirect costs only with respect to final cost objectives.
- e. Costs are calculated in conformity with generally accepted accounting principles, or CAS when required.
- f. Costs are not used to meet cost-sharing requirements of other federally supported activities.
- g. Costs are net of all applicable credits, e.g., volume or cash discounts, insurance recoveries, refunds, rebates, trade-ins, adjustments for checks not cashed, and scrap sales.
- h. Costs are not included as both a direct billing and as a component of indirect costs.
- i. Costs are supported by appropriate documentation, such as approved purchase orders, receiving reports, vendor invoices, canceled checks, and time and attendance records, and correctly charged as to account, amount, and period.

Allowable Costs – Indirect Costs

1. *Compliance Requirements - Indirect Costs*

- a. Indirect costs are those costs that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. Stated differently, indirect costs are those costs remaining after direct costs have

been determined and assigned directly. While it is not possible to specify the types of costs that will be indirect, there are three major categories of indirect costs for non-profit organizations (NPOs):

- (1) *Depreciation and Use Allowance* - The expenses under this category are that portion of the costs of the organization's buildings, capital improvements to land and buildings, and equipment, which are computed in accordance with A-122, Attachment B, section 11. Interest on debt associated with certain buildings, equipment, and capital improvements are computed in accordance with A-122, Attachment B, paragraph 23.
 - (2) *Operation and Maintenance* - The expenses under this category are those that have been incurred for the administration, operation, maintenance, preservation, and protection of the organization's physical plant.
 - (3) *General and Administrative* - The expenses under this category are those that have been incurred for the overall general executive, and administration of the organization and other expenses of a general nature that do not relate solely to any major function of the organization.
- b. Indirect cost rate proposals (ICRPs) prepared by NPOs are based on the most current financial data, supported by the organization's accounting system and audited financial statements. These ICRPs can be used to either establish predetermined rates, fixed rates with carry-forward provision, provisional, or final rates.
- (1) *Predetermined rates* are established for the current or multiple future period(s) based on current costs (usually costs from the most recently ended fiscal year, known as the base period).
 - (2) *Fixed rates with carry-forward provisions* - rates based on current costs in the same manner as predetermined rates. However, the difference between the base period indirect costs and actual indirect cost recovery are carried forward as an adjustment to the rate computation for the subsequent period.
 - (3) *Provisional rates* - temporary rates used for funding and billing indirect costs, pending the establishment of a final rate after actual costs are determined for the period.
 - (3) *Final rates* - indirect cost rates applicable to a specified past period based on actual costs of that period. Final rates are not subject to adjustment.
- c. Some Federal awards may contain cost limitations on recovery of indirect costs that differ from the federally negotiated indirect cost rates. Normally, this may be due to statutory requirements or limitations contained in program announcements. In these cases, the indirect cost rate approved for that award will be specified in the award letter or agreement. For these awards, the award-specific rate takes precedence over the negotiated rate for purposes of indirect cost recovery.
- d. To recover indirect costs, NPOs prepare ICRPs. The ICRP is the rate calculation and supporting schedules used to arrive at the indirect cost pool amounts and the base amounts. NPOs can select one of three different methods to calculate the indirect cost rate.
- (1) *Simplified Allocation Method*

- (a) Where an organization's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by (i) separating the organization's total costs for the base period as either direct or indirect, and (ii) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate, which is used to distribute indirect costs to individual awards. The rate should be expressed as the percentage that the total amount of allowable indirect costs bears to the base selected. This method should also be used where an organization has only one major function encompassing a number of individual projects or activities, and may be used where the level of Federal awards to an organization is relatively small.
 - (b) For an organization that receives more than \$10 million in Federal funding of direct costs in a fiscal year, a breakout of the indirect cost component into two broad categories, Facilities and Administration, as defined in Circular A-122, Attachment A, paragraph C.3, is required. The rate in each case shall be stated as the percentage that the amount of the particular indirect cost category (i.e., Facilities or Administration) is of the distribution base identified with that category.
 - (c) A full discussion of the simplified allocation method can be found in A-122, Attachment A, subparagraphs D.2.a. through D.2.e.
- (2) *Multiple Allocation Base Method*
 - (a) Where an organization's indirect costs benefit its major functions in varying degrees, indirect costs shall be accumulated into separate cost groupings, as described in A-122, Attachment A, subparagraph D.3.b. Each grouping shall then be allocated individually to benefiting functions by means of a base that best measures the relative benefits. The default allocation bases by cost pool are described in A-122, Attachment A, subparagraph D.3.c.
 - (b) Cost groupings shall be established so as to permit the allocation of each grouping on the basis of benefits provided to the major functions. Each grouping shall constitute a pool of expenses that are of like character in terms of functions they benefit and in terms of the allocation base which best measures the relative benefits provided to each function. The groupings are classified within the two broad categories: "Facilities" and "Administration," as described in A-122, Attachment A, subparagraph C.3.
 - (c) Except where a special indirect cost rate(s) is required in accordance with A-122, Attachment A, subparagraph D.5, the separate groupings of indirect costs allocated to each major function shall be aggregated and treated as a common pool for that function. The costs in the common pool shall then be distributed

to individual awards included in that function by use of a single indirect cost rate.

- (d) Indirect costs shall be distributed to applicable sponsored awards and other benefiting activities within each major function on the basis of modified total direct costs (MTDC). MTDC consists of all salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontracts up to the first \$25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract). Equipment, capital expenditures, charges for patient care, rental costs and the portion in excess of \$25,000 shall be excluded from MTDC. Participant support costs shall generally be excluded from MTDC. Other items may only be excluded when the Federal cost cognizant agency determines that an exclusion is necessary to avoid a serious inequity in the distribution of indirect costs.
- (e) A full discussion of the multiple allocation base method can be found in A-122, Attachment A, subparagraphs D.3.a. through D.3.g.

(3) *Direct Allocation Method*

- (a) Some NPOs treat all costs as direct costs except general administration and general expenses. These organizations generally separate their costs into three basic categories: (i) General administration and general expenses, (ii) fundraising, and (iii) other direct functions (including projects performed under Federal awards). Joint costs, such as depreciation, rental costs, operation and maintenance of facilities, telephone expenses, and the like are prorated individually as direct costs to each category and to each award or other activity using a base most appropriate to the particular cost being prorated.
- (b) This method is acceptable, provided each joint cost is prorated using a base which accurately measures the benefits provided to each award or other activity. The bases must be established in accordance with reasonable criteria, and be supported by current data.
- (c) A full discussion of the direct allocation base method can be found in A-122, Attachment A, subparagraph D.4.a. through D.4.c.

2. *Audit Objectives - Indirect Costs*

- a. *For NPOs that charge indirect costs to Federal awards based on federally approved rates:*
 - (1) Obtain an understanding of internal controls, assess risk, and test internal controls as required by OMB Circular A-133, §____.500(c).
 - (2) Determine whether the organization complied with the provisions of A-122 and CAS (if applicable) as follows:

- (a) Indirect cost rates were applied in accordance with approved rate agreements and any special award provisions/limitations (if different from those stated in the negotiated rate agreement).
 - (b) Associated billings were the result of applying the approved rate to the proper base amount(s).
- (3) For fixed rate agreements, predetermined rate agreements, and provisional rate agreements determine whether the base used to distribute the approved indirect cost rate is accurate and reflects the terms of the agreement.
- (4) For fixed rate agreements, determine whether the organization has adequately determined the actual indirect costs for the fiscal year being audited and performed the necessary computations to accurately report the carry-forward adjustment to the rate computation for the subsequent period.
- b. *For NPOs that charge indirect costs to Federal awards that are not based on federally approved rates:*
 - (1) Obtain an understanding of internal controls, assess risk, and test internal controls as required by OMB Circular A-133, §____.500(c).
 - (2) Determine whether costs that are directly allocated to an award using the Direct Allocation Method are prorated using a base that accurately measures the benefits provided to each award or activity.
 - (3) Determine whether an ICRP was prepared and submitted to the organization's cognizant agency (the Federal agency responsible for negotiating and approving indirect cost rates) as required by A-122. Verify that billings are based on the ICRP.
 - (4) Determine whether the NPO's calculated indirect cost rate is (a) consistent with policies and procedures that apply uniformly to both federally funded and other activities of the organization, and (b) applied consistently to the proper allocation bases.
 - (5) Determine whether the organization complied with the provisions of A-122 and CAS as follows:
 - (a) Charges to indirect cost pools were for allowable costs.
 - (b) The base used to distribute indirect costs includes both allowable and unallowable costs.
 - (c) The cost allocation methodology provides equitable and consistent allocation of indirect costs to benefiting awards or activities.
- c. *For NPOs that also have awards containing award-specific rates (approved by the Federal awarding agency) that take precedence over the negotiated rate for purposes of indirect cost recovery:*
 - (1) Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
 - (2) Determine if the award-specific rate(s) is the result of special circumstances, e.g., required by law or regulation.

- (3) Determine whether indirect cost rates were applied in accordance with the approved special award provisions or limitations. Associated billings were the result of applying the approved rate to the proper base amount.
- (4) When the maximum amount of allowable indirect costs under a limitation (i.e. an award-specific rate) is less than the total amount determined in accordance with the principles in A-122, the amount not recoverable under a sponsored agreement may not be charged to other sponsored agreements.

3. *Suggested Internal Control Audit Procedures - Indirect Costs*

- a. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
- c. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

4. *Suggested Compliance Audit Procedures - Indirect Costs*

- a. *For NPOs that charge indirect costs to Federal awards based on federally approved rates:*
 - (1) Ascertain if indirect costs are material for the major programs being tested. If not, the following suggested audit procedures, b. through e., do not apply.
 - (2) Obtain and read the current indirect cost rate agreement, including the proposal used in the negotiation of the agreement, and determine the terms in effect.
 - (3) Ascertain whether the indirect cost rate agreement uses a pre-determined rate, fixed rate, provisional rate, or final rate. For definitions of these rates, see A-122, Attachment A, subparagraphs E (b) through (e).
 - (a) If a fixed rate agreement with carry-forward provisions has been negotiated with the cognizant agency, determine that the difference between the indirect costs recovered using the fixed rate and the actual indirect costs of the period has been calculated. This adjustment is to be carried forward to the rate computation of the subsequent period.
 - (b) If a provisional rate was used to bill for indirect costs, determine whether a final rate has been established and appropriate claim adjustments have been made based on the final approved rate.
 - (4) For NPOs required to file Disclosure Statements (48 CFR section 9903.202), ascertain if the cognizant agency for indirect cost negotiation

has been appropriately notified of changes in the cost accounting practices that occurred during the year to which indirect cost rate agreements are being applied.

(5) Select a sample of claims for reimbursement:

- (a) Verify that the rates used are in accordance with the rate agreement and the amounts claimed were the product of applying the rate to the applicable base.
- (b) Verify that the base includes both allowable and unallowable costs.
- (c) When the base is total direct costs or modified total direct costs, verify that the distribution base has been properly calculated and excludes capital expenditures and other distorting items such as major subcontracts or subgrants in excess of \$25,000 as approved in the negotiated rate agreement or by the cognizant Federal agency.

b. *For NPOs that charge indirect costs to Federal awards that are not based on federally approved rates:*

- (1) Determine if the indirect costs are based on a certified ICRP that has been submitted to (but not approved by) the NPO's Federal cognizant agency as required by A-122, Attachment A, subparagraph E. If the ICRP is based on costs incurred in the year being audited, then the ICRP should be audited for compliance with the provisions of A-122 (see procedures in paragraphs 4.b(1)(a) through (1)(c) below).

Note: If the NPO has a certified ICRP, which is based on costs incurred in the year being audited, but it has not been submitted to the Federal cognizant agency, the ICRP should still be audited using the procedures in paragraphs 4.b(1)(a) through (1)(c) below.

- (a) The following procedures should be applied to costs in the indirect cost pool used for recovering indirect costs from Federal awarding agencies. These costs must:
 - (i) Be approved by the Federal awarding agency, if required.
 - (ii) Conform to the allowability of cost provisions of A-122, or limitations in the award agreement, program regulations, or program statute.
 - (iii) Conform to the allocability provisions of A-122 or CAS.
 - (iv) Represent charges for actual costs, not budgeted or projected amounts.
 - (v) With respect to fringe benefit allocations, charges, or rates, be based on the benefits received by different classes of employees within the organization.
 - (vi) Be applied uniformly to Federal and non-Federal activities.
 - (vii) Be calculated in conformity with CAS or generally accepted accounting principles, as required.
 - (viii) Not be used to meet cost-sharing requirements of other federally supported activities.

- (ix) Be net of all applicable credits, e.g., volume or cash discounts, insurance recoveries, refunds, rebates, trade-ins, adjustments for checks not cashed, and scrap sales.
 - (x) Not be included as both a direct billing and as a component of indirect costs.
 - (xi) Be supported by appropriate documentation, such as approved purchase orders, receiving reports, vendor invoices, canceled checks, and time and attendance records, and correctly charged as to account, amount, and period.
 - (xii) Be given consistent accounting treatment within and between accounting periods. Consistency in accounting requires that costs incurred for the same purpose, in like circumstances, be treated as either direct costs only or indirect costs only with respect to final cost objectives.
- (b) The following procedures should be applied to costs in the base(s) for recovering indirect costs from Federal awarding agencies. Determine whether:
- (i) All direct costs, including unallowable costs, are identified and included in the base for indirect cost allocations.
 - (A) For fixed price agreements, all direct costs are recorded for the purpose of allocating indirect costs.
 - (B) For cost-reimbursement awards or contracts that include line item costs that exceed budget limits, all direct costs are recorded for the purpose of allocating indirect costs.
 - (ii) Costs have been recorded in accordance with CAS, generally accepted accounting principles, or other comprehensive basis of accounting, as appropriate.
 - (iii) Costs have been assigned to the correct cost objective or activity.
 - (iv) Costs have been given consistent accounting treatment within and between accounting periods.
- (c) The following procedures should be applied to costs allocated using the Direct Allocation Method:
- (i) Test statistical data (e.g., square footage, case counts, salaries and wages) to ascertain if the proposed allocation bases are reasonable, updated as necessary, and do not contain any material omissions.
 - (ii) Review time studies or time and effort reports (where and if used) to ascertain if they are accurate, are implemented as approved, and are based on the actual effort devoted to the various functional and programmatic activities to which the salary and wage costs are charged.
 - (iii) Review the allocation methodology for consistency and test the appropriateness of allocation methods used.

- (2) Determine if the indirect costs are based on a certified ICRP that has been submitted to (but not approved by) the NPO's Federal cognizant agency as required by A-122, Attachment A subparagraph E. If the ICRP is not based on costs incurred in the year being audited (e.g., the year being audited is fiscal year 2008, but the ICRP is based on fiscal year 2007 costs), a review of the ICRP is not required.
 - (3) If the indirect costs are not based on a certified and submitted ICRP, in accordance with A-122, this may be required to be reported as an audit finding in accordance with OMB Circular A-133, §__.510(a)(5).
 - (4) *Application of indirect cost rates which are not approved by the cognizant agency* – Even though the rate(s) have not been approved by the cognizant agency, unapproved indirect cost rate(s) should be reviewed for consistent application of the submitted rates to direct cost bases to ensure that the indirect cost rate(s) are applied consistent with the NPO's policies and procedures that apply uniformly to both federally-funded and other activities of the NPO (A-122, Attachment A, paragraph A.(2)(c)).
- c. For NPOs that also have awards containing award-specific rates (approved by the Federal awarding agency) that take precedence over the negotiated rate for purposes of indirect cost recovery:
 - (1) Ascertain that the award-specific rate is only being used for the approved award.
 - (2) Obtain and read the award terms used to establish an award-specific indirect cost rate(s).
 - (3) Select a sample of claims for reimbursement and verify that the award specific rate(s) is in accordance with the terms of the award, that the rate(s) was applied to the appropriate base(s), and that the amount claimed is the product of applying the rate to the applicable base. Verify that the cost included in the base(s) is consistent with the terms of the agreement.

Allowable Costs – Special Requirements – Unallowable Direct Costs

1. Compliance Requirements - Unallowable Direct Costs

- a. The costs of certain activities are not allowable as charges to Federal awards (see, for example, fundraising costs in A-122, Attachment B, paragraph 17.a). However, even though these costs are unallowable for purposes of computing charges to Federal awards, they nonetheless must be treated as direct costs for purposes of determining indirect cost rates and be allocated their share of the organization's indirect costs if they represent activities which (1) include the salaries of personnel, (2) occupy space, and (3) benefit from the organization's indirect costs.
- b. Costs should be recorded in the organization's cost records as direct or indirect costs based on their relationship to the cost objectives or activities. The costs of activities performed primarily as a service to members, clients, or the general public when significant and necessary to the organization's mission must be treated as direct costs—whether or not allowable—and be allocated an equitable share of indirect costs.

2. Audit Objectives – Unallowable Direct Costs

- a. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
- b. Determine whether all unallowable costs categorized as direct costs are included in the allocation base for the purpose of allocating indirect costs.

3. *Suggested Internal Control Audit Procedures – Unallowable Direct Costs*

- a. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
- c. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

4. *Suggested Compliance Audit Procedures - Unallowable Direct Costs*

- a. Determine whether all unallowable costs categorized as direct costs are included in the allocation base for the purpose of allocating indirect costs.
- b. Determine whether the following costs are charged as direct costs and allocated an equitable share of indirect costs.
 - (1) Maintenance of membership rolls, subscriptions, publications, or related functions.
 - (2) Providing services and information to members, legislative or administrative bodies, or the public.
 - (3) Meetings and conferences except those held to conduct the general administration of the organization.
 - (4) Maintenance, protection, and investment of special funds not used in operation of the organization.
 - (5) Administration of group benefits on behalf of members or clients, including life and hospital insurance, annuity or retirements plans, financial aid, etc.

Special Requirements – Disclosure Statements (DS-1) Required by Cost Accounting Standards

1. *Compliance Requirements - CAS and Disclosure Statements*

- a. Pub. L. No. 100-679 (41 USC 422) requires certain contractors and subcontractors (which includes NPOs) to comply with CAS and to disclose in writing and follow consistently their cost accounting practices.
- b. 48 CFR section 9903.201-1 (FAR Appendix) describes the rules for determining whether a proposed contract or subcontract is exempt from CAS. Negotiated contracts not exempt in accordance with 48 CFR section 9903.201-1(b) are subject to CAS. A CAS-covered contract may be subject to either full or

modified coverage. The rules for determining whether full or modified coverage applies are in 48 CFR section 9903.201-2 (FAR Appendix).

- (1) Full coverage requires that a business unit comply with all the CAS specified in 48 CFR part 9904 that are in effect on the date of the contract award and with any CAS that become applicable because of later award of a CAS-covered contract. Full coverage applies to contractor business units that (a) receive a single CAS-covered contract award of \$50 million or more; or (b) receive \$50 million or more in net CAS-covered awards during their preceding cost accounting period (48 CFR section 9903.201-2(a)).
- (2) *Modified Coverage* (48 CFR section 9903.201-2(b))
 - (a) Modified CAS coverage requires only that the contractor comply with Standard 9904.401, Consistency in Estimating, Accumulating, and Reporting Costs; Standard 9904.402, Consistency in Allocating Costs Incurred for the Same Purpose; Standard 9904.405, Accounting for Unallowable Costs; and Standard 9904.406, Cost Accounting Standard—Cost Accounting Period. Modified, rather than full, CAS coverage may be applied to a covered contract of less than \$50 million awarded to a business unit that received less than \$50 million in net CAS-covered awards in the immediately preceding cost accounting period.
 - (b) If any one contract is awarded with modified CAS coverage, all CAS-covered contracts awarded to that business unit during that cost accounting period must also have modified coverage with the following exception: if the business unit receives a single CAS-covered contract award of \$50 million or more, that contract must be subject to full CAS coverage. Thereafter, any covered contract awarded in the same cost accounting period must also be subject to full CAS coverage.
 - (c) A contract awarded with modified CAS coverage shall remain subject to such coverage throughout its life regardless of changes in the business unit's CAS status during subsequent cost accounting periods.
- b. 48 CFR section 9903.202 (FAR Appendix) describes the general Disclosure Statement requirements. A Disclosure Statement is a written description of a contractor's cost accounting practices and procedures. The submission of a new or revised Statement is not required for any non-CAS covered contract or from any small business concern. Completed Disclosure Statements are required under the following circumstances:
 - (1) Any business unit that is selected to receive a CAS-covered contract or subcontract of \$50 million or more shall submit a Disclosure Statement before award.
 - (2) Any company which, together with its segments, receive net awards of negotiated prime contracts and subcontracts subject to CAS totaling \$50 million or more in its most recent cost accounting period, must submit a

Disclosure Statement before award of its first CAS-covered contract in the immediately following cost accounting period. However, if the first CAS-covered contract is received within 90 days of the start of the cost accounting period, the contractor is not required to file until the end of the 90 days.

- c. 48 CFR section 9903.201-7 (FAR Appendix) describes the cognizant Federal agency responsibilities.
 - (1) The requirements of 48 CFR part 9903 shall, to the maximum extent practicable, be administered by the cognizant Federal agency responsible for a particular contractor organization or location, usually the Federal agency responsible for negotiating indirect cost rates on behalf of the Government.
 - (2) The cognizant Federal agency should take the lead role in administering the requirements of 48 CFR part 9903 and coordinating CAS administrative actions with all affected Federal agencies. When multiple CAS-covered contracts or more than one Federal agency are involved, agencies should discourage Contracting/Grants Officers from individually administering CAS on a contract-by-contract basis. Coordinated administrative actions will provide greater assurances that individual contractors follow their cost accounting practices consistently under all their CAS-covered contracts and that changes in cost accounting practices or CAS noncompliance issues are resolved, equitably, in a uniform overall manner.

2. ***Audit Objectives - CAS and Disclosure Statements***

- a. Determine whether the NPO's accounting practices, for direct and indirect costs, are compliant with CAS, based on its required CAS coverage (full or modified).
- b. Determine whether the NPO's Disclosure Statement (including amendments) is current, accurate, complete, and properly filed with the cognizant Federal Administrative Officer in accordance with 48 CFR section 9903.202-5.
- c. Determine whether the NPO's actual accounting practices are consistent with its disclosed practices.

3. ***Suggested Internal Control Audit Procedures – CAS and Disclosure Statements***

- a. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
- c. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and

extent (e.g., number of transactions to be selected) of substantive tests of compliance.

4. *Suggested Compliance Audit Procedures - CAS and Disclosure Statements*

- a. Determine whether the NPO has any CAS-covered contract or subcontracts. If so, determine which type of CAS coverage is applicable (full or modified) and if a Disclosure Statement is required to be submitted to the cognizant Federal agency.
- b. Test the NPO's actual accounting practices for direct and indirect costs are compliant with applicable CAS.
- c. If a Disclosure Statement is required, obtain a copy and any amendments. Review these to ensure the disclosures are current, accurate, compliant with CAS, and approved by the cognizant Federal agency.
- d. Test whether the NPO's actual accounting practices are consistent with the disclosed practices.

Allowable Costs – Special Requirements – Internal Service, Central Service, Pension, or Similar Activities or Funds

1. *Compliance Requirement*

NPOs using internal service, central service, pension, or similar activities or funds must follow the applicable cost principles found in A-122.

2. *Audit Objectives*

Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c). Determine whether charges are made from internal service, central service, pension, or similar activities or funds, are in accordance with A-122.

3. *Suggested Internal Control Audit Procedures*

- a. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
- b. Plan the testing of internal control to support a low assessed level of control risk for allowable costs/cost principles and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
- c. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

4. *Suggested Compliance Audit Procedures*

Perform the following procedures as applicable:

- a. For activities accounted for in separate funds, ascertain that: (1) retained earnings/fund balances (including reserves) were computed in accordance with the applicable cost principles; (2) working capital reserves were not excessive in amount (generally not greater than 60 days for cash expenses for normal operations incurred for the period exclusive of depreciation, capital costs, and

debt principal costs); and (3) refunds were made to the Federal Government for its share of any amounts transferred or borrowed from internal service, central service, pension, insurance, or other similar activities or funds for purposes other than to meet the operating liabilities, including interest on debt, of the fund.

- b. Test that all users of services are billed in a consistent manner.
- c. Test that billing rates exclude unallowable costs in accordance with A-122.
- d. Test, where activities are not accounted for in separate funds, that billing rates (or charges) are developed based on actual costs and were adjusted to eliminate profits.
- e. For organizations that have self-insurance and a certain type of fringe benefit programs (e.g., pension funds), ascertain if independent actuarial studies appropriate for such activities are performed at least biennially and that current period costs were allocated based on an appropriate study which is not over two years old.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

Appendix 8.A.3 C. CASH MANAGEMENT

Compliance Requirements

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. When advance payment procedures are used, recipients must establish similar procedures for subrecipients.

Pass-through entities must establish reasonable procedures to ensure receipt of reports on subrecipients' cash balances and cash disbursements in sufficient time to enable the pass-through entities to submit complete and accurate cash transactions reports to the Federal awarding agency or pass-through entity. Pass-through entities must monitor cash drawdowns by their subrecipients to ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity.

U.S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 *et seq.*), require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures prescribed by Treasury in Subpart B of 31 CFR part 205 (Subpart B).

Except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act (31 USC 6501 *et seq.*) and the Indian Self-Determination Act (23 USC 450), interest earned by local government and Indian tribal government grantees and subgrantees on advances is required to be submitted promptly, but at least quarterly, to the Federal agency. Up to \$100 per year may be kept for administrative expenses. Interest earned by non-State nonprofit entities on Federal fund balances in excess of \$250 is required to be remitted to Department of Health and Human Services, Payment Management System, P.O. Box 6021, Rockville, MD 20852.

Source of Governing Requirements

The requirements for cash management are contained in the A-102 Common Rule (§____.21), OMB Circular A-110 (2 CFR section 215.22), Treasury regulations at 31 CFR part 205, program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

The Texas Education Agency has discontinued sending cash advances in many program areas. For those federal programs using the TEA Internet-based Expenditure Reporting System (ER), LEAs must request disbursement on an as needed basis and are no longer required to submit quarterly expenditure reports unless otherwise requested by TEA. TEA grant recipients using the ER are required to keep no more than three days cash on hand as stated in 34 CFR 80.41. To meet this requirement, cumulative expenditure reporting and cash disbursement should be made no more than 6 business days prior to the anticipated expenditures to be liquidated within three days of receipt of funds. TEA will make every effort to process the request within three days, which leaves three business days to liquidate the funds.

Availability of Other Information

Treasury's Financial Management Service maintains a Cash Management Improvement Act page on the Internet (<http://www.fms.treas.gov/cmia/>).

Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
2. Determine whether the recipient/subrecipient followed procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury, or pass-through entity, and their disbursement.
3. Determine whether States have complied with the terms and conditions of the Treasury-State Agreement or Subpart B procedures prescribed by Treasury.
4. Determine whether the pass-through entity implemented procedures to ensure that subrecipients conformed substantially to the same timing requirements that apply to the pass-through entity.
5. Determine whether interest earned on advances was reported/remitted as required.

Suggested Audit Procedures - Internal Control

1. Using the guidance provided in Part 6 - Internal Control of the Compliance Supplement, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for cash management and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures - Compliance

Note: The following procedures are intended to be applied to each program determined to be major. However, due to the nature of cash management and the system of cash management in place in a particular entity, it may be appropriate and more efficient to perform these procedures for all programs collectively rather than separately for each program.

States

1. For programs tested as major for States, verify which of those programs are covered by the Treasury-State Agreement in accordance with the materiality thresholds in 31 CFR section 205.5, Table A).
2. For those programs identified in procedure 1, determine the funding techniques used for those programs. For those funding techniques that require clearance patterns to schedule the transfer of funds to the State, review documentation supporting the clearance pattern and verify that the clearance pattern conforms to the requirements for developing and maintaining clearance patterns as specified in the Treasury-State Agreement (31 CFR sections 205.12, 205.20, and 205.22).
3. Select a sample of Federal cash draws and verify that:
 - a. The timing of the Federal cash draws was in compliance with the applicable funding techniques specified in the Treasury-State Agreement or Subpart B procedures, whichever is applicable (31 CFR sections 205.11 and 205.33).
 - b. To the extent available, program income, rebates, refunds, and other income and receipts were disbursed before requesting additional Federal cash draws as required by the A-102 Common Rule (§____.21) and OMB Circular A-110 (2 CFR section 215..22).
4. Where applicable, select a sample of reimbursement requests and trace to supporting documentation showing that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request (31 CFR section 205.12(b)(5)).
5. Review the calculation of the interest obligation owed to or by the Federal Government, reported on the annual report submitted by the State to ascertain that the calculation was in accordance with Treasury regulations and the terms of the Treasury-State Agreement. Trace amounts used in the calculation to supporting documentation.
6. For those programs where Federal cash draws are passed through to subrecipients:
 - a. Select a representative sample of subrecipients and ascertain the procedures implemented to ensure that subrecipients minimize the time elapsing between the transfer of Federal funds from the recipient and the disbursement of funds for program purposes (A-102 Common Rule §____.37(a)(4)).
 - b. Select a representative sample of Federal cash draws by subrecipients and ascertain that they conformed to the procedures.

Recipients Other than States and Subrecipients

1. For those programs that received advances of Federal funds, ascertain the procedures established with the Federal agency or pass-through entity to minimize the time between the transfer of Federal funds and the disbursement of funds for program purposes.
2. Select a sample of Federal cash draws and verify that:
 - a. Established procedures to minimize the time elapsing between drawdown and disbursement were followed.
 - b. To the extent available, program income, rebates, refunds, and other income and receipts were disbursed before requesting additional cash payments as required by the A-102 Common Rule (§____.21) and OMB Circular A-110 (2 CFR section 215.22).

3. When entities are funded on a reimbursement basis, select a sample of reimbursement requests and trace to supporting documentation showing that the costs for which reimbursement was requested were paid prior to the date of the reimbursement request.
4. Review records to determine if interest was earned on Federal cash draws. If so, review evidence to ascertain whether it was returned to the appropriate agency.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

Appendix 8.A.4 D. DAVIS-BACON ACT

Compliance Requirements

When required by the Davis-Bacon Act, the Department of Labor's (DOL) governmentwide implementation of the Davis-Bacon Act, or by Federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 3141-3144, 3146, and 3147 (formerly 40 USC 276a to 276a-7)).

Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). This reporting is often done using Optional Form WH-347 which includes the required statement of compliance (*OMB No. 1215-0149*).

Source of Governing Requirements

The requirements for Davis-Bacon are contained in 40 USC 3141-3144, 3146, and 3147; 29 CFR part 29; the A-102 Common Rule (§____.36(i)(5); and OMB Circular A-110 (2 CFR part 215, Appendix A, Contract Provisions); program legislation; Federal awarding agency regulations; and the terms and conditions of the award.

Availability of Other Information

The U.S. Department of Labor, Employment Standards Administration, maintains a Davis-Bacon and Related Acts Internet page (<http://www.dol.gov/compliance/laws/comp-dbra.htm>). Optional Form WH-347 and instructions are available on this Internet page.

Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
2. Determine whether the non-Federal entity notified contractors and subcontractors of the requirements to comply with the Davis-Bacon Act and obtained copies of certified payrolls.

Suggested Audit Procedures - Internal Control

1. Using the guidance provided in Part 6 - Internal Control of the Compliance Supplement, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for Davis-Bacon Act and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures - Compliance

1. Select a sample of construction contracts and subcontracts greater than \$2000 that are covered by the Davis-Bacon Act and perform the following procedures:
 - a. Verify that the required prevailing wage rate clauses were included.
 - b. Verify that the contractor or subcontractor submitted weekly the required certified payrolls.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

Appendix 8.A.5 E. ELIGIBILITY

Compliance Requirements

The specific requirements for eligibility are unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. For programs listed in the Compliance Supplement, these specific requirements are in Part 4 - Agency Program Requirements or Part 5 - Clusters of Programs, as applicable. This compliance requirement specifies the criteria for determining the individuals, groups of individuals (including area of service delivery), or subrecipients that can participate in the program and the amounts for which they qualify.

Source of Governing Requirements

The requirements for eligibility are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §___.500(c).
2. Determine whether required eligibility determinations were made, (including obtaining any required documentation/verifications), that individual program participants or groups of participants (including area of service delivery) were determined to be eligible, and that only eligible individuals or groups of individuals participated in the program.
3. Determine whether subawards were made only to eligible subrecipients.
4. Determine whether amounts provided to or on behalf of eligibles were calculated in accordance with program requirements.

Suggested Audit Procedures - Internal Control

1. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for eligibility and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §___.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering

whether additional compliance tests and reporting are required because of ineffective internal control.

3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures - Compliance

1. *Eligibility for Individuals*

- a. For some Federal programs with a large number of people receiving benefits, the non-Federal entity may use a computer system for processing individual eligibility determinations and delivery of benefits. Often these computer systems are complex and will be separate from the non-Federal entity's regular financial accounting system. Typical functions a computer system for eligibility may perform are:

- Perform calculations to assist in determining who is eligible and the amount of benefits
- Pay benefits (e.g., write checks)
- Maintain eligibility records, including information about each individual and benefits paid to or on behalf of the individual (regular payments, refunds, and adjustments)
- Track the period of time during which an individual is eligible to receive benefits, i.e., from the beginning date of eligibility through the date when those benefits stop, generally at the end of a predetermined period unless there is a redetermination of eligibility
- Perform matches with other computer data bases to verify eligibility (e.g., matches to verify earnings or identify individuals who are deceased)
- Control who is authorized to approve benefits for eligibles (e.g., an employee may be approving benefits on-line and this process may be controlled by passwords or other access controls)
- Produce exception reports indicating likely errors that need follow-up (e.g., when benefits exceed a certain amount, would not be appropriate for a particular classification of individuals, or are paid more frequently than normal)

Because of the diversity of computer systems, both hardware and software, it is not practical for this Supplement to provide suggested audit procedures to address each system. However, generally accepted auditing standards provide guidance for the auditor when computer processing relates to accounting information that can materially effect the financial statements being audited. Similarly, when

eligibility is material to a major program, and a computer system is integral to eligibility compliance, the auditor should follow this guidance and consider the non-Federal entity's computer processing. The auditor should perform audit procedures relative to the computer system for eligibility as necessary to support the opinion on compliance for the major program. Due to the nature and controls of computer systems, the auditor may choose to perform these tests of the computer systems as part of testing the internal controls for eligibility.

b. *Split Eligibility Determination Functions*

- (1) *Background* - Some non-Federal entities pay the Federal benefits to the eligible participants but arrange with another entity to perform part or all of the eligibility determination. For example, a State arranges with local government social services agencies to perform the "intake function" (e.g., the meeting with the social services client to determine income and categorical eligibility) while the State maintains the computer systems supporting the eligibility determination process and actually pays the benefits to the participants. The State is fully responsible for Federal compliance for the eligibility determination as the benefits are paid by the State and State shows the benefits paid as Federal awards expended on the State's Schedule of Expenditures of Federal Awards. Therefore, the auditor of the State is responsible for meeting the internal control and compliance audit objectives for eligibility. This may require the auditor of the State to perform or arrange for additional procedures to ensure compliant eligibility determinations when another entity performs part of the eligibility determination functions.
- (2) Ensure that eligibility testing includes all benefit payments regardless of whether another entity, by arrangement, performs part of the eligibility determination functions.

- c. Perform procedures to ascertain if the non-Federal entity's records/database includes all individuals receiving benefits during the audit period (e.g., that the population of individuals receiving benefits is complete).
- d. Select a sample of individuals receiving benefits and perform tests to ascertain if:
 - (1) The required eligibility determinations and redeterminations, (including obtaining any required documentation/verifications) were performed and the individual was determined to be eligible. Specific individuals were eligible in accordance with the compliance requirements of the program. (Note that some programs have both initial and continuing eligibility requirements and the auditor should design and perform appropriate tests

for both. Also, some programs require periodic redeterminations of eligibility which should also be tested.)

- (2) Benefits paid to or on behalf of the individuals were calculated correctly and in compliance with the requirements of the program.
- (3) Benefits were discontinued when the period of eligibility expired.
- e. In some programs, the non-Federal entity is required to use a quality control process to obtain assurances about eligibility. Review the quality control process and perform tests to ascertain if it is operating to effectively meet the objectives of the process and in compliance with applicable program requirements.

2. *Eligibility for Group of Individuals or Area of Service Delivery*

- a. In some cases, the non-Federal entity may be required to perform procedures to determine whether a population or area of service delivery is eligible. Test information used in determining eligibility and ascertain if the population or area of service delivery was eligible.
- b. Perform tests to ascertain if:
 - (1) The population or area served was eligible.
 - (2) The benefits paid to or on behalf of the individuals or area of service delivery were calculated correctly.

3. *Eligibility for Subrecipients*

- a. If the determination of eligibility is based upon an approved application or plan, obtain a copy of this document and identify the applicable eligibility requirements.
- b. Select a sample of the awards to subrecipients and perform procedures to verify that the subrecipients were eligible and amounts awarded were within funding limits.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

Appendix 8.A.6 F. EQUIPMENT AND REAL PROPERTY MANAGEMENT

Compliance Requirements

Equipment Management

Title to equipment acquired by a non-Federal entity with Federal awards vests with the non-Federal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of \$5000 or more per unit. However, consistent with a non-Federal entity's policy, lower limits may be established.

A State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with State laws and procedures. Subrecipients of States who are local governments or Indian tribes shall use State laws and procedures for equipment acquired under a subgrant from a State.

Local governments and Indian tribes shall follow the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency. Institutions of higher education, hospitals, and other non-profit organizations shall follow the provisions of OMB Circular A-110. Basically, the A-102 Common Rule and OMB Circular A-110 require that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained. When equipment with a current per unit fair market value of \$5000 or more is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of Federal participation in the cost of the original project) amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return.

Source of Governing Requirements – Equipment

The requirements for equipment are contained in the A-102 Common Rule (§____.32), OMB Circular A-110 (2 CFR section 215.34), program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

Real Property Management

Title to real property acquired by non-Federal entities with Federal awards vests with the non-Federal entity. Real property shall be used for the originally authorized purpose

as long as needed for that purpose. For non-Federal entities covered by OMB Circular A-110 and with written approval from the Federal awarding agency, the real property may be used in other federally-sponsored projects or programs that have purposes consistent with those authorized for support by the Federal awarding agency. The non-Federal entity may not dispose of or encumber the title to real property without the prior consent of the awarding agency.

When real property is no longer needed for federally-supported programs or projects, the non-Federal entity shall request disposition instructions. For purposes of this compliance requirement, the recipient makes the request to the Federal awarding agency. Subrecipients make requests through the recipient (pass-through entity) and do not make requests directly to the Federal awarding agency. The pass-through recipient is required to comply (ensure compliance) with the direction of the Federal awarding agency and the terms and conditions of its award. When real property is sold, sales procedures should provide for competition to the extent practicable and result in the highest possible return. If sold, non-Federal entities are normally required to remit to the awarding agency the Federal portion (based on the Federal participation in the project) of net sales proceeds. If the property is retained, the non-Federal entity shall normally compensate the awarding agency for the Federal portion of the current fair market value of the property. Disposition instructions may also provide for transfer of title in which case, the non-Federal entity is entitled to compensation for its percentage share of the current fair market value.

Source of Governing Requirements – Real Property

The requirements for real property are contained in the A-102 Common Rule (§____.31), OMB Circular A-110 (2 CFR section 215.32), program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
2. Determine whether the non-Federal entity maintains proper records for equipment and adequately safeguards and maintains equipment.
3. Determine whether disposition or encumbrance of any equipment or real property acquired under Federal awards is in accordance with Federal requirements and that the awarding agency was compensated for its share of any property sold or converted to non-Federal use.

Suggested Audit Procedures - Internal Control

1. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for equipment and real property management and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures - Compliance

(Procedure 1 only applies to subrecipients of States that are local governments or Indian tribal governments. Procedure 2 only applies to States and to subrecipients of States that are local governments or Indian tribal governments.)

1. Obtain entity's policies and procedures for equipment management and ascertain if they comply with the State's policies and procedures.
2. Select a sample of equipment transactions and test for compliance with the State's policies and procedures for management and disposition of equipment.

(Procedures 3-4 only apply to institutions of higher education, hospitals, and other non-profit organizations; and Federal awards received directly from a Federal awarding agency by a local government or an Indian tribal government.)

3. *Inventory Management of Equipment*
 - a. Inquire if a required physical inventory of equipment acquired under Federal awards was taken within the last two years. Test whether any differences between the physical inventory and equipment records were resolved.
 - b. Identify equipment acquired under Federal awards during the audit period and trace selected purchases to the property records. Verify that the property records contain the following information about the equipment: description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and any ultimate disposition data including, the date of disposal and sales price or method used to determine current fair market value.

- c. Select a sample of equipment identified as acquired under Federal awards from the property records and physically inspect the equipment including whether the equipment is appropriately safeguarded and maintained.

4. *Disposition of Equipment*

- a. Determine the amount of equipment dispositions for the audit period and perform procedures to verify that dispositions were properly classified between equipment acquired under Federal awards and equipment otherwise acquired.
- b. For dispositions of equipment acquired under Federal awards, perform procedures to verify that the dispositions were properly reflected in the property records.
- c. For dispositions of equipment acquired under Federal awards with a current per-unit fair market value of \$5000 or more, test whether the awarding agency was reimbursed for the appropriate Federal share.

(Procedure 5 applies to States, local governments, Indian tribal governments and non-profit organizations regardless of whether funding is received as a recipient or subrecipient.)

5. *Disposition of Real Property*

- a. Determine real property dispositions for the audit period and ascertain such real property acquired with Federal awards.
- b. For dispositions of real property acquired under Federal awards, perform procedures to verify that the non-Federal entity followed the instructions of the awarding agency, which will normally require reimbursement to the awarding agency for the Federal portion of net sales or fair market value at the time of disposition, as applicable.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

Appendix 8.A.7 G. MATCHING, LEVEL OF EFFORT, EARMARKING

Compliance Requirements

The specific requirements for matching, level of effort, and earmarking are unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. For programs listed in this Supplement, these specific requirements are in Part 4 - Agency Program Requirements or Part 5 - Clusters of Programs, as applicable.

However, for matching, the A-102 Common Rule (§____.24) and OMB Circular A-110 (2 CFR 215.23) provide detailed criteria for acceptable costs and contributions. The following is a list of the basic criteria for acceptable matching:

- Are verifiable from the non-Federal entity's records.
- Are not included as contributions for any other federally-assisted project or program, unless specifically allowed by Federal program laws and regulations.
- Are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
- Are allowed under the applicable cost principles.
- Are not paid by the Federal Government under another award, except where authorized by Federal statute to be allowable for cost sharing or matching.
- Are provided for in the approved budget when required by the Federal awarding agency.
- Conform to other applicable provisions of the A-102 Common Rule and OMB Circular A-110 and the laws, regulations, and provisions of contract or grant agreements applicable to the program.

Matching, level of effort, and earmarking are defined as follows:

1. *Matching* or cost sharing includes requirements to provide contributions (usually non-Federal) of a specified amount or percentage to match Federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in-kind contributions).
2. *Level of effort* includes requirements for (a) a specified level of service to be provided from period to period, (b) a specified level of expenditures from non-Federal or Federal sources for specified activities to be maintained from period to period, and (c) Federal funds to supplement and not supplant non-Federal funding of services.
3. *Earmarking* includes requirements that specify the minimum and/or maximum amount or percentage of the program's funding that must/may be used for

specified activities, including funds provided to subrecipients. Earmarking may also be specified in relation to the types of participants covered.

Source of Governing Requirements

The requirements for matching are contained in the A-102 Common Rule (§____.24), OMB Circular A-110 (2 CFR section 215.23), program legislation, Federal awarding agency regulations, and the terms and conditions of the award. The requirements for level of effort and earmarking are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
2. *Matching* - Determine whether the minimum amount or percentage of contributions or matching funds was provided.
3. *Level of Effort* - Determine whether specified service or expenditure levels were maintained.
4. *Earmarking* - Determine whether minimum or maximum limits for specified purposes or types of participants were met.

Suggested Audit Procedures - Internal Control

1. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for matching, level of effort, earmarking and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures - Compliance

1. **Matching**

- a. Perform tests to verify that the required matching contributions were met.
- b. Ascertain the sources of matching contributions and perform tests to verify that they were from an allowable source.
- c. Test records to corroborate that the values placed on in-kind contributions (including third party in-kind contributions) are in accordance with the OMB cost principles circulars, the A-102 Common Rule, OMB Circular A-110, program regulations, and the terms of the award.
- d. Test transactions used to match for compliance with the allowable costs/cost principles requirement. This test may be performed in conjunction with the testing of the requirements related to allowable costs/cost principles.

2.1 **Level of Effort - Maintenance of Effort**

- a. Identify the required level of effort and perform tests to verify that the level of effort requirement was met.
- b. Perform test to verify that only allowable categories of expenditures or other effort indicators (e.g., hours, number of people served) were included in the computation and that the categories were consistent from year to year. For example, in some programs, capital expenditures may not be included in the computation.
- c. Perform procedures to verify that the amounts used in the computation were derived from the books and records from which the audited financial statements were prepared.
- d. Perform procedures to verify that non-monetary effort indicators were supported by official records.

2.2 **Level of Effort - Supplement Not Supplant**

- a. Ascertain if the entity used Federal funds to provide services which they were required to make available under Federal, State, or local law and were also made available by funds subject to a supplement not supplant requirement.
- b. Ascertain if the entity used Federal funds to provide services which were provided with non-Federal funds in the prior year.
 - (1) Identify the federally-funded services.

- (2) Perform procedures to determine whether the Federal program funded services that were previously provided with non-Federal funds.
- (3) Perform procedures to ascertain if the total level of services applicable to the requirement increased in proportion to the level of Federal contribution.

3. **Earmarking**

- a. Identify the applicable percentage or dollar requirements for earmarking.
- b. Perform procedures to verify that the amounts recorded in the financial records met the requirements (e.g., when a minimum amount is required to be spent for a specified type of service, perform procedures to verify that the financial records show that at least the minimum amount for this type of service was charged to the program; or, when the amount spent on a specified type of service may not exceed a maximum amount, perform procedures to verify that the financial records show no more than this maximum amount for the specified type of service was charged to the program).
- c. When earmarking requirements specify a minimum percentage or amount, select a sample of transactions supporting the specified amount or percentage and perform tests to verify proper classification to meet the minimum percentage or amount.
- d. When the earmarking requirements specify a maximum percentage or amount, review the financial records to identify transactions for the specified activity which were improperly classified in another account (e.g., if only 10 percent may be spent for administrative costs, review accounts for other than administrative costs to identify administrative costs which were improperly classified elsewhere and cause the maximum percentage or amount to be exceeded).
- e. When earmarking requirements prescribe the minimum number or percentage of specified types of participants that can be served, select a sample of participants that are counted toward meeting the minimum requirement and perform tests to verify that they were properly classified.
- f. When earmarking requirements prescribe the maximum number or percentage of specified types of participants that can be served, select a sample of other participants and perform tests to verify that they were not of the specified type.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

Appendix 8.A.8 H. PERIOD OF AVAILABILITY OF FEDERAL FUNDS

Compliance Requirements

Federal awards may specify a time period during which the non-Federal entity may use the Federal funds. Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Also, if authorized by the Federal program, unobligated balances may be carried over and charged for obligations of a subsequent funding period. Obligations means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the non-Federal entity during the same or a future period (A-102 Common Rule, §____.23; OMB Circular A-1102 CFR section 215.28).

Non-Federal entities subject to the A-102 Common Rule shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status report (SF-269) (NOTE: See L, "Reporting," regarding the transition from use of this form to a new governmentwide form). The Federal agency may extend this deadline upon request (A-102 Common Rule, §____.23).

An example used by a program to determine when an obligation occurs (is made) is found under Part 4, Department of Education, CFDA 84.000 (Cross-Cutting Section).

Source of Governing Requirements

The requirements for period of availability of Federal funds are contained in the A-102 Common Rule (§____.23), OMB Circular A-110 (2 CFR section 215.28), program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

Audit Objective

1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
2. Determine whether Federal funds were obligated within the period of availability and obligations were liquidated within the required time period.

Suggested Audit Procedures - Internal Control

1. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for period of availability of Federal funds and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures - Compliance

1. Review the award documents and regulations pertaining to the program and determine any award-specific requirements related to the period of availability and document the availability period.
2. Test transactions charged to the Federal award after the end of the period of availability and verify that the underlying obligations occurred within the period of availability and that the liquidation (payment) was made within the allowed time period.
3. Test transactions that were recorded during the period of availability and verify that the underlying obligations occurred within the period of availability.
4. Test adjustments to the Federal funds and verify that these adjustments were for transactions that occurred during the period of availability.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

As long as the auditor obtains sufficient, appropriate evidence to meet the period of availability audit objectives, the auditor may test period of availability using the same test items used to test other types of compliance requirements (e.g., activities allowed or unallowed or allowable costs/cost principles). However, if this approach is used, the auditor should exercise care in designing the sample to ensure that sample items are suitable for testing the stated objectives of compliance requirements covered by the sample.

Appendix 8.A.9. I. PROCUREMENT AND SUSPENSION AND DEBARMENT

Compliance Requirements

Procurement

States, and governmental subrecipients of States, shall use the same State policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Local governments and Indian tribal governments which are not subrecipients of States will use their own procurement procedures provided that they conform to applicable Federal law and regulations and standards identified in the A-102 Common Rule.

Institutions of higher education, hospitals, and other non-profit organizations shall use procurement procedures that conform to applicable Federal law and regulations and standards identified in OMB Circular A-110.

All non-Federal entities shall follow Federal laws and implementing regulations applicable to procurements, as noted in Federal agency implementation of the A-102 Common Rule and OMB Circular A-110.

Source of Governing Requirements - Procurement

The requirements for procurement are contained in the A-102 Common Rule (§____.36), OMB Circular A-110 (2 CFR sections 215.40 through 215.48), program legislation, Federal awarding agency regulations, and the terms and conditions of the award. The specific references for the A-102 Common Rule and OMB Circular A-110, respectively, are given for each suggested audit procedure indicated below. (The first number listed refers to the A-102 Common Rule and the second refers to A-110.)

Suspension and Debarment

Governmentwide requirements for nonprocurement suspension and debarment are contained in the OMB guidance in 2 CFR part 180, which implements Executive Orders 12549 and 12689, Debarment and Suspension. The OMB guidance, which superseded the suspension and debarment common rule published November 26, 2003, is substantially the same as that rule.

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or

debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. 2 CFR section 180.220 of the governmentwide nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300). The information contained in the EPLS is available in printed and electronic formats. The printed version is published monthly. Copies may be obtained by purchasing a yearly subscription from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402, or by calling the Government Printing Office Inquiry and Order Desk at (202) 783-3238. The electronic version can be accessed on the Internet (<http://epls.arnet.gov>).

Source of Governing Requirements – Suspension and Debarment

The requirements for suspension and debarment are contained in OMB guidance in 2 CFR part 180, which implements Executive Orders 12549 and 12689; Federal agency regulations in 2 CFR implementing the OMB guidance; the A-102 Common Rule (§____.36); OMB Circular A-110 (2 CFR section 215.13); program legislation; Federal awarding agency regulations; and the terms and conditions of the award. Most of the Federal agencies have adopted this guidance and relocated their associated agency rules in Title 2 of the CFR as final rules. For any agency that has not completed its adoption of 2 CFR part 180, pending completion of that adoption, agency implementations of the common rule remain in effect. Appendix II includes the current CFR citations for all agencies. In either case, the applicable requirements are specified in the terms and conditions of award.

Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
2. Determine whether procurements were made in compliance with the provisions of the A-102 Common Rule, OMB Circular A-110, and other procurement requirements specific to an award.
3. For covered transactions determine whether the non-Federal entity verified that entities are not suspended or debarred or otherwise excluded.

Suggested Audit Procedures - Internal Control

1. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for procurement and suspension and debarment and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures - Compliance

(Procedures 1 - 4 apply only to institutions of higher education, hospitals, and other non-profit organizations; and Federal awards received directly from a Federal awarding agency by a local government or an Indian tribal government.)

1. Obtain entity's procurement policies. Verify that the policies comply with applicable Federal requirements (§____.36(b)(1) and 2 CFR 215.43).
2. Ascertain if the entity has a policy to use statutorily or administratively-imposed in-State or local geographical preferences in the evaluation of bids or proposals. If yes, verify that these limitations were not applied to federally funded procurements except where applicable Federal statutes expressly mandate or encourage geographic preference (§____.36(c)(2) and 2 CFR section 215.43).
3. Examine procurement policies and procedures and verify the following:
 - a. Written selection procedures require that solicitations incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured, identify all requirements that the offerors must fulfill, and include all other factors to be used in evaluating bids or proposals (§____.36(c)(3) and 2 CFR section 215.44(a)(3)).
 - b. There is a written policy pertaining to ethical conduct (§____.36(b)(3) and 2 CFR section 215.42).
4. Select a sample of procurements and perform the following:

- a. Examine contract files and verify that they document the significant history of the procurement, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis of contract price (§____.36(b)(9) and 2 CFR section 215.46).
- b. Verify that procurements provide full and open competition (§____.36(c)(1) and 2 CFR section 215.43).
- c. Examine documentation in support of the rationale to limit competition in those cases where competition was limited and ascertain if the limitation was justified (§____.36(b)(1) and (d)(4); and 2 CFR section 215.43 and 2 CFR section 215.44(e)).
- d. Verify that contract files exist and ascertain if appropriate cost or price analysis was performed in connection with procurement actions, including contract modifications and that this analysis supported the procurement action (§____.36(f) and 2 CFR section 215.45).
- e. Verify that the Federal awarding agency approved procurements exceeding \$100,000 when such approval was required. Procurements (1) awarded by noncompetitive negotiation, (2) awarded when only a single bid or offer was received, (3) awarded to other than the apparent low bidder, or (4) specifying a “brand name” product (§____.36(g)(1) and 2 CFR section 215.44(e)), may require prior Federal awarding agency approval.
- f. Verify compliance with other procurement requirements specific to an award.

(Procedure 5 only applies to States and Federal awards subgranted by the State to a local government or Indian tribal government.)

- 5. Test a sample of procurements to ascertain if the State’s laws and procedures were followed and that the policies and procedures used were the same as for non-Federal funds.

(Procedure 6 applies to all non-Federal entities)

- 6. Select a sample of procurements and subawards and:
 - a. Test whether the non-Federal entities performed a verification check for covered transactions, by checking the EPLS, collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity; and
 - b.

Test the sample of procurements and subawards against the EPLS, and ascertain if covered transactions were awarded to suspended or debarred parties.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

Appendix 8.A.10. J. PROGRAM INCOME

Compliance Requirements

Program income is gross income received that is directly generated by the federally funded project during the grant period. If authorized by Federal regulations or the grant agreement, costs incident to the generation of program income may be deducted from gross income to determine program income. Program income includes, but is not limited to, income from: fees for services performed, the use or rental of real or personal property acquired with grant funds, the sale of commodities or items fabricated under a grant agreement, and payments of principal and interest on loans made with grant funds. Except as otherwise provided in the Federal awarding agency regulations or terms and conditions of the award, program income does not include interest on grant funds (covered under “Cash Management”), rebates, credits, discounts, refunds, etc. (covered under “Allowable Costs/Cost Principles”), or interest earned on any of them (covered under “Cash Management”). Program income does not include the proceeds from the sale of equipment or real property (covered under “Equipment and Real Property Management”).

Program income may be used in one of three methods: deducted from outlays, added to the project budget, or used to meet matching requirements. Unless specified in the Federal awarding agency regulations or the terms and conditions of the award, program income shall be deducted from program outlays. However, for research and development activities by institutions of higher education, hospitals, and other non-profit organizations, the default method is to add program income to the project budget. Unless Federal awarding agency regulations or the terms and conditions of the award specify otherwise, non-Federal entities have no obligation to the Federal Government regarding program income earned after the end of the grant period.

Source of Governing Requirements

The requirements for program income are found in the A-102 Common Rule (§____.21 (payment) and §____.25 program income)), OMB Circular A-110 (2 CFR section 215.2 (program income definition), 2 CFR section 215.22 (payment), and 2 CFR section 215.24 (program income)), program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).

2. Determine whether program income is correctly determined, recorded, and used in accordance with the program requirements, A-102 Common Rule, and OMB Circular A-110, as applicable.

Suggested Audit Procedures - Internal Control

1. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for program income and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures - Compliance

1. *Identify Program Income*
 - a. Review the laws, regulations, and the provisions of contract or grant agreements applicable to the program and ascertain if program income was anticipated. If so, ascertain the requirements for determining or assessing the amount of program income (e.g., a scale for determining user fees, prohibition of assessing fees against certain groups of individuals, etc.), and the requirements for recording and using program income.
 - b. Inquire of management and review accounting records to ascertain if program income was received.
2. *Determining or Assessing Program Income* - Perform tests to verify that program income was properly determined or calculated in accordance with stated criteria, and that program income was only collected from allowable sources.
3. *Recording of Program Income* - Perform tests to verify that all program income was properly recorded in the accounting records.

4. *Use of Program Income* - Perform tests to ascertain if program income was used in accordance with the program requirements, the A-102 Common Rule, and OMB Circular A-110.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

Appendix 8.A.11 K. REAL PROPERTY ACQUISITION AND RELOCATION ASSISTANCE

Compliance Requirements

The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended, (URA) provides for uniform and equitable treatment of persons displaced by Federally-assisted programs from their homes, businesses, or farms. Property acquired must be appraised by qualified independent appraisers. All appraisals must be examined by a review appraiser to assure acceptability. After acceptance, the review appraiser certifies the recommended or approved value of the property for establishment of the offer of just compensation to the owner. Federal requirements govern the determination of payments for replacement housing assistance, rental assistance, and down payment assistance for individuals displaced by federally-funded projects. The regulations also cover the payment of moving-related expenses and reestablishment expenses incurred by displaced businesses and farm operations.

Source of Governing Requirements

Governmentwide requirements for real property acquisition and relocation assistance are contained in Department of Transportation's single governmentwide rule at 49 CFR part 24, Uniform Relocation Assistance and Real Property Acquisition Regulations for Federal and Federally-Assisted Programs.

Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
2. Determine whether the non-Federal entity complied with the real property acquisition, appraisal, negotiation, and relocation requirements.

Suggested Audit Procedures - Internal Control

1. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for real property acquisition and relocation assistance and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the

control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.

3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures - Compliance

1. Inquire of management and review the records of Federal programs to ascertain if the non-Federal entity administers Federally-assisted programs that involve the acquisition of real property or the displacement of households or businesses.

2. *Property Acquisitions*

For a sample of acquisitions:

- a. *Appraisal* - Test records to ascertain if: (1) the just compensation amount offered the property owner was determined by an appraisal process; (2) the appraisal(s) was examined by a review appraiser; and, (3) the review appraiser prepared a signed statement which explains the basis for adjusting comparable sales to reach the review appraiser's determination of the fair market value.
 - b. *Negotiations* - Test supporting documentation to ascertain if: (1) a written offer of the appraised value was made to the property owner; and (2) a written justification was prepared if the purchase price for the property exceeded the amount offered and that the documentation (e.g., recent court awards, estimated trial costs, valuation problems) supports such administrative settlement as being reasonable, prudent, and in the public interest.
 - c. *Residential Relocations* - Test supporting documentation to ascertain if the non-Federal entity made available to the displaced persons one or more comparable replacement dwellings.
3. *Replacement Housing Payments* - For a sample, test the non-Federal entity's records to ascertain if there is documentation that supports the following:
 - a. The owner occupied the displacement dwelling for at least 180 days immediately prior to initiation of negotiations.
 - b. The non-Federal entity examined at least three comparable replacement dwellings available for sale and computed the payment on the basis of the price of the dwelling most representative of the displacement dwelling.

- c. The asking price for the comparable dwelling was adjusted, to the extent justified by local market data, to recognize local area selling price reductions.
 - d. The allowance for increased mortgage cost “buy down” amount was computed based on the remaining principal balance, the interest rate, and the remaining term of the old mortgage on the displacement dwelling.
 - e. The non-Federal entity prepared written justification on the need to employ last resort housing provisions, if the total replacement housing payment exceeded \$22,500.
4. *Rental or Downpayment Assistance* - For a sample, test the non-Federal entity’s records to ascertain if there is documentation that supports the following:
- a. The displacee occupied the displacement dwelling for at least 90 days immediately prior to initiation of negotiations.
 - b. The displacee rented, or purchased, and occupied a decent, safe, and sanitary replacement dwelling within one year.
 - c. The non-Federal entity prepared written justification if the payment exceeded \$5,250.
5. *Business Relocations* -
- For a sample of business relocations:
- a. *Moving Expenses* - Test that payments for moving and related expenses were for actual costs incurred or that fixed payments, in lieu of actual costs, were limited to a maximum of \$20,000 and computed based on the average annual net earnings of the business, as evidenced by income tax returns, certified financial statements, or other reliable evidence.
 - b. *Business Reestablishment Expense* - Verify that (1) the displacee was eligible as a farm operation, a non-profit organization, or a small business to receive reestablishment assistance, and (2) the payment was for actual costs incurred and did not exceed \$10,000.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

Appendix 8.A.12 L. REPORTING

Compliance Requirements

Financial Reporting

Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form). Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. If the Federal awarding agency requires reporting of accrual information and the recipient's accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may develop such accrual information through analysis of available documentation. The Federal awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic outputs in lieu of the prescribed formats.

The financial reporting requirements for subrecipients are as specified by the pass-through entity. In many cases, these will be the same as or similar to the following requirements for recipients.

The standard financial reporting forms are as follows:

1. *Financial Status Report (FSR) (SF-269 (OMB No. 0348-0039) or SF-269A (OMB No. 0348-0038)).* Recipients use the FSR to report the status of funds for all non-construction projects and for construction projects when the FSR is required in lieu of the SF-271. See below for information concerning the transition to the Federal Financial Report (SF-425/425 A (OMB No. 0348-0061)).
2. *Request for Advance or Reimbursement (SF-270 (OMB No. 0348-0004)).* Recipients use the SF-270 to request Treasury advance payments and reimbursements under non-construction programs.
3. *Outlay Report and Request for Reimbursement for Construction Programs (SF-271 (OMB No. 0348-0002)).* Recipients use the SF-271 to request funds for construction projects unless advances or the SF-270 is used.
4. *Federal Cash Transactions Report (SF-272 (OMB No. 0348-0003) or SF-272-A (OMB No. 0348-0003)).* Recipients use the SF-272 when payment is by advances or reimbursements. The Federal awarding agency may waive the requirement for an SF-272 when electronic payment mechanisms provide adequate data. See below for information concerning the transition to the Federal Financial Report (SF-425/425 A (OMB No. 0348-0061)).

The Federal Financial Report (SF-425/425A), which is intended to supersede the SF-269 and SF-272, has been approved by OMB under the Paperwork Reduction Act and is available to the Federal awarding agencies for inclusion in award requirements. For financial reports due to the Federal awarding agencies and, when different, the servicing payment office during the audit period covered by the 2009 Supplement, recipients may be submitting the Financial Status Report/Federal Cash Transactions Report (SF-269 or 269A)/SF-272) and/or the Federal Financial Report (SF-425/SF-425A), depending on the report due date and Federal awarding agency/program requirements. The Federal awarding agencies and paying offices must complete their transition to use of the Federal Financial Report by September 30, 2009. References in L.1, "Reporting - Financial Reporting" in Parts 4 and 5 of the Supplement will continue to show the SF 269/SF-272 as the standard financial reports until after the transition is complete. The award terms and conditions will specify the initial reporting period for which use of the SF-425 will be required. In addition, where a transition date has been determined for a program included in the Supplement, it will be shown in Part 4 or 5. Electronic versions of the existing and new standard forms are located on OMB's Internet home page (http://www.whitehouse.gov/omb/grants/grants_forms.html).

Reporting Under the Payment Management System

Many recipients utilize the Payment Management System (PMS) operated by the Division of Payment Management (DPM) within the Department of Health and Human Services' Program Support Center. After a Federal agency awards a grant, DPM is responsible for processing payments to the recipient; receiving collections for unexpended funds, duplicate payments, and, when applicable, interest earned on Federal funds; accounting for disbursement information provided by the recipient; and reporting data equivalent to the SF-272, *Federal Cash Transactions Report* (as indicated above, this report also will be superseded by the SF 425/SF 425A), to the recipient and the Federal agency.

Federal awarding agencies enter authorization amounts in PMS to allow recipients to draw Federal funds. There are two methods by which recipients can request funds: (1) the PMS 270 request or (2) SMARTLINK II. SMARTLINK II enables recipients to request Federal funds through computer link with DPM. Once a quarter, using the authorization amounts provided by the Federal agency, payments requested by recipients, cash collection activity, and disbursement information provided by recipients, DPM generates PSC 272 reports.

The PSC 272 is a series of reports consisting of:

1. PSC 272, *Federal Cash Transactions Report, Status of Federal Cash* (OMB No. 0937-0200). This report provides the total availability of Federal cash received by the recipient at the account level. It is partially prepared by DPM based on data reported to DPM, and is completed and certified by the recipient.

2. PSC 272-A, *Federal Cash Transactions Report (OMB No. 0937-0200)*. This report is a continuation of the PMS-272 and is used by the recipient to report cash disbursements at the grant level.
3. PSC 272-B, *Statement of Cash Accountability (OMB No. 0937-0200)*. This report is furnished for the recipient's information and shows how the recipient's cash accountability was derived by DPM.
4. PSC 272-C, *Error Correction Document (OMB No. 0937-0200)*. This report can be used by the recipient to report data reconciliation problems for awards on the PSC 272-A or the Advances to Payee portion of the PSC 272-B.
5. PSC 272-E, *Major Program Statement (OMB No. 0937-0200)*. This report is furnished to all accounts that are sub-accounted and is for information only. This report lists individual payments during the quarter among the various programs, and provides a cash accountability for all advances received through PMS by major program. All information provided is pre-printed by DPM.
6. PSC 272-F, *Authorizations for Future Periods (OMB No. 0937-0200)*. This report is provided for information only and requires no action by the recipient. It represents all awards posted in the PMS database that have effective dates in future reporting periods.
7. PSC 272-G, *Inactive Documents Report (OMB No. 0937-0200)*. This report lists all awards posted in the PMS database that have become inactive or fully disbursed during the current period or a previous period. In the event that disbursement adjustments are required, they should be reported via the PSC 272-A.

The reports (except for the PSC 272-C) are available to recipients or electronically via the Internet using DPM's Electronic 272 System. Recipients should verify the reported amounts. The recipient uses the PSC 272-A to report the amount of disbursements made; then signs, dates, and returns the report to DPM. PSC 272 reporting requirements do not apply to block grant programs; however, DPM does provide block grant recipients with a PSC 272-E, *Major Program Statement*, quarterly. This report is provided solely for information and no action is required by the recipient.

Performance Reporting

Recipients shall submit performance reports at least annually but not more frequently than quarterly. Performance reports generally contain, for each award, brief information of the following types:

1. A comparison of actual accomplishments with the goals and objectives established for the period.
2. Reasons why established goals were not met, if appropriate.

3. Other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

Note: The Federal agencies are moving toward the use of standard performance/progress reporting formats; however, there currently is no specified date for completion of the transition. Currently some agencies/programs are using the Performance Progress Report.

Special Reporting

Non-Federal entities may be required to submit other reporting which may be used by the Federal agency for such purposes as allocating program funding.

Compliance testing of performance and special reporting are only required for data that are quantifiable and meet the following criteria:

1. Have a direct and material effect on the program.
2. Are capable of evaluation against objective criteria stated in the laws, regulations, contract or grant agreements pertaining to the program.

Performance and special reporting data specified in Part 4, Compliance Requirements, meet the above criteria.

Source of Governing Requirements

Reporting requirements are contained in the following documents:

- a. A-102 Common Rule -- Financial reporting, §____.41; Performance reporting, §____.40(b).
- b. OMB Circular A-110 -- Financial reporting, 2 CFR section 215.52 (this section has not been updated to reference the new form); Performance reporting, 2 CFR section 215.51.
- c. Program legislation.
- d. Federal awarding agency regulations.
- e. The terms and conditions of the award.

Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §___.500(c).
2. Determine whether required reports for Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements.

Suggested Audit Procedures - Internal Control

1. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for reporting and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §___.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures - Compliance

Note: For recipients using PMS to draw Federal funds, the auditor should consider the following steps numbered 1 through 5 as they pertain to the PSC 272, PSC 272-A, PSC 272-B, and PSC 272-E, regardless of the source of the data included in the PMS reports. Although certain data is supplied by the Federal awarding agency (i.e., award authorization amounts) and certain amounts are provided by DPM, the auditor should ensure that such amounts are in agreement with the recipient's records and are otherwise accurate.

1. Review applicable laws, regulations, and the provisions of contract or grant agreements pertaining to the program for reporting requirements. Determine the types and frequency of required reports. Obtain and review Federal awarding agency, or pass-through entity in the case of a subrecipient, instructions for completing the reports.
 - a. For financial reports, ascertain the accounting basis used in reporting the data (e.g., cash or accrual).
 - b. For performance and special reports, determine the criteria and methodology used in compiling and reporting the data.

2. Perform appropriate analytical procedures and ascertain the reason for any unexpected differences. Examples of analytical procedures include:
 - a. Comparing current period reports to prior period reports.
 - b. Comparing anticipated results to the data included in the reports.
 - c. Comparing information obtained during the audit of the financial statements to the reports.

Note: The results of the analytical procedures should be considered in determining the nature, timing, and extent of the other audit procedures for reporting.

3. Select a sample of each of the following report types:
 - a. Financial reports
 - (1) Ascertain if the financial reports were prepared in accordance with the required accounting basis.
 - (2) Trace the amounts reported to accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records. If reports require information on an accrual basis and the entity does not prepare its accounting records on an accrual basis, determine whether the reported information is supported by available documentation.
 - (3) For any discrepancies noted in PSC-272 reports, review subsequent PSC-272 reports to ascertain if the discrepancies were appropriately resolved with the Department of Health and Human Services' Division of Payment Management.
 - b. Performance and special reports
 - (1) Trace the reported data to records that accumulate and summarize data.
 - (2) Perform tests of the underlying data to verify that the data were accumulated and summarized in accordance with the required or stated criteria and methodology, including the accuracy and completeness of the reports.

- c. When intervening computations or calculations are required between the records and the reports, trace reported data elements to supporting worksheets or other documentation that link reports to the data.
 - d. Test mathematical accuracy of reports and supporting worksheets.
4. Test the selected reports for accuracy and completeness.
- a. For financial reports, review accounting records and ascertain if all applicable accounts were included in the sampled reports (e.g., program income, expenditure credits, loans, interest earned on Federal funds, and reserve funds).
 - b. For performance and special reports, review the supporting records and ascertain if all applicable data elements were included in the sampled reports.
 - c. For each type of report—
 - (1) When intervening computations or calculations are required between the records and the reports, trace reported data elements to supporting worksheets or other documentation that link reports to the data.
 - (2) Test mathematical accuracy of reports and supporting worksheets.
5. Obtain written representation from management that the reports provided to the auditor are true copies of the reports submitted or electronically transmitted to the Federal awarding agency, the Department of Health and Human Services' DPM for recipients using the Payment Management System, or pass-through entity in the case of a subrecipient.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

Appendix 8.A.13 M. SUBRECIPIENT MONITORING

Compliance Requirements

A pass-through entity is responsible for:

- *Award Identification* - At the time of the award, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.
- *During-the-Award Monitoring* - Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* - Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

During-the-Award Monitoring

Following are examples of factors that may affect the nature, timing, and extent of during-the-award monitoring:

- *Program complexity* - Programs with complex compliance requirements have a higher risk of non-compliance.
- *Percentage passed through* - The larger the percentage of program awards passed through the greater the need for subrecipient monitoring.
- *Amount of awards* - Larger dollar awards are of greater risk.

- *Subrecipient risk* - Subrecipients may be evaluated as higher risk or lower risk to determine the need for closer monitoring. Generally, new subrecipients would require closer monitoring. For existing subrecipients, based on results of during-the-award monitoring and subrecipient audits, a subrecipient may warrant closer monitoring (e.g., the subrecipient has (1) a history of non-compliance as either a recipient or subrecipient, (2) new personnel, or (3) new or substantially changed systems).

Monitoring activities normally occur throughout the year and may take various forms, such as:

- *Reporting* - Reviewing financial and performance reports submitted by the subrecipient.
- *Site Visits* - Performing site visits at the subrecipient to review financial and programmatic records and observe operations.
- *Regular Contact* - Regular contacts with subrecipients and appropriate inquiries concerning program activities.

Agreed-upon procedures engagements

A pass-through entity may arrange for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations. Since the pass-through entity determines the procedures to be used and compliance areas to be tested, these agreed-upon procedures engagements enable the pass-through entity to target the coverage to areas of greatest risk. The costs of agreed-upon procedures engagements is an allowable cost to the pass-through entity if the agreed-upon procedures are performed for subrecipients below the A-133 threshold for audit (currently at \$500,000 for fiscal years ending after December 31, 2003) for the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, earmarking; and reporting (OMB Circular A-133 (§____.230(b)(2))).

Source of Governing Requirements

The requirements for subrecipient monitoring are contained in 31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)), OMB Circular A-133 (§____.225 and §____.400(d)), A-102 Common Rule (§____.37 and §____.40(a)), and OMB Circular A-110 (2 CFR section 215.51(a)), program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §___.500(c).
2. Determine whether the pass-through entity properly identified Federal award information and compliance requirements to the subrecipient, and approved only allowable activities in the award documents.
3. Determine whether the pass-through entity monitored subrecipient activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements.
4. Determine whether the pass-through entity ensured required audits are performed, issued a management decision on audit findings within 6 months after receipt of the subrecipient's audit report, and ensures that the subrecipient takes timely and appropriate corrective action on all audit findings.
5. Determine whether in cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity took appropriate action using sanctions.
6. Determine whether the pass-through entity evaluates the impact of subrecipient activities on the pass-through entity.

Suggested Audit Procedures - Internal Control

1. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for subrecipient monitoring and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §___.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures - Compliance

(Note: The auditor may consider coordinating the tests related to subrecipients performed as part of Cash Management (tests of cash reporting submitted by subrecipients), Eligibility (tests that subawards were made only to eligible subrecipients), and Procurement (tests of ensuring that a subrecipient is not suspended or debarred) with the testing of Subrecipient Monitoring.)

1. Gain an understanding of the pass-through entity's subrecipient procedures through a review of the pass-through entity's subrecipient monitoring policies and procedures (e.g., annual monitoring plan) and discussions with staff. This should include an understanding of the scope, frequency, and timeliness of monitoring activities and the number, size, and complexity of awards to subrecipients.
2. Test award documents and agreements to ascertain if: (a) at the time of award the pass-through entity made subrecipients aware of the award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and requirements imposed by laws, regulations, and the provisions of contract or grant agreements; and (b) the activities approved in the award documents were allowable.
3. Review the pass-through entity's documentation of during-the-award monitoring to ascertain if the pass-through entity's monitoring provided reasonable assurance that subrecipients used Federal awards for authorized purposes, complied with laws, regulations, and the provisions of contracts and grant agreements, and achieved performance goals.
4. Review the pass-through entity's follow-up to ensure corrective action on deficiencies noted in during-the-award monitoring.
5. Verify that the pass-through entity:
 - a. Ensured that the required subrecipient audits were completed. For subrecipients that are not required to submit a copy of the reporting package to a pass-through entity because there were "no audit findings" (i.e., because the schedule of findings and questioned costs did not disclose audit findings relating to the Federal awards that the pass-through entity provided and the summary schedule of prior audit findings did not report the status of audit findings relating to Federal awards that the pass-through entity provided, as prescribed in OMB Circular A-133 §____.320(e)), the pass-through entity may use the information in the Federal Audit Clearinghouse (FAC) database (available on the Internet at <http://harvester.census.gov/sac>) as evidence to verify that the subrecipient had "no audit findings" and that the required audit was performed. This FAC verification would be in lieu of reviewing submissions by the subrecipient to the pass-through entity when there are no audit findings.
 - b. Issued management decisions on audit findings within 6 months after receipt of the subrecipient's audit report.
 - c. Ensured that subrecipients took appropriate and timely corrective action on all audit findings.
6. Verify that in cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity took appropriate action using sanctions.

7. Verify that the effects of subrecipient noncompliance are properly reflected in the pass-through entity's records.
8. Verify that the pass-through entity monitored the activities of subrecipients not subject to OMB Circular A-133, using techniques such as those discussed in the "Compliance Requirements" provisions of this section with the exception that these subrecipients are not required to have audits under OMB Circular A-133.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

Appendix 8.A.14 N. SPECIAL TESTS AND PROVISIONS

Compliance Requirements

The specific requirements for Special Tests and Provisions are unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. For programs listed in this Supplement, the compliance requirements, audit objectives, and suggested audit procedures for Special Tests and Provisions are in Part 4 - Agency Program Requirements or Part 5 - Clusters of Programs. For programs not listed in this Supplement, the auditor shall review the program's contract and grant agreements and referenced laws and regulations to identify the compliance requirements and develop the audit objectives and audit procedures for Special Tests and Provisions which could have a direct and material effect on a major program. The auditor should also inquire of the non-Federal entity to help identify and understand any Special Tests and Provisions.

Additionally, for both programs included and not included in this Supplement, the auditor shall identify any additional compliance requirements which are not based in law or regulation (e.g., were agreed to as part of audit resolution of prior audit findings) which could be material to a major program. Reasonable procedures to identify such compliance requirements would be inquiry of non-Federal entity management and review of the contract and grant agreements pertaining to the program. Any such requirements which may have a direct and material effect on a major program shall be included in the audit.

Internal Control

The following audit objective and suggested audit procedures should be considered in tests of special tests and provisions in addition to those provided in Part 4 - Agency Program Requirements; Part 5 - Clusters of Programs; and in accordance with Part 7 - Guidance for Auditing Programs Not Included in This Compliance Supplement:

Audit Objective

1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 § ___.500(c).

Suggested Audit Procedures

1. Using the guidance provided in Part 6 - Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.

2. Plan the testing of internal control to support a low assessed level of control risk for special tests and provisions and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

Appendix 8.B. MATRIX OF COMPLIANCE REQUIREMENTS – (Part 2, Compliance Supplement)

INTRODUCTION

This Part identifies the compliance requirements that are applicable to the programs included in the Compliance Supplement. Because Part 4 (Agency Program Requirements) and Part 5 (Clusters of Programs) do not include guidance for all types of compliance requirements that pertain to the program (see introduction to Part 4 for additional information), the auditor should use this Part 2 to identify the types of compliance requirements that apply. The box for each type of compliance requirement will either contain a “Y” (for “Yes” if the type of compliance requirement may apply) or be shaded (if the program normally does not have activity subject to this type of compliance requirement).

Even though a “Y” indicates that the compliance requirement applies to the Federal program, it may not apply at a particular non-Federal entity, either because that entity does not have activity subject to that type of compliance requirement or the activity could not have a material effect on a major program. For example, even though Real Property Acquisition/Relocation Assistance may apply to a particular program, it would not apply to a non-Federal entity that did not acquire real property covered by the Uniform Relocation Assistance and Real Property Acquisition Policies Act. Similarly, a “Y” may be included under Procurement; however, the audit would not be expected to address this type of compliance requirement if the non-Federal entity charges only small amounts of purchases to a major program. The auditor should exercise professional judgment when determining which compliance requirements marked “Y” need to be tested at a particular non-Federal entity.

When a “Y” is present on the matrix and the auditor determines that the requirement should be tested at a non-Federal entity, the auditor should use Part 3, Compliance Requirements, and Part 4 (or 5), if applicable, in planning and performing the tests of compliance. For example, if a program entry in the matrix includes a “Y” in the Program Income column, Part 3 provides a general description of the compliance requirement. Part 3 also provides the audit objective and the suggested audit procedures for testing program income. Part 4 (or 5) may also include specific information on program income requirements pertaining to the program, such as restrictions on how program income may be used. Part 6, Internal Control, may be useful in assessing control risk and designing tests of internal control with respect to each applicable compliance requirement.

When a compliance requirement is shaded in the matrix, it normally does not apply to the program. However, if specific information comes to the auditor’s attention (e.g., during the normal review of the grant agreement or discussions with management) that provides evidence that a compliance requirement shaded in the matrix could have a material effect on a major program, the auditor would be expected to test the requirement. This circumstance should arise infrequently.

CFDA	Types of Compliance Requirements													
	A. <i>Activities Allowed or Unallowed</i>	B. <i>Allowable Costs/Cost Principles</i>	C. <i>Cash Management</i>	D. <i>Davis-Bacon Act</i>	E. <i>Eligibility</i>	F. <i>Equipment and Real Property Management</i>	G. <i>Matching, Level of Effort, Earmarking</i>	H. <i>Period of Availability of Federal Funds</i>	I. <i>Procurement and Suspension and Debarment</i>	J. <i>Program Income</i>	K. <i>Real Property Acquisition/Relocation Assistance</i>	L. <i>Reporting</i>	M. <i>Subrecipient Monitoring</i>	N. <i>Special Tests And Provisions</i>
10 – United States Department of Agriculture (USDA)														
10.553														
10.555														
10.556														
10.559	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
84 – Department of Education (ED)														
84.002	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.010	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
84.011	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
84.027														
84.173	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.041	Y	Y		Y			Y					Y		Y
84.048	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
84.181	Y	Y	Y			Y	Y	Y	Y			Y		
84.186	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.282	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	
84.287	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
84.298	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.318	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.357	Y	Y	Y		Y		Y	Y	Y			Y	Y	Y
84.365	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.366	Y	Y	Y		Y		Y	Y	Y			Y	Y	Y
84.367	Y	Y	Y		Y		Y	Y	Y			Y	Y	Y

<i>CFDA</i>	<i>Types of Compliance Requirements</i>													
	<i>A.</i> <i>Activities Allowed or Unallowed</i>	<i>B.</i> <i>Allowable Costs/Cost Principles</i>	<i>C.</i> <i>Cash Management</i>	<i>D.</i> <i>Davis-Bacon Act</i>	<i>E.</i> <i>Eligibility</i>	<i>F.</i> <i>Equipment and Real Property Management</i>	<i>G.</i> <i>Matching, Level of Effort, Earmarking</i>	<i>H.</i> <i>Period of Availability of Federal Funds</i>	<i>I.</i> <i>Procurement and Suspension and Debarment</i>	<i>J.</i> <i>Program Income</i>	<i>K.</i> <i>Real Property Acquisition/Relocation Assistance</i>	<i>L.</i> <i>Reporting</i>	<i>M.</i> <i>Subrecipient Monitoring</i>	<i>N.</i> <i>Special Tests And Provisions</i>
84.938	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y

Legend:

Y Yes, this type of compliance requirement may apply to the Federal program.

Shaded box Indicates the program normally does not have activity subject to this type of compliance requirement.

Appendix 8.C. AGENCY PROGRAM REQUIREMENTS (Part 4, Compliance Supplement)

The following sections are from **OMB Circular A-133, Compliance Supplement, March 2009**

INTRODUCTION

For each Federal program (except R&D and SFA) included in this Supplement, Part 4 provides I, “Program Objectives,” and II, “Program Procedures.” Also, Part 4 provides information about compliance requirements specific to a program in III, “Compliance Requirements.” Finally, Part 4 also provides IV, “Other Information,” when there is other useful information pertaining to the program that does not fit in sections I - III. For example, when a program allows funds to be transferred to another program, section IV will provide guidance on how those funds should be treated on the Schedule of Expenditures of Federal Awards and Type A program determinations.

When any of five types of compliance requirements (A, “Activities Allowed or Unallowed,” E, “Eligibility,” G, “Matching, Level of Effort, Earmarking,” L, “Reporting,” and N, “Special Tests and Provisions”) are applicable to a program included in this Supplement, Part 4 will always provide information specific to the program. The auditor should look to Part 3 for a general description of the compliance requirements, audit objectives, and suggested audit procedures and to Part 4 for information about the specific requirements for a program. An exception is that for N, “Special Tests and Provisions,” Part 3 only includes audit objectives and suggested audit procedures for internal control and all other information is included in Part 4.

The other nine types of compliance requirements generally are not specific to a program and, therefore, are usually not listed in Part 4. However, when one of these other nine types of compliance requirements have information specific to a program, this specific information will be provided with the program in Part 4.

When a requirement is marked as “Not Applicable,” it means either that there are no compliance requirements or the auditor is not required to test compliance.

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements. The descriptions of the compliance requirements in Parts 3 and 4 are generally a summary of the actual compliance requirements. The auditor should refer to the referenced citations (e.g., laws and regulations) for the complete compliance requirements.

For R&D and SFA, Part 5 is the equivalent of Part 4; therefore the auditor will need to consider Parts 2, 3, and 5 in developing the audit program for these programs (program clusters).

Appendix 8.C.1. DEPARTMENT OF EDUCATION CROSS-CUTTING SECTION

INTRODUCTION

This section contains compliance requirements that apply to more than one Department of Education (ED) program either because the program was authorized under the Elementary and Secondary Education Act of 1965 (ESEA), or the program is subject to the General Education Provisions Act (GEPA), or both. The compliance requirements in this Cross-Cutting Section reference the applicable programs in Part 4, Agency Compliance Requirements. Similarly, the applicable programs in Part 4 reference this Cross-Cutting Section.

CFDA No.	Program Name	Listed as
ESEA Programs		
84.010	Title I Grants to Local Educational Agencies (LEAs)	Title I, Part A
84.011	Migrant Education— State Grant Program	MEP
84.041	Impact Aid	Title VIII of ESEA
84.186	Safe and Drug-Free Schools and Communities--State Grants	SDFSCA
84.282	Charter Schools	CSP
84.287	Twenty-First Century Community Learning Centers	21st CCLC
84.298	State Grants for Innovative Programs	Title V, Part A
84.318	Education Technology State Grants	Ed Tech
84.357	Reading First State Grants	Reading First
84.365	English Language Acquisition Grants	Title III, Part A
84.366	Mathematics and Science Partnerships	MSP
84.367	Improving Teacher Quality State Grants	Title II, Part A
Other Programs		
84.002	Adult Education—State Grant Program	Adult Education
84.027	Special Education—Grants to States (IDEA, Part B)	IDEA
84.173	Special Education—Preschool Grants (IDEA Preschool)	IDEA
84.048	Career and Technical Education--Basic Grants to States (Perkins IV)	CTE
84.181	Special Education--Grants for Infants and Families with Disabilities	IDEA, Part C
84.938	Hurricane Education Recovery Act Programs	HERA

No Child Left Behind Act

The ESEA was amended January 8, 2002 by the No Child Left Behind Act of 2001 (NCLB) (Pub. L. No. 107-110).

Waivers and Expanded Flexibility

Under Title IX of the ESEA, States, Indian tribes, LEAs, and schools through their LEA may request waivers from ED of many of the statutory and regulatory requirements of programs authorized in ESEA. In addition, some States may have been granted authority to grant waivers of Federal requirements under the Education Flexibility Partnership Act of 1999.

TEA is an Ed-Flex state.

Auditors should ascertain from the audited State Education Agencies (SEAs) and LEAs whether the SEA or the LEA or its schools are operating under any waivers.

The School to Work Opportunities Act also provides waiver authority. In addition, under the Education Flexibility Partnership Act of 1999, which is effective until the No Child Left Behind Act is reauthorized, the Secretary delegated to the Texas Education Agency the authority to waive certain Federal statutory or regulatory requirements affecting the State and its districts and schools.

I. PROGRAM OBJECTIVES

The ESEA, as amended by the NCLB, provides for a comprehensive overhaul of Federal support for education, and restructures how these programs provide services. ESEA programs in this Supplement to which this section applies are shown above. Generally these requirements are applicable for fiscal years beginning after June 30, 2002.

Under the NCLB, Federal education programs authorized in the ESEA are designed to work in concert with each other, rather than separately. By emphasizing program coordination, planning, and service delivery among Federal programs and enhancing integration with State and local instructional programs, the ESEA reinforces comprehensive State and local educational reform efforts geared toward ensuring that all children can meet challenging State standards regardless of their background or the school they attend.

Program objectives for non-ESEA programs covered by this cross-cutting section and additional information on program objectives for the ESEA programs are set forth in the individual program sections of this Supplement.

II. PROGRAM PROCEDURES

Plans for ESEA Programs

An SEA must either develop and submit separate, program-specific individual State plans to ED for approval as provided in individual program requirements outlined in the ESEA or submit, in accordance with section 9302 of the ESEA, a consolidated plan to ED for approval. Consolidated plans will provide a general description of the activities to be carried out with ESEA funds. Subgrants to LEAs and other educational service agencies and amounts to be used for State activities are often set by law for ESEA programs. However, SEAs have discretion in using funds available for State activities.

LEAs also have the choice in many cases of submitting individual program plans or a consolidated plan to the SEA to receive program funds. SEAs with approved consolidated State plans may require LEAs to submit consolidated plans.

Unique Features of ESEA Programs That May Affect the Conduct of the Audit

Consolidation of administrative funds (In addition to the compliance requirement in III. A.1, see IV, “Other Information.”)

SEAs and LEAs (with SEA approval) may consolidate Federal funds received for administration under many ESEA programs, thus eliminating the need to account for these funds on a program-by-program basis. The amount from each applicable program set aside for State consolidation may not be more than the percentage, if any, authorized for State administration under that program. The amount set aside under each covered program for local consolidation may not be more than the percentage, if any, authorized for local administration under that program. Expenditures using consolidated administrative funds may be charged to the programs on a first in/first out method, in proportion to the funds provided by each program, or another reasonable manner.

Schoolwide Programs (In addition to the compliance requirement in III. A.2, see IV, “Other Information.”)

Eligible schools are able to use their Title I, Part A funds, in combination with other Federal, State, and local funds, in order to upgrade the entire educational program of the school and to raise academic achievement for all students. Except for some of the specific requirements of the Title I, Part A program, Federal funds that a school consolidates in a schoolwide program are not subject to most of the statutory or regulatory requirements of the programs providing the funds as long as the schoolwide program meets the intent and purpose of those programs. The Title I, Part A requirements that apply to schoolwide programs are identified in the Title I, Part A program-specific section. If a school does not consolidate Federal funds with State and local funds in its schoolwide program, the school has flexibility with respect to its use of Title I, Part A funds, consistent with section 1114 of ESEA (20 USC 6314), but it must comply with all statutory and regulatory requirements of the other Federal funds it uses in its schoolwide program.

Transferability (In addition to the compliance requirement in III. A.3, see III.G.3.b, “Matching, Level of Effort, Earmarking – Earmarking,” and IV, “Other Information.”)

SEAs and LEAs (with some limitations) may transfer funds from one or more applicable programs to one or more other applicable programs, or to Title I, Part A. Transferred funds are subject to all of the requirements, set-asides, and limitations of the programs into which they are transferred.

Small Rural Schools Achievement Alternative Use of Funds (In addition to the compliance requirement in III. A.4, see IV, “Other Information.”)

Eligible LEAs may, after notifying the SEA, spend all or part of the funds they receive under four applicable programs for local activities authorized under one or more of seven applicable programs.

General and Program-Specific Cross-Cutting Requirements

The requirements in this cross-cutting section can be classified as either general or program-specific. General cross-cutting requirements are those that are the same for all applicable programs but are implemented on an entity-level. These requirements need only be tested once to cover all applicable major programs. The general cross-cutting requirements that the auditor only need test once to cover all applicable major programs are: III.G.2.1, “Level of Effort-Maintenance of Effort (SEAs/LEAs);” III.L.3, “Special Reporting;” and, III.N, “Special Tests and Provisions” (III.N.2, “Schoolwide Programs;” and III.N.3, “Comparability”). Program-specific cross-cutting requirements are the same for all applicable programs, but are implemented at the individual program level. These types of requirements need to be tested separately for each applicable major program. The compliance requirement in III.N.1, “Participation of Private School Children,” may be tested on a general or program-specific basis.

Program procedures for non-ESEA programs covered by this cross-cutting section and additional information on program procedures for the ESEA programs are set forth in the individual program sections of this Supplement.

Availability of Other Program Information

The ESEA, as reauthorized by the NCLB, is available with a hypertext index on the Internet at <http://www.ed.gov/policy/elsec/leg/esea02/index.html>. A number of documents contain guidance applicable to the cross-cutting requirements in this Supplement. They include:

- Guidance on the Transferability Authority (June 8, 2004) (<http://www.ed.gov/programs/transferability/finalsummary04.doc>);
- Guidance on the Rural Education Achievement Program (REAP) (June 2003) (<http://www.ed.gov/policy/elsec/guid/reap03guidance.doc>);

- State Educational Agency Procedures for Adjusting Basic, Concentration, Targeted, and Education Finance Incentive Grant Allocations Determined by the U.S. Department of Education (May 23, 2003)
(<http://www.ed.gov/programs/titleiparta/seaguidanceforadjustingallocations.doc>);
- How Does a State or Local Educational Agency Allocate Funds to Charter Schools that Are Opening for the First Time or Significantly Expanding Their Enrollment? (December 2000)
(<http://www.ed.gov/policy/elsec/guid/cschoools/cguidedec2000.doc>);
- Title I Services to Eligible Private School Children (October 17, 2003)
(<http://www.ed.gov/programs/titleiparta/psguidance.doc>);
- Title IX, Part E Uniform Provisions Subpart 1—Private Schools: Equitable Services to Eligible Private School Students, Teachers, and Other Educational Personnel (August 2005)
(<http://www.ed.gov/policy/elsec/guid/equitableserguidance.doc>);
- Title I Fiscal Issues: Maintenance of Effort; Comparability; Supplement, not Supplant; Carryover; Consolidating Funds in Schoolwide Programs; and Grantback Requirements (February 2008)
(<http://www.ed.gov/programs/titleiparta/fiscalguid.doc>)
- Designing Schoolwide Programs (March 2006)
(<http://www.ed.gov/policy/elsec/guid/designingswpguid.doc>).

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

Further, if there has been a transfer of funds to a consolidated administrative cost pool from a major program, in developing audit procedures to test compliance with Activities Allowed or Unallowed and Allowable Costs/Cost Principles, the auditor should include the consolidated administrative cost pool in the universe to be tested.

A. Activities Allowed or Unallowed

1. *Consolidation of Administrative funds* (SEAs/LEAs)

ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (except the Governor's Program authorized under Section 4112(a)); CSP (84.282); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357); Title III, Part A (84.365); MSP (84.366) (at the LEA level only); and Title II, Part A (84.367).

An SEA may consolidate the amounts specifically made available to it for State administration under one or more ESEA programs (and such other programs as the ED Secretary may designate) if the SEA can demonstrate that the majority of its resources are derived from non-Federal sources. An SEA must use consolidated administrative funds for authorized administrative activities of one or more of the consolidated programs. It may also use such funds for administrative activities designed to enhance the effective and coordinated use of funds under one or more of the programs included in the consolidation, such as coordination of ESEA programs with other Federal and non-Federal programs; the establishment and operation of peer review mechanisms; the dissemination of information regarding model programs and practices; and technical assistance (Section 9201 of ESEA (20 USC 7821)).

An LEA may, with the approval of its SEA, consolidate and use for the administration of one or more ESEA programs not more than the percentage, established in each program, of the total available under those programs. An LEA may use consolidated funds for the administration of the consolidated programs and for uses at the school district and school levels comparable to those authorized for the SEA. An LEA that consolidates administrative funds may not use any other funds under the programs included in the consolidation for administration (Section 9203 of ESEA (20 USC 7823)).

An SEA or LEA that consolidates administrative funds is not required to keep separate records of administrative costs for each individual program. Expenditures of consolidated administrative funds are allowable if they are for administrative costs that are allowable under any of the contributing programs (Sections 9201(c) and 9203(e) of ESEA (20 USC 7821(c) and 7823(e))).

See III.N.2.c, "Special Tests and Provisions - Schoolwide Programs" in this cross-cutting section for discussion of provisions relating to allowable activities for Schoolwide Programs.

See IV, “Other Information,” for guidance on the treatment of consolidated administrative funds for purposes of Type A program determination and presentation in the Schedule of Expenditures of Federal Awards.

2. ***Schoolwide Programs*** (LEAs)

ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor’s Program authorized under Section 4112(a)); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); Title III, Part A (84.365,); MSP (84.366); and Title II, Part A (84.367).

This section also applies to IDEA (84.027 and 84.173) and CTE (84.048).

An eligible school participating under Title I, Part A may, in consultation with its LEA, use its Title I, Part A funds, along with funds provided from the above-identified programs, to upgrade the school’s entire educational program in a schoolwide program. See III.N.2, “Special Tests and Provisions - Schoolwide Programs” in this cross-cutting section for testing related to schoolwide programs (Section 1114 of ESEA (20 USC 6314)).

See IV, “Other Information,” for guidance on the treatment of consolidated schoolwide funds for purposes of Type A program determination and presentation in the Schedule of Expenditures of Federal Awards.

3. ***Transferability*** (SEAs and LEAs)

ESEA programs in this Supplement to which this section applies are: SDFSCA (84.186) (including the Governor’s program authorized under Section 4112(a), with the agreement of the Governor); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); and Title II, Part A (84.367).

SEAs may transfer up to 50 percent of the non-administrative funds allocated for State-level activities from one or more listed applicable programs to one or more of the other listed applicable programs, or to Title I, Part A (84.010). Except for 21st CCLC (84.287), LEAs not identified for improvement or corrective action under Section 1116(c) of ESEA may also transfer up to 50 percent of the funds allocated to them from one or more of the listed applicable programs to another listed applicable program or to Title I, Part A. LEAs identified for improvement under Section 1116(c) may transfer up to 30 percent of the funds allocated to them for (i) school improvement under Section 1003; or (ii) other LEA improvement activities consistent with Section 1116(c). LEAs identified for corrective action may not transfer funds (Sections 6123(a) and (b) of ESEA (20 USC 7305b(a) and (b))).

Transferred funds are subject to all of the requirements, set-asides, and limitations of the programs into which they are transferred (Section 6123(e) of ESEA (20 USC 7305b(e))).

See III.G.3.b, “Matching, Level of Effort, Earmarking - Earmarking,” for additional testing related to transferability.

See IV, “Other Information,” for guidance on the treatment of funds transferred under this provision for purposes of Type A program determination and presentation in the Schedule of Expenditures of Federal Awards.

4. ***Small Rural Schools Achievement (SRSA) Alternative Uses of Funds Program***

ESEA programs in this Supplement to which this section applies are: SDFSCA (84.186) (including the Governor’s program authorized under Section 4112(a)); Title V, Part A (84.298); Ed Tech (84.318); and Title II, Part A (84.367).

LEAs that (a) have a total average daily attendance of fewer than 600 students, or serve only schools that are located in counties with a population density of fewer than 10 persons per square mile, and (b) serve only schools that are coded by the National Center for Education Statistics (NCES) as rural (NCES code of 7 or 8), or (with the concurrence of the SEA) are located in an area defined as rural by a governmental agency of the State may, after notifying the SEA, spend all or part of the funds received under the above four programs for local activities authorized under one or more of the following seven programs:

- CFDA 84.010 Title I Grants to Local Education Agencies (LEAs) (Part A, Title I)
 - CFDA 84.186 Safe and Drug-Free Schools and Communities—State Grants (Part A, Title IV)
 - CFDA 84.287 Twenty-First Century Community Learning Centers (Part B, Title IV)
 - CFDA 84.298 Innovative Education Program Strategies (Part A, Title V)
 - CFDA 84.318 Education Technology State Grants (Part D, Title II)
 - CFDA 84.365 English Language Acquisition Grants (Part A, Title III)
 - CFDA 84.367 Improving Teacher Quality State Grants (Subpart 2, Part A, Title II)
- (Section 6211(a)-(c) of ESEA (20 USC 7345(a)-(c)))

See IV, “Other Information,” for guidance on the treatment of funds transferred under this provision for purposes of Type A program determination and presentation in the Schedule of Expenditures of Federal Awards.

B. Allowable Costs/Cost Principles

1. *Alternative Fiscal and Administrative Requirements* (SEAs/LEAs)

This section applies to all ESEA programs in this Supplement: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor’s program authorized under Section 4112(a)); CSP (84.282); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357); Title III, Part A (84.365); MSP (84.366); and Title II, Part A (84.367).

A State may adopt its own written fiscal and administrative requirements, which are consistent with the provisions of OMB Circular A-87, for expending and accounting for all funds received by SEAs and LEAs under ESEA programs. The written fiscal and administrative requirements must: (a) be sufficiently specific to ensure that funds are used in compliance with all applicable statutory and regulatory provisions, including ensuring that costs are allocable to a particular cost objective; (b) ensure that funds received are spent only for reasonable and necessary costs of the program; and (c) ensure that funds are not used for general expenses required to carry out other responsibilities of State or local governments. (34 CFR section 299.2(b)).

2. *Documentation of Employee Time and Effort (Consolidated Administrative Funds and Schoolwide Programs)*

ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (except the Governor’s Program authorized under Section 4112a, with respect to consolidated administrative funds); CSP (84.282); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357)(consolidated administrative funds only); Title III, Part A (84.365); MSP (84.366) (with respect to schoolwide programs and consolidation of administrative funds at the LEA level); and Title II, Part A (84.367).

This section also applies to SDFSCA (84.186) (including the Governor’s program authorized under Section 4112(a) for schoolwide programs only); IDEA (84.027 and 84.173) (schoolwide programs only); and CTE (84.048) (schoolwide programs only).

- a. ***Consolidated Administrative Funds:*** An SEA or LEA that consolidates Federal administrative funds under Sections 9201 or 9203 of ESEA (20 USC 7821 or 7823) is not required to keep separate records by individual program. The SEA or LEA may treat the consolidated administrative cost objective as a “dedicated function.” Time-and-effort requirements with respect to consolidated administrative funds vary under different circumstances.

- (1) An employee who works solely on a single cost objective (i.e., the consolidated administrative cost objective) must furnish a semi-annual certification that he/she has been engaged solely in activities. The certifications must be signed by the employee or a supervisory official having first-hand knowledge of the work performed by the employee in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).
 - (2) An employee who works in part on a single cost objective (i.e., the consolidated administrative cost objective), and in part on a Federal program whose administrative funds have not been consolidated or on activities funded from other revenue sources must maintain time and effort distribution records in accordance with OMB Circular A-87, Attachment B, paragraphs 8.h.(4), (5), and (6) documenting the portion of time and effort dedicated to:
 - (a) The single cost objective, and
 - (b) Each program or other cost objective supported by non-consolidated Federal funds or other revenue sources.
- b. *Schoolwide Programs* - A schoolwide program school is permitted to consolidate Federal funds with State and local funds to upgrade the entire educational program of the school. (Note: Reading First funds may not be consolidated - see *Federal Register*, Notice of Authorization and Exemption of Schoolwide Programs, July 2, 2004, 69 FR 40361-40362.) A school that consolidates Federal funds with State and local funds in a consolidated schoolwide program is not required to maintain separate records by program (Section 1114(a)(3)(C) of ESEA (20 USC 6314(a)(3)(C)); 34 CFR section 200.29(d)). If a schoolwide program school does not consolidate Federal funds in a consolidated schoolwide pool, the school must keep separate records by program. (Guidance is contained in the publication entitled *Title I Fiscal Issues: Maintenance of Effort; Comparability; Supplement, not Supplant; Carryover; Consolidating Funds in Schoolwide Programs; and Grantback Requirements* (February 2008). This guidance is available on the Internet at <http://www.ed.gov/programs/titleiparta/fiscalguid.doc>). Time-and-effort requirements in schoolwide program schools vary under different circumstances.
- (1) If a school operating a schoolwide program consolidates Federal, State, and local funds in a consolidated schoolwide pool, an employee who is paid in full with funds from that pool is not required to file a semi-annual certification because there is no distinction between staff paid with Federal funds and staff paid with State or local funds. In effect, payment from the single consolidated schoolwide pool

certifies that the employee works only on activities of the schoolwide program.

- (2) If a school operating a schoolwide program does not consolidate Federal funds with State and local funds in a consolidated schoolwide pool, an employee who works, in whole or in part, on a Federal program or cost objective must document time and effort as follows:

- (a) An employee who works solely on a single cost objective (i.e., a single Federal program whose funds have not been consolidated or Federal programs whose funds have been consolidated but not with State and local funds) must furnish a semi-annual certification that he/she has been engaged solely in activities. The certifications must be signed by the employee or a supervisory official having first-hand knowledge of the work performed by the employee in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(3).
- (b) An employee who works on multiple activities or cost objectives (i.e., in part on a Federal program whose funds have not been consolidated in a consolidated schoolwide pool and in part on Federal programs supported with funds consolidated in a schoolwide pool or on activities funded from other revenue sources) must maintain time and effort distribution records in accordance with OMB Circular A-87, Attachment B, paragraph 8.h.(4), (5), and (6). The employee must document the portion of time and effort dedicated to:
 - (i) The Federal program; and
 - (ii) Each program or other cost objective supported either by consolidated Federal funds or other revenue sources.

3. Indirect Costs (All grantees/all subgrantees)

ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor's Program authorized under Section 4112(a)); CSP (84.282); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357); Title III, Part A (84.365); MSP (84.366); and Title II, Part A (84.367).

This section also applies to Adult Education (84.002); IDEA (84.027 and 84.173); CTE (84.048); IDEA, Part C (84.181); and HERA (84.938A).

A “restricted” indirect cost rate (RICR) must be used for programs administered by State and local governments and their governmental subrecipients that have a statutory requirement prohibiting the use of Federal funds to supplant non-federal funds. Non-governmental grantees or subgrantees administering such programs have the option of using the RICR, or an indirect cost rate of 8 percent, unless ED determines that the RICR would be lower.

The formula for a restricted indirect cost rate is:

$$\text{RICR} = (\text{General management costs} + \text{Fixed costs}) / (\text{Other expenditures})$$

General management costs are costs of activities that are for the direction and control of the grantee’s (or subgrantee’s) affairs that are organization wide, such as central accounting services, payroll preparation and personnel management. For State and local governments, the general management indirect costs consist of (1) allocated Statewide Central Service Costs approved by the Department of Health and Human Services in a formal Statewide Cost Allocation Plan (SWCAP) as “Section I” costs and (2) departmental indirect costs. The term “general management” as it applies to departmental indirect costs does not include expenditures limited to one component or operation of the grantee. Specifically excluded from general management costs are the following costs that are reclassified and included in the “other expenditures” denominator:

- (a) Divisional administration that is limited to one component of the grantee;
- (b) The governing body of the grantee;
- (c) Compensation of the chief executive officer of the grantee;
- (d) Compensation of the chief executive officer of any component of the grantee; and
- (e) Operation of the immediate offices of these officers.

Also excluded from the SWCAP Section I indirect costs are any occupancy and maintenance type costs as described in 34 CFR section 76.568.

However, because these costs are allocated and not incurred at the departmental level, they do not require reclassification to the “other expenditure” denominator.

Fixed costs are contributions to fringe benefits and similar costs associated with salaries and wages that are charged as indirect costs, including retirement, social security, pension, unemployment compensation and insurance costs.

Other expenditures are the grantee’s total expenditures for its federally and non-federally funded activities, including directly charged occupancy and space maintenance costs (as defined in 34 CFR section 76.568), and the costs related to the chief executive officer of the grantee or any component

of the grantee and its offices. Excluded are general management costs, fixed costs, subgrants, capital outlays, debt service, fines and penalties, contingencies, and election expenses (except for elections required by Federal statute).

Occupancy and space maintenance costs associated with functions that are not organization-wide must be included with other expenditures in the indirect cost formula. These costs may be charged directly to affected programs only to the extent that statutory supplanting prohibitions are not violated. This reimbursement must be approved in advance by ED. Specific occupancy and space maintenance costs may be charged directly only to programs affected by the restricted rate calculation if charging for such costs is approved in advance by ED (34 CFR section 76.568(c)). Indirect costs charged to a grant are determined by applying the RICR to total direct costs of the grant minus capital outlays, subgrants, and other distorting or unallowable items as specified in the grantee's indirect cost rate agreement.

The other ED programs (those not having a statutory non-supplant requirement) that allow indirect costs do not require a restricted rate and should follow the applicable OMB cost principles circular (34 CFR sections 76.560 and 76.563-76.569).

4. *Unallowable Direct Costs to Programs*

Officials from ED have noted that some entities have charged costs in the following areas which were determined to be unallowable as specified in the indicated references. Auditors should be alert that if any such costs are charged, charges must be consistent with provisions of OMB Circular A-87.

- a. Separation leave costs (OMB Circular A-87, Attachment B, paragraph 8.d.(3)).
- b. Severance costs (OMB Circular A-87, Attachment B, paragraph 8.g.(3)).
- c. Post retirement health benefit (PRHB) costs (OMB Circular A-87, Attachment B, paragraph 8(f)).

5. *Unallowable Costs to Programs (Direct or Indirect)*

Officials from ED have noted that in cases where grantees rent or lease buildings or equipment from an affiliate organization, the costs associated with the lease or rental agreement can be excessive. The auditor should be alert to the fact that the measure of allowability in such "less-than-arms-length-relationships" is not fair market value, but rather the "costs of ownership" standard as referenced in each OMB cost principles circular as follows:

- a. OMB Circular A-87, Attachment B, paragraph 37.c.
- b. OMB Circular A-21, Section J.43.

- c. OMB Circular A-122, Attachment B, Paragraph 43.c.

C. Cash Management

ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor's Program authorized under Section 4112(a)); CSP (84.282); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357); Title III, Part A (84.365); MSP (84.366); and Title II, Part A (84.367).

This section also applies to Adult Education (84.002); IDEA (84.027 and 84.173); TRIO Cluster (84.042, 84.044, 84.047, 84.066 and 84.217); CTE (84.048); Vocational Rehabilitation (84.126); IDEA, Part C (84.181); and HERA (84.938A, 84.938B, 84.938C, 84.938D, 84.938E, 84.938F).

Note: This section applies only to Federal programs in which the entity being audited is a grantee, i.e. the entity receives grant funds directly from ED. Auditors should refer to Part 3, Section C, "Cash Management," for any Federal program in which the entity is being audited is a subrecipient, i.e., Federal funds are received through a pass-through grant from a grantee.

Effective December 17, 2007, grantees draw funds via the G5 System instead of the Grant Administration and Payment System (GAPS). Grantees request funds by: (1) creating a payment request using the G5 System through the Internet; (2) calling the Payee Hotline; or (3) if the grantee is placed on the reimbursement or cash monitoring payment method, submitting a PMS-270, *Request for Title IV Reimbursement*, to an ED program or regional office. When creating a payment request in G5, the grantee enters the drawdown amounts, by award, directly into G5. Grantees can redistribute drawn amounts between grant awards by making adjustments in G5 to reflect actual disbursements for each award, as long as the net amount of the adjustments is zero. When requesting funds using the other two methods, grantees provide drawdown information to the hotline operator or on the PMS-270.

To assist grantees in reconciling their internal accounting records with the , G5 System, using their DUNS (Data Universal Numbering System) number grantees can obtain a G5 External Award Activity Report (<https://www.g5.gov/>) showing cumulative and detail information for each award. The External Award Activity Report can be created with date parameters (Start and End Dates) and viewed on line. To view each draw per award, the G5 user may click on the award number to view a display of individual draws for that award.

D. Davis-Bacon Act

Under the General Education Provisions Act, when authorized, all construction and minor remodeling projects under ED programs covered by the Cross-Cutting Section are subject to the requirements of the Davis-Bacon Act (20 USC 1232b). Additional ED programs are subject to the Davis-Bacon Act as indicated in the relevant program description.

G. Matching, Level of Effort, Earmarking

1. Matching

See individual program compliance supplement for any matching requirements.

2.1 Level of Effort - *Maintenance of Effort* (SEAs/LEAs)

ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); SDFSCA (84.186) (including the Governor's Program authorized under Section 4112(a) when the Governor awards subgrants to LEAs); 21st CCLC (84.287); Ed Tech (84.318); Title III, Part A (84.365); and Title II, Part A (84.367).

As described in II, "Program Procedures - General and Program-Specific Cross-Cutting Requirements," this requirement is a general cross-cutting requirement that need only be tested once to cover all major programs to which it applies.

An LEA may receive funds under an applicable program only if the SEA finds that the combined fiscal effort per student or the aggregate expenditures of the LEA from State and local funds for free public education for the preceding year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding year, unless specifically waived by ED.

An LEA's expenditures from State and local funds for free public education include expenditures for administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenditures to cover deficits for food services and student body activities. They do not include the following expenditures: (a) any expenditures for community services, capital outlay, debt service and supplementary expenses as a result of a Presidentially declared disaster and (b) any expenditures made from funds provided by the Federal government. If an LEA fails to maintain fiscal effort, the SEA must reduce the amount of the allocation of funds under an applicable program in any fiscal year in the exact proportion by which the LEA fails to maintain effort by falling below 90 percent of both the combined fiscal effort per student and aggregate expenditures (using the measure most favorable to the LEA) (Section 9521 of ESEA (20 USC 7901); 34 CFR section 299.5).

In some States, the SEA prepares the calculation from information provided by the LEA. In other States, the LEAs prepare their own calculation. The

audit procedures contained in III.G.2.1, “Level of Effort - Maintenance of Effort,” should be adapted to fit the circumstances. For example, if auditing the LEA and the LEA does the calculations, the auditor should perform steps a, b, and c. If auditing the LEA and the SEA does the calculation, the auditor should perform step c for the amounts reported to the SEA. If auditing the SEA and the SEA performs the calculation, the auditor should perform steps a. and b. and amend step c to trace amounts to the LEA reports. If auditing the SEA and the LEA performs the calculation, the auditor should perform step a. and, if the requirement was not met, determine if the funding was reduced appropriately.

2.2 Level of Effort - Supplement Not Supplant (SEAs/LEAs)

ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor’s program authorized under Section 4112(a)); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); Title III, Part A (84.365); MSP (84.366); and Title II, Part A (84.367).

General - Including the Safe and Drug-Free Schools Governor’s program, an SEA and LEA may use program funds only to supplement and, to the extent practical, increase the level of funds that would, in the absence of the Federal funds, be made available from non-Federal sources for the education of participating students. In no case may an LEA use Federal program funds to supplant funds from non-Federal sources (Title I, Part A, Section 1120A(b) of ESEA (20 USC 6321(b)); MEP, Section 1304(c)(2) of ESEA (20 USC 6394(c)(2)); SDFSCA, Section 4113(a)(8) of ESEA (20 USC 7113(a)(8)); 21st CLCC, Section 4204 of ESEA (20 USC 7174(b)(2)(G)); Title V, Part A, Section 5144 of ESEA (20 USC 7217c); Ed Tech, Section 2413(b)(6) of ESEA (20 USC 6763(b)(6)); Title III, Part A, Section 3115(g) (20 USC 6825(g)); MSP, Section 2202(a)(4) of ESEA (20 USC 6662(a)(4)); and Title II, Part A, Sections 2113(f) and 2123(b) of ESEA (20 USC 6613(f) and 6623(b))).

In the following instances, it is presumed that supplanting has occurred:

- a. The LEA used Federal funds to provide services that the LEA was required to make available under other Federal, State or local laws.
- b. The LEA used Federal funds to provide services that the LEA provided with non-Federal funds in the prior year.
- c. The LEA used Title I, Part A or MEP funds to provide services for participating children that the LEA provided with non-Federal funds for nonparticipating children.

These presumptions are rebuttable if the LEA can demonstrate that it would not have provided the services in question with non-Federal funds had the Federal funds not been available.

Schoolwide Programs - In a Title I schoolwide program, a school is not required to provide supplemental services to identified children. A school

operating a schoolwide program does not have to: (1) show that Federal funds used within the school are paying for additional services that would not otherwise be provided; or (2) demonstrate that Federal funds are used only for specific target populations. Such a school, however, is required to use funds available under Title I and any other Federal programs to supplement the total amount of funds that would, in the absence of the Federal funds, be made available from non-Federal sources for that school, including funds needed to provide services that are required by law for children with disabilities and children with limited English proficiency (Title I, Part A, Section 1114(a)(2) of ESEA (20 USC 6314(a)(2); 34 CFR sections 200.25(c) and (d)).

Title I, Part A and MEP - An LEA may exclude from determinations of compliance with the supplement not supplant requirement, supplemental State or local funds spent in any school attendance area or school for programs that meet the intent and purposes of Title I, Part A or the MEP, respectively, as identified in Title I of ESEA (Sections 1120A(d) and 1304(c)(2) of ESEA (20 USC 6321(d) and 6394(c)(2)); 34 CFR sections 200.79 and 200.88).

Title III, Part A - An LEA may only use funds under Title III, Part A to supplement the level of Federal, State and local public funds that in the absence of the Title III funds, would have been provided for programs for limited English proficient children and immigrant children and youth (Section 3115(g) of ESEA (20 USC 6825(g))).

3. Earmarking

a. *Administration* (SEAs)

ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010) and MEP (84.011).

An SEA may reserve for the administration of Title I programs up to one percent from each of the amounts allocated to the State under Title I, Parts A, C (MEP), and D (Subpart 1) or \$400,000, whichever is greater. However, if the sum of the amounts appropriated for Parts A, C, and D is equal to or greater than \$14,000,000,000, which it is for fiscal year 2008, the amount an SEA may reserve for administration may not exceed one percent of the amount the State would receive if the Title I allocation were \$14,000,000,000 (20 USC 6304(b)). On June 17, 2008, ED sent a memorandum to Chief State School Officers and Title I State Coordinators informing them of the maximum amount they could reserve for administration of Title I programs from fiscal year 2008 funds. An SEA may reserve less than one percent from each of Parts A, C, and D. Moreover, an SEA does not need to reserve the same percentage from each part, although the SEA may not reserve more from Parts C and D than it would have reserved if it had reserved proportionate amounts from

Parts A, C, and D. An SEA reserving \$400,000 must reserve proportionate amounts from each of the amounts allocated to the State under Part A, but is not required to reserve funds proportionately from each of Parts A, C, and D and may, for example, take the reservation entirely out of Part A funds. However, in reserving \$400,000, an SEA may not reserve more funds for State administration from Part C or Part D than it would have if it had reserved proportionate funds from Parts A, C, and D (Section 1004 of ESEA (20 USC 6304); see also 34 CFR section 200.100(b)). For more detail, see page 33 of the guidance entitled *State Educational Agency Procedures for Adjusting Basic, Concentration, Targeted, and Education Finance Incentive Grant Allocations Determined by the U.S. Department of Education* (May 23, 2003)

(<http://www.ed.gov/programs/titleiparta/seaguidanceforadjustingallocations.doc>).

As explained in III.A.1, “Activities Allowed or Unallowed - Consolidation of administrative funds,” the amounts reserved above may be consolidated with State administrative funds available under other applicable programs (Section 9021(a) of ESEA (20 USC 7821(a))).

b. **Transferability** (SEAs and LEAs)

ESEA programs in this Supplement to which this section applies are: SDFSCA (84.186) (including the Governor’s program authorized under Section 4112(a), with the agreement of the Governor); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); and Title II, Part A (84.367).

SEAs may transfer up to 50 percent of each fiscal year’s base of non-administrative funds allocated for State-level activities from one or more of the listed applicable programs to one or more of the other listed applicable programs, or to Title I, Part A (84.010). Except for 21st CCLC (84.287), LEAs not identified for improvement or corrective action under Section 1116 of ESEA may also transfer up to 50 percent of each fiscal year’s funds from one or more of the listed applicable programs to another listed applicable program, or to Title I, Part A. LEAs identified for improvement may transfer up to 30 percent of their allocation base. LEAs identified for corrective action may not transfer funds (Sections 6123(a) and (b) of ESEA (20 USC 7305b(a) and (b))).

The allocation base for a program for a fiscal year equals that fiscal year’s original funding plus funds transferred into the program for that fiscal year. Funds may be transferred during a fiscal year’s carryover period, as long as the total amount transferred from the fiscal year’s allocation base does not exceed the maximum percentage. Funds must be transferred to the receiving program’s allocation for the same fiscal year that the funds were allocated to

the transferring program (Sections 6123(a) and (b) of ESEA (20 USC 7305b(a) and (b))).

H. Period of Availability of Federal Funds (All grantees)

ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor's Program authorized under Section 4112(a)); CSP (84.282); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357); Title III, Part A (84.365); MSP (84.366); and Title II, Part A (84.367).

This section also applies to Adult Education (84.002); IDEA (84.027 and 84.173); CTE (84.048); and IDEA, Part C (84.181).

All ESEA and other programs listed above except CSP and subrecipients under CTE - LEAs and SEAs must obligate funds during the 27 months, extending from July 1 of the fiscal year for which the funds were appropriated through September 30 of the second following fiscal year. This maximum period includes a 15-month period of initial availability plus a 12-month period for carryover. For example, funds from the fiscal year 2008 appropriation initially became available on July 1, 2008 and may be obligated by the grantee and subgrantee through September 30, 2010. (Section 421(b) of GEPA (20 USC 1225(b)); 34 CFR sections 76.703 through 76.710).

Title I, Part A - An LEA that receives \$50,000 or more in Title I, Part A funds may not carry over beyond the initial 15 months of availability more than 15 percent of its Title I, Part A funds. An SEA may grant a waiver of the percentage limitation for an LEA once every three years if the LEA's request is reasonable and necessary or if supplemental appropriations for Title I, Part A become available for obligation. (Section 1127 of ESEA (20 USC 6339)).

SDFSCA program - An LEA that receives SDFSCA funding may not carry over beyond the initial 15 months of availability more than 25 percent of its SDFSCA State Grant funds. An SEA may waive the percentage limitation for good cause (Section 4114(a)(3)(B) of ESEA (20 USC 7114(a)(3)(B))).

CSP program - The recipient must obligate funds from a grant during the period for which the funds are available for obligation as set forth in the grant award document. Recipients must maintain documentation to demonstrate that the obligation occurred during the period of availability and was charged to an appropriate year's grant funds. If obligations occur outside of the period of availability, the funds are not timely obligated and must be returned. However, under the "expanded authorities" provisions grantees are permitted to:

- a. Extend grants automatically at the end of a project period for up to one year without prior approval (with some exceptions);
- b. Carry funds over from one budget period to the next;

- c. Obligate funds up to 90 days before the effective date of a budget period without prior approval; and
- d. Transfer funds among budget categories without prior approval, except for a limited number of specific cases.

CTE program - In any academic year that a subrecipient does not obligate all of the amounts it is allocated under the Secondary and Postsecondary and CTE programs for that year, it must return the unobligated amounts to the State to be reallocated under the Secondary and Postsecondary and CTE Programs, as applicable (Section 133(b) of the Carl D. Perkins Career and Technical Education Act of 2006 (Perkins IV) (Pub. L. No. 109-270) (20 USC 2353(b))).

Consolidated administrative funds - Consolidated administrative funds must be obligated within the period of availability of the program that the funds came from. Because expenditures in a consolidated administrative fund are not accounted for by specific Federal programs, an SEA or LEA may use a first-in, first-out method for determining when funds were obligated, may attribute costs in proportion to the dollars provided, or may use another reasonable method.

Definition of Obligation - An obligation is not necessarily a liability in accordance with generally accepted accounting principles. When an obligation occurs (is made) depends on the type of property or services that the obligation is for (34 CFR section 76.707):

IF AN OBLIGATION IS FOR --	THE OBLIGATION IS MADE --
(a) Acquisition of real or personal property.	On the date on which the State or subgrantee makes a binding written commitment to acquire the property.
(b) Personal services by an employee of the State or subgrantee.	When the services are performed.
(c) Personal services by a contractor who is not an employee of the State or subgrantee.	On the date on which the State or subgrantee makes a binding written commitment to obtain the services.
(d) Performance of work other than personal services.	On the date on which the State or subgrantee makes a binding written commitment to obtain the work.
(e) Public utility services.	When the State or subgrantee receives the services.
(f) Travel.	When the travel is taken.
(g) Rental of real or personal property.	When the State or subgrantee uses the property.
(h) A pre-agreement cost that was	On the first day of the subgrant period.

IF AN OBLIGATION IS FOR --	THE OBLIGATION IS MADE --
properly approved by the State under the applicable cost principles.	

The act of an SEA or other grantee awarding Federal funds to an LEA or other eligible entity within a State does not constitute an obligation for the purposes of this compliance requirement. An SEA or other grantee may not reallocate grant funds from one subrecipient to another after the period of.

If a grantee or subgrantee uses a different accounting system or accounting principles from one year to the next, it shall demonstrate that the system or principle was not improperly changed to avoid returning funds that were not timely obligated. A grantee or subgrantee may not make accounting adjustments after the period of availability in an attempt to offset audit disallowances. The disallowed costs must be refunded.

L. Reporting

1. Financial Reporting

ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor's Program authorized under Section 4112(a)); CSP (84.282); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357); Title III, Part A (84.365); MSP (84.366); Title II, Part A (84.367); and HERA (84.938A, 84.938B, 84.938C).

This section also applies to IDEA (84.027 and 84.173); IDEA, Part C (84.181); and HERA (84.938D, 84.938E, 84.938F).

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Only grantees placed on reimbursement are required to complete this form to request payment of grant award funds. The requirement to use this form is imposed on an individual recipient basis.
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. LEAs and other subrecipients are generally required to report financial information to the pass-through entity. These reports should be tested during audits of LEAs.

2. Performance Reporting - Not Applicable

3. Special Reporting

State Per Pupil Expenditure (SPPE) Data (OMB No. 1850-0067)
(SEAs/LEAs)

ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010) and MEP (84.011).

As described in II, “Program Procedures - General and Program-Specific Cross-Cutting Requirements,” this requirement is a general cross-cutting requirement that need only be tested once to cover all major programs to which it applies.

Each year, an SEA must submit its average State per pupil expenditure (SPPE) data to the National Center for Education Statistics. These SPPE data are used by ED to make allocations under several ESEA programs, including Title I, Part A and MEP. SPPE data are reported on the National Public Education Finance Survey. SPPE data comprise the State’s annual current expenditures for free public education, less certain designated exclusions, divided by the State’s average daily attendance.

LEAs must submit data to the SEA for the SEA’s report. The SEA determines the format of the data submissions.

Current expenditures to be included are those for free public education, including administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenditures to cover deficits for food services and student body activities. Current expenditures to be excluded are those for community services, capital outlay, debt service, and expenditures from funds received under Title I and Title V, Part A of ESEA. To determine its expenditures under Titles I and V, Part A of ESEA in a schoolwide program, an LEA could calculate the percentage of funds that Title I and Title V, Part A contributed to the schoolwide program and then apply those percentages to the total expenditures in the schoolwide program. Other reasonable methods may also be used (Section 9101(14) of ESEA (20 USC 7801(14))).

Except when provided otherwise by State law, average daily attendance generally means the aggregate number of days of attendance of all students during a school year divided by the number of days school is in session during such school year. For purposes of ESEA, average daily membership (or similar data) can be used in place of average daily attendance in States that provide State aid to LEAs on the basis of average daily membership or such other data. When an LEA in which a child resides makes a tuition or other payment for the free public education of the child in a school of another LEA, the child is considered to be in attendance at the school of the LEA making the payment, and not at the school of the LEA receiving the payment. Similarly, when an LEA makes a tuition payment to a private school or to a public school of another LEA for a child with disabilities, the child is considered to be in attendance at the school of the LEA making the payment (Section 9101(1) of ESEA (20 USC 7801(1))).

N. Special Tests and Provisions

1. Participation of Private School Children (SEAs/LEAs)

ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor's Program authorized under Section 4112(a)); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357); Title III, Part A (84.365); MSP (84.366); and Title II, Part A (84.367).

Depending on how the SEA/LEA implements requirements for the provision of equitable participation of private school children, this requirement may be tested on a general or program-specific basis (as described in II, "Program Procedures - General and Program-Specific Cross-Cutting Requirements").

Compliance Requirements – For programs funded under Title I, Part A (CFDA 84.010), an LEA, after timely and meaningful consultation with private school officials, must provide equitable services to eligible private school children, their teachers, and their families. Eligible private school children are those who reside in a participating public school attendance area and have educational needs under section 1115(b) of ESEA (20 U.S.C. 6315(b)). Title I, Part A funds must be allocated to each participating public school attendance area on the basis of the total number of children from low-income families residing in that area. In calculating the total number of children from low-income families, an LEA must include children from low-income families who attend private schools. An LEA must use the portion of Title I, Part A funds attributable to private school children from low-income families included in the calculation to provide services to eligible private school children. For example, if \$100,000 of Title I, Part A funds are allocated based on 100 children from low-income families, 25 of whom are private school children, \$25,000 of the \$100,000 must be expended to provide equitable services to eligible private school children.

If an LEA reserves funds off the top of its Title I, Part A allocation to provide instructional and related activities for public school students at the district level, the LEA must also provide from those funds, as applicable, equitable services to eligible private school students. From applicable funds reserved for parent involvement and professional development, an LEA must ensure that teachers and families of participating private school children have an equitable opportunity to participate in professional development and parent involvement activities, respectively. The amount of funds available to provide these services must be proportionate to the number of private school children from low-income families residing in participating public school attendance areas (Sections 1113(c) and 1120 of ESEA (20 USC 6313(c) and 6320); 34 CFR sections 200.62 through 200.67 and 200.77 through 200.78).

For all other programs, an SEA, LEA, or any other educational service agency (or consortium of such agencies) receiving financial assistance under an applicable program must provide eligible private school children and their teachers or other educational personnel with equitable services or other benefits under the program. Before an agency or consortium makes any decision that affects the opportunity of eligible private school children, teachers, and other educational personnel to participate, the agency or consortium must engage in timely and meaningful consultation with private school officials. Expenditures for services and benefits to eligible private school children and their teachers and other educational personnel must be equal on a per-pupil basis to the expenditures for participating public school children and their teachers and other educational personnel, taking into account the number and educational needs of the children, teachers and other educational personnel to be served (Sections 5142 and 9501 of ESEA (20 USC 7217a and 7881); 34 CFR sections 299.6 through 299.9).

The control of funds used to provide equitable services to eligible private school students, teachers and other educational personnel, and families, and title to materials, equipment, and property purchased with those funds must be in a public agency and the public agency must administer the funds, materials, equipment, and property. The provision of equitable services must be by employees of a public agency or through a contract by the public agency with an individual, association, agency, or organization that is independent of any private school or religious organization. The contract must be under the control of the public agency (Sections 1120(d), 5142(c), and 9501(d) of ESEA (20 USC 6320(d), 7217a(c) and 7881(d); 34 CFR sections 200.67 and 299.9).

This compliance requirement also applies to Transferability (See III.A.3, “Activities Allowed or Unallowed - Transferability (SEAs and LEAs)”) for transfers made by *SDFSCA (84.186) (including the Governor’s program authorized under Section 4112(a), with the agreement of the Governor)*; *21st CCLC (84.287)*; *Title V, Part A (84.298)*; *Ed Tech (84.318)*; and *Title II, Part A (84.367)* (Section 6123(e)(2) of ESEA (20 USC 7305b(e)(2))).

Audit Objectives - Determine whether (1) the LEA, SEA, or other agency receiving ESEA funds has conducted timely consultation with private school officials to determine the kind of educational services to provide to eligible private school children, (2) the planned services were provided, and (3) the required amount was used for private school children.

Suggested Audit Procedures (LEA/SEA)

- a. Verify, by reviewing minutes of meetings and other appropriate documents, that the LEA conducted timely consultation with private school officials in making its determinations and set aside the required amount for private school children.
- b. Review program expenditure and other records to verify that educational services that were planned were provided.
- c. For Title I, Part A, verify that:
 - (1) The per pupil allocation (PPA) generated by private school children from low-income families living in participating public school attendance areas is equal to the PPA generated by public school children from low-income families living in the same attendance areas;
 - (2) Funds to provide equitable services to private school students were available, as applicable, from funds, if any, reserved off the top of the LEA's Part A allocation for instructional and related activities at the district level; and
 - (3) Funds to provide equitable services to teachers and families of participating private school students were available from reservations of funds for professional development and parent involvement.
- d. If the LEA provides services to eligible private school students under an arrangement with a third-party provider, verify that the LEA retains proper administration and control by having a written contract that:
 - (1) Describes the services to be provided; and
 - (2) Provides that the LEA retains ownership of materials, equipment, and property purchased with Federal I funds.
- e. For programs other than Title I, Part A, verify that expenditures are equal on a per-pupil basis for public and private school students, teachers and other educational personnel, taking into consideration their numbers and needs as required by 34 CFR section 299.7.

2. Schoolwide Programs (SEAs/LEAs)

ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor's Program authorized under Section 4112(a)); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); Title III, Part A (84.365); MSP (84.366); and Title II, Part A (84.367).

This section also applies to IDEA (84.027 and 84.173) and CTE (84.048).

As described in II, "Program Procedures - General and Program-Specific Cross-Cutting Requirements," this requirement is a general cross-cutting requirement that only needs to be tested once to cover all major programs to which it applies.

Compliance Requirements - A school participating under Title I, Part A may, in consultation with its LEA, use its Title I, Part A funds, along with funds provided from the above-identified programs and other Federal (except Reading First), State, and local education funds, to upgrade the school's entire educational program in a schoolwide program. At least 40 percent of the children enrolled in the school or residing in the school attendance area for the initial year of the schoolwide program must be from low-income families. The LEA is required to maintain records to demonstrate compliance with this requirement.

- a. To operate a schoolwide program, a school must include the following three core elements:
 - (1) Comprehensive needs assessment of the entire school (34 CFR section 200.26(a)).
 - (2) Comprehensive plan based on data from the needs assessment (34 CFR section 200.26(b)).
 - (3) Annual evaluation of the results achieved by, the schoolwide program and revision of the schoolwide plan based on that evaluation (34 CFR section 200.26(c)).
- b. A schoolwide plan also must include the following components:
 - (1) Schoolwide reform strategies (34 CFR section 200.28(a)).
 - (2) Instruction by highly qualified professional staff (34 CFR section 200.28(b)).
 - (3) Strategies to increase parental involvement (34 CFR section 200.28(c)).
 - (4) Additional support to students experiencing difficulty (34 CFR section 200.28(d)).
 - (5) Transition plans for assisting preschool children in the successful transition to the schoolwide program (34 CFR section 200.28(e)).
- c. A schoolwide program school that consolidates Federal, State, and local funds in a consolidated schoolwide pool may use those funds for any activity in the school. (Consolidating funds in a schoolwide program means that a school treats the funds like they are a single "pool" of funds--i.e., the funds lose their individual identity and the school has one flexible pool of funds.) The school is not required to maintain separate records, by program, that identify the specific activities supported by those funds. Also, the school is not required to meet most of the statutory and regulatory requirements of the Federal programs included in the consolidation as long as it meets the intent and purposes of those programs.
 If a schoolwide program school consolidates just its Federal funds in a single Federal consolidated schoolwide pool, the school must use those funds to address specific educational needs of the school identified by the needs assessment and articulated in the schoolwide plan. Although the Federal funds lose their specific program identity and may be accounted for as part of the pool, the school must keep records to demonstrate that the consolidated funds support activities that address the intent and purpose of each program. The school is not required to meet most of the statutory and

regulatory requirements of the specific Federal programs included in the consolidation as long as it meets the intent and purposes of those programs. If a schoolwide program school does not consolidate its Federal funds, the school must use Title I, Part A funds to support activities that address specific educational needs of the school identified by the needs assessment and articulated in the schoolwide plan. The school must use other Federal funds in accordance with the specific requirements of each Federal program. For more detail on consolidating funds in schoolwide program schools, see pages 49-67 in guidance entitled *Title I Fiscal Issues: Maintenance of Effort; Comparability; Supplement, not Supplant; Carryover; Consolidating Funds in Schoolwide Programs; and Grantback Requirements* (February 2008). This guidance is available on the Internet at <http://www.ed.gov/programs/titleiparta/fiscalguid.doc> (20 USC 6314; 34 CFR sections 200.25 through 200.29).

- d. If a schoolwide program school consolidates funds, the school must ensure that its schoolwide program addresses the needs of children who are members of the target population of any Federal program whose funds are consolidated. Specific requirements apply to these programs as follows:
 - (1) Before consolidating funds or services received under MEP, a schoolwide program must: (a) in consultation with parents of migratory children or organizations representing those parents, first meet the identified needs of migratory children that result from the effects of their migratory lifestyle or are needed to permit migratory children to participate effectively in schools; and (b) document that services addressing those needs have been met (34 CFR section 200.29(c)(1)).
 - (2) A schoolwide program must have the approval of the Indian parent advisory committee established in section 7114(c)(4) of ESEA (20 USC 7424(c)(4)) before funds received under the Title VII, Part A, Subpart 1 Indian Education program can be consolidated (34 CFR section 200.29(c)(2)).
 - (3) A schoolwide program may consolidate funds received under IDEA, Part B. However, the amount of funds consolidated may not exceed the amount received by the LEA under IDEA, Part B for that fiscal year, divided by the number of children with disabilities in the jurisdiction of the LEA and multiplied by the number of children with disabilities participating in the schoolwide program. A school that consolidates IDEA, Part B funds may use those funds for any activities under the schoolwide plan but must comply with all other requirements of IDEA, Part B to the same extent it would if it did not consolidate funds under IDEA, Part B in the schoolwide program 34 CFR section 200.29(c)(3)).

In addition, a schoolwide program school may consolidate funds it receives from discretionary programs administered by the ED Secretary;

however, it must carry out the activities included in its application for which those funds were awarded.

- e. An SEA must modify State fiscal and accounting procedures, if necessary, to eliminate barriers so that schools can easily consolidate funds from other Federal, State, and local sources in schoolwide programs. The SEA must also notify its LEAs of the authority to operate schoolwide programs.

(Sections 1111(c)(6), (9) and (10), 1114, 1306(b)(4), and 7115(c) of ESEA (20 USC 6311(c)(6), (9) and (10), 6314, 6396(b)(4), and 7425(c)); Section 613(a)(2)(D) of IDEA (20 USC 1413(a)(2)(D)); 34 CFR sections 200.25 through 200.29).

Audit Objectives (LEA) - Determine whether (1) the schools operating schoolwide programs were eligible to do so, and (2) the schoolwide programs included the core elements and components.

Suggested Audit Procedures (LEA)

- a. For schools operating a schoolwide program, review records and ascertain if the schools met the poverty eligibility requirements.
- b. Review the schoolwide plan and ascertain if it included the required core elements and components described above.
- c. Review documentation to support:
 - (1) Consultation with parents including, when MEP funds are consolidated, the parents of migratory children or organizations representing those parents; and, when Title VII, Part A, Subpart 1 (Indian Education) funds are consolidated, approval by the Indian parent advisory committee.
 - (2) If MEP funds are consolidated in the schoolwide program, the identified needs of migratory children were met before MEP funds were consolidated.

3. Comparability (SEAs/LEAs)

ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010) and MEP (84.011).

As described in II, “Program Procedures - General and Program-Specific Cross-Cutting Requirements,” this requirement is a general cross-cutting requirement that need only be tested once to cover all major programs to which it applies.

Compliance Requirements - An LEA may receive funds under Title I, Part A and the MEP (Title I, Part C) only if State and local funds will be used in participating schools to provide services that, taken as a whole, are at least comparable to services that the LEA is providing in schools not receiving Title I, Part A or MEP funds. An LEA is considered to have met the statutory comparability requirements

if it filed with the SEA a written assurance that such LEA has implemented (1) an LEA-wide salary schedule; (2) a policy to ensure equivalence among schools in teachers, administrators, and other staff; and (3) a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies. An LEA may also use other measures to determine comparability, such as comparing the average number of students per instructional staff or the average staff salary per student in each school receiving Title I, Part A or MEP funds with those in schools that do not receive Title I, Part A or MEP funds. If all schools are served by Title I, Part A or MEP, an LEA must use State and local funds to provide services that, taken as a whole, are substantially comparable in each school. Determinations may be made on either a district-wide or grade-span basis.

An LEA may exclude schools with fewer than 100 students from its comparability determinations. The comparability requirement does not apply to an LEA that has only one school for each grade span. An LEA may exclude from determinations of compliance with this requirement State and local funds expended for (1) bilingual education for children with limited English proficiency (LEP); and (2) the excess costs of providing services to children with disabilities as determined by the LEA. The LEA may also exclude supplemental State or local funds for programs that meet the intent and purposes of Title I, Part A or MEP (Sections 1120A(c)-(d) and 1304(c)(2) of ESEA (20 USC 6321(c)-(d) and 6394(c)(2)); 34 CFR sections 200.79 and 200.88).

Each LEA must develop procedures for complying with the comparability requirements and implement the procedures annually. The LEA must maintain records that are updated biennially documenting compliance with the comparability requirements. The SEA, however, is ultimately responsible for ensuring that LEAs remain in compliance with the comparability requirement (Section 1120A(c) of ESEA (20 USC 6321(c))).

Audit Objective (SEAs) - Determine whether the SEA is determining if LEAs are complying with the comparability requirements.

Suggested Audit Procedure (SEAs)

For a sample of LEAs, review SEA records that document SEA review of LEA compliance with the comparability requirements.

Audit Objective (LEAs) - Determine whether the LEA has developed procedures for complying with the comparability requirements and maintained records that are updated at least biennially documenting compliance with the comparability requirements.

Suggested Audit Procedures (LEAs)

- a. Through inquiry and review, ascertain if the LEA has developed procedures and measures for complying with the comparability requirements.

- b. Review LEA comparability documentation to ascertain (1) if it has been updated at least biennially and (2) that it documents compliance with the comparability requirements.
- c. Test comparability data to supporting records.

4. Access to Federal Funds for New or Significantly Expanded Charter Schools (SEAs/LEAs)

ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); SDFSCA (84.186) (except the Governor's Program authorized under Section 4112(a)); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357); Title III, Part A (84.365); and Title II, Part A (84.367).

This section also applies to Adult Education (84.002); IDEA (84.027, 84.173); and CTE (84.048).

As described in II, "Program Procedures – General and Program-Specific Cross-Cutting Requirements," this requirement is a program-specific cross-cutting eligibility requirement that needs to be tested separately for each covered program in the Supplement.

Note: This requirement only applies with respect to funds allocated to new, or significantly expanded, charter schools under a covered program in a State that has charter schools. A *covered program* means an elementary or secondary education program administered by ED under which the Secretary allocates funds to States on a formula basis, except that the term does not include a program or portion of a program under which an SEA awards subgrants on a discretionary, noncompetitive basis. *Charter school* has the same meaning as provided in Title V, Part B, Subpart 1 of ESEA (Section 5210(1) of ESEA (20 USC 7221i(1))) With respect to an existing charter school LEA that has not significantly expanded its enrollment, an SEA must determine the school's eligibility and allocate Federal funds to the school in a manner consistent with applicable Federal statutes and regulations under each covered program.

If a State considers a charter school to be an LEA under a covered program, this requirement applies to the SEA or other State agency responsible for allocating funds under that program—either by formula or through a competition—to LEAs. If a State considers a charter school to be a public school within an LEA under a covered program, this requirement applies to the LEA. The requirements in this Supplement address an SEA's responsibilities with respect to eligible charter school LEAs. An LEA that is responsible for providing funds under a covered program to eligible charter schools must comply with these requirements on the same basis as an SEA.

Compliance Requirements – An SEA must ensure that a charter school LEA that opens for the first time or significantly expands its enrollment receives the funds under each covered program for which it is eligible. *Significant expansion of enrollment* means a substantial increase in the number of students attending a charter school due to a significant event that is unlikely to occur on a regular basis, such as the addition of one or more grades or educational programs in major curriculum areas. The term also includes any other expansion of enrollment that an SEA determines to be significant.

Except as noted below, if a charter school LEA opens or expands by November 1, the SEA must allocate to the school the funds for which it is eligible no later than 5 months after the school first opens or significantly expands its enrollment; if a charter school LEA opens or significantly expands after November 1 but before February 1, an SEA must allocate to the school a *pro rata* portion of the funds for which the school is eligible on or before the date the SEA makes allocations to other LEAs under that program for the succeeding academic year; if a charter school LEA opens or expands after February 1, the SEA may, but is not required to, allocate to the school a *pro rata* portion of the funds for which the school is eligible.

An SEA must determine a new or expanding charter school LEA's eligibility based on actual enrollment or other eligibility data available on or after the date the charter school LEA opens or significantly expands. An SEA may not deny funding to a new or expanding charter school LEA due to the lack of prior-year data, even if eligibility and allocation amounts for other LEAs are based on prior-year data. An SEA may allocate funds to, or reserve funds for, an eligible charter school LEA based on reasonable estimates of projected enrollment at the charter school LEA. If an SEA allocates more or fewer funds to a charter school LEA than the amount for which the charter school LEA is eligible, based on actual enrollment or eligibility data, the SEA must make appropriate adjustments to the amount of funds allocated to the charter school LEA as well as to other LEAs under a covered program on or before the date the SEA allocates funds to LEAs for the succeeding academic year.

At least 120 days before the date a charter school LEA is scheduled to open or significantly expand its enrollment, the charter school LEA or its authorized public chartering agency must provide the SEA with written notice of that date. Upon receiving such notice, an SEA must provide the charter school LEA with timely and meaningful information about each covered program in which the charter school LEA may be eligible to participate, including notice of any upcoming competitions under the program. An SEA is not required to make allocations within 5 months of the date a charter school LEA opens for the first time or significantly expands if

the charter school LEA, or its charter authorizer, fails to provide to the SEA proper written notice of the school's opening or expansion.

For a covered program in which an SEA awards subgrants on a competitive basis, the SEA must provide an eligible charter school LEA that is scheduled to open on or before the closing date of any competition a full and fair opportunity to apply to participate in the program. However, the SEA is not required to delay the competitive process in order to allow a charter school LEA that has not yet opened or expanded to compete. (Section 5206 of ESEA (20 USC 7221e); 34 CFR sections 76.785 through 76.799).

Audit Objectives (SEA/LEA, depending on which entity is responsible for funding charter schools) – Determine whether new or significantly expanding charter schools received the amount of Federal formula funds for which they were eligible in a timely manner.

Suggested Audit Procedures (SEA/LEA, depending on which entity is responsible for funding charter schools)

- a. Determine if the entity was responsible for providing Federal formula funds under the applicable covered program to any charter school LEAs/charter schools that opened for the first time or significantly expanded enrollment on or before November 1 of the academic year.
- b. Determine if the entity was responsible for providing Federal formula funds under the applicable covered program to any charter school LEAs/charter schools that opened for the first time or significantly expanded enrollment between November 1 and February 1 of the academic year.
- c. Review the entity's procedures for allocating Federal formula funds under the applicable covered program to determine whether eligibility to participate in the program was based on enrollment or eligibility data from a prior year. If prior-year data were used for allocations, determine whether the entity properly based the new or expanding charter school LEA's/charter school's eligibility and allocation amount on actual eligibility or enrollment data for the year in which the school opened or expanded.
- d. Review documentation to identify the opening or expansion date for each eligible charter school LEA/charter school that opened or significantly expanded its enrollment on or before November 1 of the academic year. Determine whether the charter school LEA/charter school was given access to all of the funds for which it was eligible, in the proper amount, within five months of the opening or expansion date (provided that SEA or LEA notification, data submission, and application requirements were met).
- e. Review documentation to identify the opening or expansion date for each eligible charter school LEA/charter school that opened or significantly expanded its enrollment between November 1 and February 1 of the academic year. Determine whether the charter school LEA/charter school was given access to the *pro rata* portion of the funds for which the school was eligible, in the proper amount, on or before the date the SEA or LEA

made allocations to other LEAs/public schools under the program for the succeeding academic year (provided that SEA or LEA notification, data submission, and application requirements were met).

- f. Review documentation to determine whether the SEA or LEA made necessary adjustments to account for over- or under-allocations once actual eligibility and enrollment data became available.

IV. OTHER INFORMATION

Consolidation of Administrative Funds (SEAs and LEAs)

ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (except the Governor's Program authorized under Section 4112(a)); CSP (84.282); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); Reading First (84.357); Title III, Part A (84.365); MSP (84.366) (at the LEA level only); and Title II, Part A (84.367).

State and local administrative funds that are consolidated (as described in III.A.1, "Activities Allowed or Unallowed – Consolidation of Administrative Funds (SEAs and LEAs)") should be included in the audit universe and the total expenditures of the programs from which they originated for purposes of (1) determining Type A programs, and (2) completing the Schedule of Expenditures of Federal Awards (SEFA). A footnote showing, by program, amounts of administrative funds consolidated is encouraged.

Schoolwide Programs (LEAs)

ESEA programs in this Supplement to which this section applies are: Title I, Part A (84.010); MEP (84.011); SDFSCA (84.186) (including the Governor's Program authorized under Section 4112(a)); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); Reading Title III, Part A (84.365); MSP (84.366); and Title II, Part A (84.367).

This section also applies to IDEA (84.027 and 84.173) and CTE (84.048).

Since schoolwide programs are not separate Federal programs, as defined in OMB Circular A-133, expenditures of Federal funds consolidated in schoolwide programs should be included in the audit universe and the total expenditures of the programs from which they originated for purposes of (1) determining Type A programs and (2) completing the SEFA. A footnote showing, by program, amounts consolidated in schoolwide programs is encouraged.

Transferability (SEAs and LEAs)

ESEA programs in this Supplement to which this section applies are: SDFSCA (84.186) (including the Governor's program authorized under Section 4112(a), with the agreement of the Governor); 21st CCLC (84.287); Title V, Part A (84.298); Ed Tech (84.318); and Title II, Part A (84.367).

Expenditures of funds transferred from one program to another (as described in III.A.3, “Activities Allowed or Unallowed - Transferability (SEAs and LEAs)”) should be included in the audit universe and total expenditures of the receiving program for purposes of (1) determining Type A programs, and (2) completing the SEFA. A footnote showing amounts transferred between programs is encouraged.

Small Rural Schools Achievement (SRSA) Alternative Uses of Funds Program

ESEA programs in this Supplement to which this section applies are: SDFSCA (84.186) (including the Governor’s program authorized under Section 4112(a)); Title V, Part A (84.298); Ed Tech (84.318); and Title II, Part A (84.367).

Unlike “Transferability” above, where the funds are actually transferred from one program to another, under SRSA the funds are expended from the original program but for activities allowed under another program. Funds used under the SRSA Alternative Uses of Funds program should be included in the audit universe and total expenditures of the programs from which they originated for purposes of (1) determining Type A programs, and (2) completing the SEFA.

Prima Facie Case Requirement for Audit Findings

Section 452(a)(2) of the General Education Provisions Act (20 USC 1234a(a)(2)) requires that ED officials establish a *prima facie* case when they seek recoveries of unallowable costs charged to ED programs. When the preliminary ED decision to seek recovery is based on an OMB Circular A-133 audit, upon request, auditors will need to provide ED program officials audit documentation. For this purpose, audit documentation (part of which is the auditor’s working papers) includes information the auditor is required to report and document that is not already included in the reporting package.

The requirement to establish a *prima facie* case for the recovery of funds applies to all programs administered by ED, with the exception of Impact Aid (CFDA 84.041) and programs under the Higher Education Act, i.e., the Family Federal Education Loan Program (CFDA 84.032) and the other ED programs covered in the Student Financial Assistance Cluster in Part 5 of the Supplement.

Program Waivers and Special Provisions Due to Hurricanes Katrina and Rita

See Appendix VI.

Appendix 8.C.2. - Special Revenue Fund Program Requirements - ESEA

In addition to the applicable general requirements as listed above, a specific federal program accounted for through the above funds may have compliance requirements that are unique to that program. Therefore, special compliance testing will need to be made for the federally-funded programs listed below. Disclosures of noncompliance are to be made in the auditor's report.

Appendix 8.C.2.a CFDA 84.010 TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES (LEAs) (Title I, Part A of the ESEA)

DEPARTMENT OF EDUCATION

TEA REFERENCE: <http://www.tea.state.tx.us/nclb/>

I. PROGRAM OBJECTIVES

The objective of this program is to improve the teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families.

II. PROGRAM PROCEDURES

The Department of Education (ED) provides Title I, Part A funds through each State Educational Agency (SEA) to local educational agencies (LEAs) through a statutory formula based primarily on the number of children ages 5 through 17 from low-income families. This number is augmented by annually-collected counts of children ages 5 through 17 in foster homes, locally operated institutions for neglected or delinquent children, and families above poverty that receive assistance under Temporary Assistance for Needy Families (TANF) (CFDA 93.558), adjusted to account for the cost of education in each State. To receive funds, an SEA must submit to ED for approval either: (1) an individual State plan as provided in Section 1111 of the Elementary and Secondary Education Act (ESEA) (20 USC 6311), or (2) a consolidated plan that includes Part A, in accordance with Section 9302 of the ESEA (20 USC 7842). The individual or consolidated plan, after approval by ED, remains in effect for the duration of the State's participation in Title I, Part A. The plan must be updated to reflect substantive changes.

To receive Title I, Part A funds, LEAs must have on file with the SEA an approved plan that includes descriptions of the general nature of services to be provided, how program services will be coordinated with the LEA's regular program of instruction, additional LEA

assessments, if any, used to gauge program outcomes, and strategies to be used to provide professional development. An LEA may also include Part A as part of a consolidated application submitted to the SEA under Section 9305 of the ESEA (20 USC 7845).

LEAs allocate Title I, Part A funds to eligible school attendance areas based on the number of children from low-income families residing within the attendance area. A school at or above 40 percent poverty may use its Part A funds, along with other Federal, State, and local funds, to operate a schoolwide program to upgrade the instructional program in the whole school (20 USC 6314(a)). Otherwise, a school operates a targeted assistance program in which the school identifies students who are failing, or most at risk of failing, to meet the State's challenging student academic achievement standards and who have the greatest need for assistance. The school then designs, in consultation with parents, staff, and the LEA, an instructional program to meet the needs of those students (20 USC 6315).

Source of Governing Requirements

This program is authorized by Title I, Part A of the ESEA, as amended by the No Child Left Behind Act of 2001 (Pub. L. No. 107-110 (20 USC 6301 through 6339 and 6571 through 6578)). Program regulations are found at 34 CFR part 200. The Education Department General Administrative Regulations (EDGAR) at 34 CFR parts 76, 77, 81, 82, 98, and 99 also apply to this program, as do certain requirements of 34 CFR part 299 (General Provisions).

Availability of Other Program Information

A number of documents posted on ED's website contain information pertinent to the Title I, Part A requirements in this Compliance Supplement. They are:

- Local Educational Agency Identification and Selection of School Attendance Areas and Schools and Allocation of Title I Funds to Those Areas and Schools (August 2003)
(<http://www.ed.gov/programs/titleiparta/wdag.doc>);
- Public School Choice (January 14, 2009)
(<http://www.ed.gov/policy/elsec/guid/schoolchoiceguid.doc>);
- Report Cards, Title I, Part A (September 12, 2003)
(<http://www.ed.gov/programs/titleiparta/reportcardsguidance.doc>);
- Supplemental Educational Services (January 14, 2009)
(<http://www.ed.gov/policy/elsec/guid/suppsvcsguid.doc>);
- Title I Paraprofessionals (March 1, 2004)
(<http://www.ed.gov/policy/elsec/guid/paraguidance.doc>);
- Title I Services to Eligible Private School Children (October 17, 2003)
(<http://www.ed.gov/programs/titleiparta/psguidance.doc>); and

LEA and School Improvement (July 21, 2006)

(<http://www.ed.gov/policy/elsec/guid/schoolimprovementguid.pdf>) Additional information is provided in the "Availability of Other Program Information" part of the ED Cross-Cutting Section.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

Certain compliance requirements that apply to multiple programs are discussed once in the ED Cross-Cutting Section of this Supplement rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements. Also, as discussed in the Cross-Cutting Section, SEAs and LEAs may have been granted waivers from certain compliance requirements.

A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

1. *LEAs* (Targeted assistance programs only. **See III.N, “Special Tests and Provisions” for schoolwide programs.**)

In a targeted assistance school, funds available under Part A may be used only for programs that are designed to help participating children meet the State’s student academic achievement standards expected of all children. Allowable activities in these schools include, but are not limited to, instructional programs, counseling, mentoring, other pupil services, college and career awareness and preparation, services to prepare students for the transition from school to work, services to assist preschool children in the transition to elementary school programs, parental involvement activities, and professional staff development. If health, nutrition, and other social services are not otherwise available from other sources to participating children, Part A funds may be used as a last resort to provide such services. The LEA’s plan will provide a description of the general nature of the services to be provided with Part A funds. However, each Title I school determines the actual program it will provide (Title I, Section 1115 of ESEA (20 USC 6315)).

2. *SEAs*

SEAs can use funds to provide subgrants to LEAs, for State administration, and for school improvement activities in accordance with the State plan (Title I, Sections 1003, 1004, 1111, and 1117 of ESEA (20 USC 6303, 6304, 6311, and 6317)).

B. Allowable Costs/Cost Principles

See ED Cross-Cutting Section.

C. Cash Management

See ED Cross-Cutting Section.

E. Eligibility**1. Eligibility for Individuals***Eligible Children* (LEA targeted assistance programs only)

Title I, Part A, funds are to be used to provide services and benefits to eligible children residing or enrolled in eligible school attendance areas. Once funds are allocated to eligible school attendance areas (see E.2.a and E.2.b below), a school operating a targeted assistance program must use Title I funds only for programs that are designed to meet the needs of children identified by the school as failing, or most at risk of failing, to meet the State's challenging student academic achievement standards. In general, eligible children are identified on the basis of multiple, educationally related, objective criteria established by the LEA and supplemented by the school. Children who are economically disadvantaged, children with disabilities, migrant children, and limited English proficient (LEP) children are eligible for Part A services on the same basis as other children who are selected for services. In addition, certain categories of children are considered at risk of failing to meet the State's student academic achievement standards and are thus eligible for Part A services because of their status. Such children include: children who are homeless; children who participated in a Head Start, Even Start, Early Reading First, or Title I preschool program at any time in the two preceding years; children who received services under the Migrant Education Program under Title I, Part C at any time in the two preceding years; and children who are in a local institution for neglected or delinquent children or attending a community day program. From the pool of eligible children, a targeted assistance school selects those children who have the greatest need for special assistance to receive Part A services (Title I, Section 1115 of ESEA (20 USC 6315)).

2. Eligibility for Group of Individuals or Area of Service Delivery

- a. *School Attendance Areas or Schools* (LEAs with either schoolwide programs or targeted assistance programs)

An LEA must determine which school attendance areas are eligible to participate in Part A. A school attendance area is generally eligible to participate if the percentage of children from low-income families is at least as high as the percentage of children from low-income families in the LEA as a whole or at least 35 percent. An LEA may also designate and serve a school in an ineligible attendance area if the percentage of children from low-income families enrolled in that school is equal to or greater than the percentage of such children in a participating school attendance area. When determining eligibility, an LEA must select a poverty measure from among the following data sources: (1) the number of children ages 5-17 in poverty counted in the most recent census; (2) the number of children eligible for free and reduced price lunches; (3) the number of children in families receiving TANF; (4) the number of children eligible to receive Medicaid assistance; or (5) a composite of these data sources. The LEA must use that measure consistently across the district to rank all its school attendance areas according to their percentage of poverty.

An LEA must serve eligible schools or attendance areas in rank order according to their percentage of poverty. An LEA must serve those areas or schools above 75 percent poverty, including any middle or high schools, before it serves any with a poverty percentage below 75 percent. After an LEA has served all areas and schools with a poverty rate above 75 percent, the LEA may serve lower-poverty areas and schools either by continuing with the district-wide ranking or by ranking its schools below 75 percent poverty according to grade-span grouping (e.g., K-6, 7-9, 10-12). If an LEA ranks by grade span, the LEA may use the district-wide poverty average or the poverty average for the respective grade-span grouping. An LEA may serve, for one additional year, an attendance area that is not currently eligible but that was eligible and served in the preceding year.

An LEA may elect not to serve an eligible area or school that has a higher percentage of children from low-income families if: (1) the school meets the Title I comparability requirements; (2) the school is receiving supplemental State or local funds that are spent according to the requirements in sections 1114 or 1115 of Title I; and (3) the supplemental State and local funds expended in the area or school equal or exceed the amount that would be provided under Part A. An LEA with an enrollment of less than 1000 students or with only one school per grade span is not required to rank its school attendance areas (Title I, Section 1113(a)-(b) of ESEA (20 USC 6313(a)-(b)); 34 CFR section 200.78(a)).

- b. *Allocating funds to eligible school attendance areas and schools* (LEAs with either schoolwide programs or targeted assistance programs)

An LEA must allocate Part A funds to each participating school attendance area or school, in rank order, on the basis of the **total** number of children from low-income families residing in the area or attending the school. In calculating the total number of children from low-income families, the LEA must include children from low-income families who reside in a participating area and attend private schools, using the same poverty data, if available, as the LEA uses to count public school children. If the same data are not available, the LEA may use comparable data. If an LEA uses a survey of families of private school children, the LEA may extrapolate, from actual data on a representative sample of private school children, the number of children from low-income families who attend private schools. An LEA may also correlate sources of data, or apply the low-income percentage of each participating public school attendance area to the number of private school children who reside in that area. If an LEA selects a public school to participate on the basis of enrollment, rather than because it serves an eligible school attendance area, the LEA must, in consultation with private school officials, determine an equitable way to count private school children from low-income families in order to calculate the amount of Title I funds available to serve private school children. An LEA may count private school children from low-income families every year or every two years.

If an LEA serves any attendance area with less than a 35 percent poverty rate, the LEA must allocate to **all** its participating areas an amount per child from a low-income family that equals at least 125 percent of the LEA's Part A allocation per child from a low-income family. (An LEA's allocation per child from a low-income family is the total LEA allocation under subpart 2 of Part A divided by the number of children from low-income families in the LEA according to the poverty measure selected by the LEA to identify eligible school attendance areas. The LEA then multiplies this per-child amount by 125 percent.) If an LEA serves only areas with a poverty rate greater than 35 percent, the LEA must allocate funds, in rank order, on the basis of the total number of children from low-income families in each area or school, but is not required to allocate a per-pupil amount of at least 125 percent. With the possible exception of a school in corrective action or restructuring, an LEA may not allocate a higher amount per child from a low-income family to areas or schools with lower percentages of poverty than to areas with higher percentages. Because an LEA may not reduce the allocation

of a school identified for corrective action or restructuring by more than 15 percent in order to reserve Title I funds for choice-related transportation and supplemental educational services, the final allocation per child from a low-income family of such a school after application of this rule may be higher than a higher-poverty school. If an LEA serves areas or schools below 75 percent poverty by grade-span groupings, the LEA may allocate different amounts per child from a low-income family for different grade span groupings as long as those amounts do not exceed the amount per child from a low-income family allocated to any area or school above 75 percent poverty. Amounts per child from a low-income family within grade spans may also vary as long as the LEA allocates higher amounts per child from a low-income family to higher poverty areas or schools within the grade span than it allocates to lower poverty areas or schools.

The LEA must reserve the amounts generated by private school children from low-income families who reside in participating public school attendance areas to provide services to eligible private school children (Title I, Section 1113(c) of ESEA (20 USC 6313(c)) and Title I, Section 1116(b)(10)(D) of ESEA (20 USC 6316(b)(10)(D)); 34 CFR sections 200.77 and 200.78).

3. **Eligibility for Subrecipients** - Not Applicable

G. **Matching, Level of Effort, Earmarking**

1. **Matching** - Not Applicable

2.1 **Level of Effort** - *Maintenance of Effort* See ED Cross-Cutting Section.

2.2 **Level of Effort** - *Supplement Not Supplant* See ED Cross-Cutting Section.

3. **Earmarking** (SEAs) See ED Cross-Cutting Section and the following:

a. *Targeting School Improvement Funds*

Each SEA must reserve 4 percent of the amount the State receives under subpart 2 of Part A for school improvement activities under sections 1116 and 1117 of Title I. Of the amount reserved, the SEA must allocate not less than 95 percent directly to LEAs for activities under section 1116 in schools identified for school improvement, corrective action, and restructuring. However, the SEA may, with

the approval of its LEAs, provide directly for these activities or arrange for them to be provided by other entities such as school support teams or educational service agencies. In allocating these funds to LEAs, the SEA must give priority to LEAs that: (1) serve the lowest-achieving students; (2) demonstrate the greatest need for the funds; and (3) demonstrate the strongest commitment to ensuring that the funds will be used to enable the lowest-achieving schools to meet their progress goals.

In reserving these funds, an SEA may not reduce the sum of the allocations an LEA receives under subpart 2 of Part A below the sum of the allocations the LEA received for the preceding fiscal year. If funds are insufficient to reserve 4 percent and meet this provision, the SEA is not required to reserve the full amount.

If, after consulting with LEAs, the SEA determines that the amount of funds reserved is greater than needed, the SEA must allocate the excess amount to LEAs (1) in proportion to their allocations under subpart 2 of Part A, or (2) in accordance with the SEA's reallocation procedures under Section 1126(c) of Title I (Title I, Section 1003(a)-(e) of ESEA (20 USC 6303(a)-(e)); 34 CFR section 200.100(a)).

For school year 2007-08 and any subsequent school year for which school improvement funds are appropriated under Section 1003(g), an SEA that receives funds under that provision must allocate at least 95 percent of those funds directly to LEAs for schools identified for improvement, corrective action, and restructuring, for activities under Section 1116 (20 USC 6316). However, the SEA may, with the approval of its LEAs, provide directly for these activities or arrange for them to be provided by other entities, such as school support teams or educational service agencies. Each LEA's grant must be of sufficient size and scope to support the activities required under Sections 1116 and 1117 and may not be less than \$50,000 nor more than \$500,000 per participating school. The SEA may reserve no more than five percent of the Section 1003(g) funds it receives for administration, evaluation, and technical assistance (Title I, Sections 1003(b) and (g) of ESEA (20 USC 6303(b) and (g))).

b. *Targeting Funds for Choice-Related Transportation and Supplemental Educational Services*

In the case of a school that is in its first year of school improvement under Section 1116(b)(1)(A), the LEA is required to provide choice-related transportation under Section 1116(b)(9). In the case of a school that is in its second year of school improvement under

Section 1116(b)(5), corrective action under Section 1116(b)(7), or restructuring under Section 1116(b)(8), the LEA is required to provide choice-related transportation under Section 1116(b)(9) and supplemental educational services under Section 1116(e). An LEA that is obligated to provide choice-related transportation or choice-related transportation and supplemental educational services must spend an amount equal to at least 20 percent of its allocation under subpart 2 of Part A to provide such transportation and supplemental educational services, unless a lesser amount is needed to satisfy all requests (Section 1116(b)(10)(A) of ESEA (20 USC 6316(b)(10)(A))). Of this amount, the LEA must spend a minimum of an amount equal to 5 percent on choice-related transportation (Section 1116(b)(10)(A)(i) of ESEA (20 USC 6316(b)(10)(A)(i))), and a minimum of an amount equal to 5 percent for supplemental educational services (Section 1116(b)(10)(A)(ii) of ESEA (20 USC 6316(b)(10)(A)(ii))). The LEA may spend the remaining 10 percent for either or both of these activities (Section 1116(b)(10)(A)(iii) of ESEA (20 USC 6316(b)(10)(A)(iii))). The LEA may count its costs for outreach and assistance to parents concerning their choice to transfer their child to another public school served by the LEA or to request supplemental educational services, up to an amount equal to 0.2 percent of its subpart 2 allocation, toward its obligation to spend an amount equal to at least 20 percent of its subpart 2 of Part A allocation to provide such transportation and supplemental educational services (34 CFR section 200.48(a)(2)(iii)(C)). The LEA may not include other costs for administration or costs for transportation related to supplemental educational services, if any, toward meeting these percentage requirements. In applying this provision, an LEA may not reduce by more than 15 percent the total amount it makes available under Part A to a school it has identified for corrective action or restructuring.

For each student receiving supplemental educational services, the LEA must make available the lesser of (1) the amount of its allocation under subpart 2 of Part A divided by the number of students in the LEA from families below the poverty level as determined by the U.S. Bureau of the Census; or (2) the actual cost of the services received by the student (Title I, Sections 1116(b)(10) and (e)(6) of ESEA (20 USC 6316(b)(10), (e)(6)); 34 CFR section 200.48).

H. Period of Availability of Federal Funds

See ED Cross-Cutting Section.

L. Reporting

1. **Financial Reporting**
See ED Cross-Cutting Section.
2. **Performance Reporting** - Not Applicable
3. **Special Reporting**
See ED Cross-Cutting Section.

N. Special Tests and Provisions

1. **Participation of Private School Children**
See ED Cross-Cutting Section.
2. **Schoolwide Programs (LEAs)**
See ED Cross-Cutting Section.
3. **Comparability**
See ED Cross-Cutting Section.
4. **Access to Federal Funds for New or Significantly Expanded Charter Schools**
See ED Cross-Cutting Section.
5. **Identifying Schools and LEAs Needing Improvement**

Compliance Requirements

SEAs

An SEA must annually review the progress of each LEA that receives funds under subpart 2 of Part A of Title I to determine whether the LEA made adequate yearly progress as defined by the State. The SEA must identify for improvement any LEA that fails to make adequate yearly progress, as defined by the State, for two consecutive years. The SEA must identify the LEA for corrective action if it continues to fail to make adequate yearly progress at the end of its second full year in improvement (subject to the delay provision discussed in the next paragraph) (Title I, Sections 1116(c)(1), (3), and (10) of ESEA (20 USC 6316(c)(1), (3), and (10)); 34 CFR sections 200.50 through 200.53).

The SEA may delay implementation of corrective action for a period not to exceed one year if the LEA makes adequate yearly progress for one year or its failure to make adequate yearly progress is due to exceptional or uncontrollable circumstances, such as a natural disaster or a precipitous and unforeseen decline in the financial resources of the LEA (Title I, Section 1116(c)(10)(F) of ESEA (20 USC 6316(c)(10)(F)); 34 CFR section 200.50(f)).

Each SEA must report annually to the Secretary (*OMB No. 1810-0581*) and make certain information widely available within the State, including the number and names of each school and LEA identified for improvement, corrective action, and restructuring under section 1116, the reason why each school and LEA was so identified, and the measures taken to address the achievement problems in general of such schools and LEAs. In addition, the SEA must prepare and disseminate an annual State report card that contains, among other things, information on the performance of LEAs regarding adequate yearly progress, including the number and names of each school and LEA identified for improvement, corrective action, and restructuring under Section 1116. Moreover, the SEA must ensure that each LEA collects the data necessary to prepare its annual report card (Title I, Sections 1111(h)(1) and (4) of ESEA (20 USC 6311(h)(1) and (4))).

LEAs

An LEA must annually review the progress of each school served under Title I, Part A to determine whether the school has made adequate yearly progress. The LEA must identify for school improvement any school that fails to make adequate yearly progress, as defined by the SEA, for two consecutive school years. After a school has been identified for improvement for two school years (subject to the delay provision discussed in the next paragraph), the LEA must identify that school for corrective action if it continues to fail to make adequate yearly progress. After a school has been in corrective action for a full school year (subject to the delay provision discussed in the next paragraph), the LEA must identify it for restructuring if it continues to fail to make adequate yearly progress (Title I, Sections 1116(a) and (b)(1), (7), and (8) of ESEA (20 USC 6316(a) and (b)(1), (7), and (8)); 34 CFR sections 200.30 through 200.34).

The LEA may delay, for a period not to exceed one year, implementation of requirements under the second year of school improvement, corrective action, or restructuring if the school makes adequate yearly progress for one year or the failure to make adequate yearly progress is due to exceptional or uncontrollable circumstances, such as a natural disaster or a precipitous and unforeseen decline in the financial resources of the school or LEA (Title I, Section 1116(b)(7)(D) of ESEA (20 USC 6316(b)(7)(D)); 34 CFR section 200.35).

Each LEA that receives Title I, Part A funds must prepare and disseminate to all schools in the LEA—and to all parents of students attending those schools—an annual LEA report card that, among other things, includes the number, names, and percentage of schools identified for school improvement and how long the schools have been so identified. The LEA must also publicize and disseminate the results of its annual progress review to parents, teachers, principals, schools, and the community. The LEA should use broad means of communication, such as the Internet and publicly available media, to disseminate and publicize this information

(Title I, Sections 1111(h)(2) and 1116(a)(1)(C) of ESEA (20 USC 6311(h)(2) and 6316(a)(1)(C)); 34 CFR sections 200.36 through 200.38).

Note: In many states, the SEA conducts the review of progress of schools within LEAs and sends the results of that review to the LEAs.

Although the NCLB statute states that the LEA identifies schools in need of improvement, in Texas that identification is provided to the LEA by the Texas Education Agency.

Audit Objectives – Determine whether, in collecting, compiling, and reporting progress of LEAs and schools that receive funds under subpart 2 of Part A of Title I, the LEA complied with the above requirements.

Suggested Audit Procedures

LEAs

- a. Review how the LEA determines the schools in need of improvement.
- b. Trace the data about the LEA to source records to determine its accuracy, reliability, and completeness.
- c. Determine whether the LEA disseminated information to all schools in the LEA and to all parents of students attending those schools and made the information widely available through public means, such as the Internet and the media.

6. Highly Qualified Teachers and Paraprofessionals

Compliance Requirements

Highly qualified teachers.

Beginning after the first day of the 2002-2003 school year, an LEA had to ensure that any teacher whom it hired to teach a core academic subject and who worked in a program supported with Title I, Part A funds was highly qualified as defined in 34 CFR section 200.56. This requirement applied to teachers in Title I targeted assistance programs who taught a core academic subject and were paid with Title I, Part A funds and to all teachers who taught a core academic subject in a Title I schoolwide program school. By the end of the 2005-06 school year, the LEA had to ensure that all teachers of core academic subjects, whether or not they work in a program supported with Title I, Part A funds, are highly qualified. “Core academic subjects” means English, reading or language arts, mathematics, science, foreign languages, civics and government, economics, arts, history, and geography (Title I, Section 1119(a) of ESEA (20 USC 6319(a)); 34 CFR sections 200.55 and 200.56).

Note: As provided in letters from the Secretary or the Assistant Secretary for Elementary and Secondary Education, dated October 21, 2005, March 21, 2006, and July 23, 2007 (see below), States that did not reach the goal of having all teachers of core academic subjects be highly qualified by the end of the 2005-2006 school year will not lose Federal funds if they are implementing the law and making a good-faith effort to reach that goal as quickly as possible. All States have negotiated a plan to come into compliance with the highly qualified teacher requirements. In accordance with the July 23, 2007 policy letter, schools should hire the most qualified teachers available; States must annually report to the Federal government information on the quality of teachers and the percentage of classes being taught by highly qualified teachers in the State, LEA, and school (Section 1111(h)(4)(G) of ESEA (20 USC 6311(h)(4)(G))); and LEAs must annually inform parents that they may request, and that the LEA will provide on request, information regarding the professional qualifications of classroom teachers (Section 1111(h)(6) of ESEA (20 USC 6311(h)(6))).

Qualifications of paraprofessionals.

- a. An LEA must ensure that each paraprofessional who is hired by the LEA after January 8, 2002 and who works in a program supported with Title I, Part A funds meets specific qualification requirements. Paraprofessionals who work in a program supported with Title I, Part A funds and who were hired by an LEA prior to January 8, 2002, had to meet these requirements by the end of the 2005-2006 school year. The term “paraprofessional” means an individual who provides instructional support; it does not include individuals who have only non-instructional duties (such as providing

technical support for computers, providing personal care services, or performing clerical duties). A paraprofessional works in a program supported with Title I, Part A funds if the paraprofessional is paid with Title I, Part A funds in a Title I targeted assistance school or works as a paraprofessional in a schoolwide program school.

- b. A paraprofessional must hold a high-school diploma or its recognized equivalent and meet one of the following requirements:
 - (1) Have completed at least two years of study at an institution of higher education.
 - (2) Have obtained an associate's or higher degree.
 - (3) Have met a rigorous standard of quality, and can demonstrate through a formal State or local academic assessment knowledge of, and the ability to assist in instructing, reading/language arts, writing, and mathematics, or reading readiness, writing readiness, and mathematics readiness.
- c. A paraprofessional who is proficient in English and a language other than English and acts as a translator or who has duties that consist solely of conducting parental involvement activities need only have a high-school diploma or its recognized equivalent.

(Title I, Section 1119(c)-(f) of ESEA (20 USC 6319(c)-(f)); 34 CFR section 200.58)

A number of documents posted on ED's website contain information pertinent to the Title I, Part A requirements regarding highly qualified teachers and paraprofessionals. They are:

- Key Policy Letters Signed by the Education Secretary or Deputy Secretary (March 31, 2004)
<http://www.ed.gov/policy/elsec/guid/secletter/040331.html>
- Key Policy Letters Signed by the Education Secretary or Deputy Secretary (October 21, 2005)
<http://www.ed.gov/policy/elsec/guid/secletter/051021.html>
- Statement Regarding No Child Left Behind Requirements for Paraprofessionals (June 17, 2005)
<http://www.ed.gov/news/pressreleases/2005/06/06172005a.html>
- Key Policy Letter Signed by the Assistant Secretary for Elementary and Secondary Education (March 21, 2006)
<http://www.ed.gov/programs/teacherqual/cssoltr.doc>

- Key Policy Letters Signed by the Education Secretary or Deputy Secretary (September 5, 2006) (<http://www.ed.gov/policy/elsec/guid/secletter/060905.html>)
- Key Policy Letters Signed by the Education Secretary or Deputy Secretary (July 23, 2007) (<http://www.ed.gov/policy/elsec/guid/secletter/070723.html>)
- Approved State plans for coming into compliance with highly qualified teacher requirements, and related materials (<http://www.ed.gov/programs/teacherqual/hqtplans/index.html>)

Audit Objective – Determine whether the LEA is hiring only highly qualified teachers to teach core academic subjects in general and is hiring only qualified and paraprofessionals in programs supported with Title I, Part A funds. If the LEA is not hiring only highly qualified teachers, determine whether the LEA’s hiring of teachers of core academic subjects who are not highly qualified is consistent with the approved State plan.

Suggested Audit Procedures

- a. Review LEA procedures for hiring highly qualified teachers of core academic subjects in general and for hiring qualified paraprofessionals in programs supported with Title I, Part A funds.
- b. Trace the data to source records to determine if teachers of core academic subjects in general and paraprofessionals working in programs supported with Title I, Part A funds who were hired during the year covered by the audit met the criteria in 34 CFR sections 200.55, 200.56, and 200.58.
- c. Ascertain that, during the year covered by the audit, the hiring of teachers of core academic subjects who are not highly qualified was consistent with the approved State plan.

Appendix 8.C.2.b CFDA 84.011 MIGRANT EDUCATION - STATE GRANT PROGRAM (Title I, Part C of ESEA)

DEPARTMENT OF EDUCATION

TEA REFERENCE: <http://www.tea.state.tx.us/nclb/>

I. PROGRAM OBJECTIVES

The objectives of the Migrant Education - State Grant Program (Migrant Education Program or MEP) are to: (1) support high-quality and comprehensive educational programs for migratory children to help reduce the educational disruptions and other problems that result from repeated moves; (2) ensure that migratory children who move among the States are not penalized in any manner by disparities among the States in curriculum, graduation requirements, and State academic content and student academic achievement standards; (3) ensure that migratory children are provided with appropriate educational services (including support services) that address their special needs in a coordinated and efficient manner; (4) ensure that migratory children receive full and appropriate opportunities to meet the same challenging State student academic content standards and student academic achievement standards that all children are expected to meet; (5) design programs to help migratory children overcome educational disruption, cultural and language barriers, social isolation, various health-related problems, and other factors which inhibit the ability of migrant children to do well in school, and to prepare such children to make a successful transition to postsecondary education or employment; and (6) ensure that migratory children benefit from State and local systemic reforms.

II. PROGRAM PROCEDURES

MEP funds are allocated to a State educational agency (SEA), under either an approved consolidated application or an approved individual program application, in order for the SEA to provide MEP services and activities either directly, or through subgrants to local operating agencies. The amount of funding an SEA receives annually depends, in part, on the number of eligible migrant children that the SEA determined reside within the State. Local operating agencies can be either local educational agencies (LEAs) or other public or non-profit private agencies. Because an SEA may choose to provide MEP services directly or through a local operating agency, some of the suggested audit procedures will apply for an SEA or local operating agency, depending on which agency provides the services and where the records are maintained.

Source of Governing Requirements

This program is authorized by Title I, Part C of the Elementary and Secondary Education Act of 1965, as amended (ESEA)(20 USC 6391 through 6399). The Education Department (ED) General Administrative Regulations at 34 CFR parts 76, 77, 80, 82, and 85 apply to this program. Other requirements in 34 CFR part 200, subparts C (34 CFR sections 200.81

through 200.89) and E (34 CFR sections 200.100 through 200.103), and 34 CFR part 299 also apply.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

Certain compliance requirements that apply to multiple ESEA programs are discussed once in the ED Cross-Cutting Section of the Compliance Supplement rather than being repeated in each individual program. Where applicable, this section references to the Cross-Cutting Section for these requirements. Also, as discussed in the Cross-Cutting Section, SEAs and LEAs may have been granted waivers from certain compliance requirements.

A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

1. *SEAs* - SEAs may use funds to operate the program (directly or through contracts), make subgrants to LEA or other local operating agencies, and pay for State administration. In general, funds available under the MEP may be used only to: (a) identify eligible migratory children and their needs; and (b) provide educational and support services (including, but not limited to, preschool services, professional development, advocacy and outreach, parental involvement activities and the acquisition of equipment) that address the identified needs of the eligible children.

An SEA may also use MEP funds to carry out administrative activities that are unique to the program. These activities include, but are not limited to, Statewide identification and recruitment of migratory children, interstate and intrastate program coordination, transfer of student records, collecting and using information to make subgrants, and direct supervision of instructional or support staff (Title I, Part C, Sections 1301, 1304(c) and 1306(b) of ESEA (20 USC 6392, 6394(c), and 6396(b)); 34 CFR section 200.82).

2. *LEAs or Other Local Operating Agencies* - LEAs or other local operating agencies use funds in accordance with the agreement with the SEA to (a) identify eligible migratory children and their needs; and (b) provide educational and support services that address the identified needs of the eligible children.

B. Allowable Costs/Cost Principles

See ED Cross-Cutting Section.

C. Cash Management

See ED Cross-Cutting Section.

E. Eligibility**1. Eligibility for Individuals (*LEAs*)**

Only eligible migratory children may receive MEP services. A “migratory child” means a child who is, or the child’s parent or child’s spouse is, a migratory agricultural worker, including a migratory dairy worker, or a migratory fisher, and who, in the preceding 36 months, in order to obtain, or accompany a parent or spouse, in order to obtain, temporary or seasonal employment in agriculture or fishing work (a) has moved from one school district to another, (b) in a State that is comprised of a single school district, has moved from one administrative area to another within such district, or (c) resides in a school district of more than 15,000 square miles, and migrates a distance of 20 miles or more to a temporary residence to engage in a fishing activity. (Title I, Part C, Section 1309(2) (20 USC 6399(2)). On July 29, 2008, ED issued revised implementing regulations (effective August 28, 2008) in 34 CFR section 200.81 that further define a “migratory child” as well as the following key terms: “migratory agricultural worker,” “migratory fisher,” “agricultural work,” “fishing work,” “move” or “moved,” “in order to obtain,” “temporary employment,” “seasonal employment,” “personal subsistence,” and “qualifying work” (Title I, Part C, Section 1302 and 1304(b)(1) of ESEA (20 USC 6392 and 6394(b)(1)); 34 CFR section 200.81).

2. Eligibility of Group of Individuals or Area of Service Delivery - Not Applicable**3. Eligibility for Subrecipients – Not Applicable****G. Matching, Level of Effort, Earmarking****1. Matching - Not Applicable****2.1 Level of Effort - *Maintenance of Effort* - Not Applicable****2.2 Level of Effort - *Supplement Not Supplant***
See ED Cross-Cutting Section.**3. Earmarking (SEAs)**
See ED Cross-Cutting Section.

H. Period of Availability of Federal Funds

See ED Cross-Cutting Section.

L. Reporting

1. Financial Reporting

See ED Cross-Cutting Section.

2. Performance Reporting - Not Applicable

3. Special Reporting

- a. *State Per Pupil Expenditure (SPPE) Data (OMB No 1850-0067)*
(SEAs/LEAs)

See ED Cross-Cutting Section.

- b. *Consolidated State Performance Report, Part I, Migrant Child Counts (OMB No. 1810-0614)*

- (1) Migrant Child Counts of Children Eligible for Funding Purposes (SEAs)

The SEA is required—for allocation purposes—to assist ED in determining the number of eligible migratory children who reside in the State, using such procedures as ED requires. Each SEA annually provides unduplicated Statewide counts (and the procedures used to develop these counts) of eligible migratory children in each of two categories: (a) children ages 3 through 21 who resided in the State for one or more days during the preceding September 1-August 31; and (b) such children who were served one or more days in a migrant-funded project conducted either during the summer term or an intersession period (i.e., when a year-round school is not in session.) The SEA's report of State child counts is based on data submitted to it by the LEAs or other local operating agencies in the State, and is prepared based on data for the school year prior to the year that is subject to audit. For example, for the audit covering school year 2008-2009, the migrant child count data to be audited is in section 1.10 of the Consolidated State Performance Report, Part I on school year 2007-2008 submitted to ED in December 2008.

SEAs provide an assurance that they will assist ED in determining the number of migratory children in the State so that ED may determine the correct size of the State's annual

MEP allocation. The statute and MEP regulations define who is a migrant (or migratory) child (Title I, Part C, Section 1309(2) (20 USC 6399(2)); 34 CFR section 200.81). ED's regulations also specify minimum requirements for quality control systems relative to the determination of program eligibility (also see III.N.6, "Special Tests and Provisions – Child Counts – Quality Control Process") (34 CFR section 200.89(d)).

- (2) Reporting the number of eligible migrant children to the SEA (LEAs or other local operating agencies and SEAs providing direct services)

LEAs or other local operating agencies and SEAs providing direct services must implement procedures, based on the eligibility documentation they collect and maintain, to count and report eligible children in the two categories specified in III.L.3.b(1) Reporting - Special Reporting (Title I, Part C, Section 1304(c)(7) of ESEA (20 USC 6394(c)(7)); 34 CFR sections 76.730 and 76.731).

c. *Consolidated State Performance Report, Part II, Education of Migrant Children (Title I, Part C) (OMB No. 1810-0614) (SEAs)*

An SEA must annually report population and program performance data that includes the unduplicated number of migrant children who were identified within the State as eligible to be served by the MEP, and who were identified within the State as having priority for services as defined in Title I, Part C, Section 1304(d) of ESEA (20 USC 6394(d)). ED offers further explanations of priority for services in non-binding guidance; i.e., guidance that represents an acceptable, but not necessarily the only, way to meet the legal requirements (Chapter V of *Title I, Part C, Education of Migratory Children: Draft Non-Regulatory Guidance*, available on the Internet at <http://www.ed.gov/programs/mep/mepguidance2003.doc>). The reported data are for the school year prior to the year that is subject to audit. For example, for the audit covering school year 2008-2009, the Consolidated State Performance Report, Part II to be audited would be in section 2.3 of the report on school year 2007-2008 submitted to ED in February 2008.

Key Line Items – The follow line item contains critical information:

Part II, Section 2.3, Education of Migratory Children (Title I, Part C), Table 2.3.1.1, , Eligible Migrant Children, the line titled "Total,"

and Table 2.3.1.2, Priority for Service, the line titled “Total.”
(Information by age/grade level does not need to be tested.)

N. Special Tests and Provisions

1. **Participation of Private School Children** (SEAs/LEAs)
See ED Cross-Cutting Section.

2. **Schoolwide Programs** (LEAs)
See ED Cross-Cutting Section.

3. **Comparability** (SEAs/LEAs)
See ED Cross-Cutting Section.

4. **Priority for Services**

Compliance Requirement - SEAs and LEAs or other local operating agencies must give priority for MEP services to migratory children who are failing, or most at risk of failing, to meet the State’s challenging content and performance standards, and whose education has been interrupted in the regular school year (Title I, Part C, Section 1304(d) of ESEA (20 USC 6394(d)).

Audit Objective - (*LEA or other local operating agencies*) - Determine whether the LEA or other local operating agency is defining, and properly identifying and counting, “priority-for-services” migratory children so that priority in the provision of MEP services is given to those migratory children identified as failing, or most at risk of failing, to meet the State’s challenging content and performance standards, and whose education has been interrupted in the regular school year (priority children).

Suggested Audit Procedures - (*LEA or other local operating agencies*)

- a. Review the LEA’s or other operating agency’s definition of what constitutes failing, or most at risk of failing, to meet the State’s challenging content and performance standards, and whose education has been interrupted in the regular school year.
- b. Review the LEA’s or other local operating agency’s procedures to identify those individual migrant children who meet the applicable definition of failing, or most at risk of failing, to meet the State’s challenging content and performance standards, and whose education has been interrupted in the regular school year (i.e., migrant children who meet the “priority-for-services” criteria).
- c. Review the LEA’s or other local operating agency’s procedures to accurately count and report the unduplicated number of migrant children with “priority-for-services” who were identified and served. See the

Consolidated State Performance Report: Part II, Section 2.3, Education of Migratory Children, (Title I, Part C), Table 2.3.1.2.

- d. Review the LEA or other local operating agency's process for selecting children to receive MEP services.
- e. Select a sample of migratory children who were identified as priority children. Review program records to determine if these children were provided MEP services. (In rare instances, a local project may not have any "priority-for-services" children in its service area, in which case the suggested audit procedures would not apply.)

5. Subgrant Process (SEAs)

Compliance Requirement - SEAs may provide MEP services either directly, or through subgrants to LEA or other local operating agencies, including LEAs. Where the SEA awards subgrants, in order to target program funds appropriately, the SEA is required determine the amount of the subgrants by taking into account (a) the numbers of migratory children, (b) the needs of migratory children, (c) the "priority-for services" requirement in section 1304 (d) of ESEA (20 USC 6394(d)), and (4) the availability of funds from other Federal, State, and local programs. How the SEA takes into consideration the availability of funds is left to SEA discretion (Title I, Part C, Sections 1301 and 1304(b)(5) of the ESEA (20 USC 6391 and 6394(b)(5))).

Audit Objective - Determine whether the SEA's process to determine the amount of MEP subgrants takes into account current information on numbers of migratory children, needs of migratory children, need to serve priority children, and the availability of funds from other Federal, State, and local programs.

Suggested Audit Procedures

Review the SEA's process to target MEP funds to ascertain if the process:

- a. Uses current information.
- b. Takes into account (1) the numbers of migratory children, (2) the needs of migratory children, (3) the "priority-for services" requirement in Section 1304(d) of ESEA, and (4) the availability of funds from other Federal, State, and local programs.

6. Child Counts– Quality Control Process

Compliance Requirement - In section 1.10.3 of the Consolidated State Performance Report, Part I (See III.L.3.b., "Reporting – Special Reporting - Consolidated State Performance Report, Part I, Migrant Child Counts"), SEAs are required to describe their quality control process – including their processes for any prospective re-interviewing under 34 CFR section 200.89(b)(2) -- for ensuring that the SEA properly determines and verifies the eligibility of each child in the reported count of eligible children. Counted children are educated at LEAs; therefore, in preparing section 1.10, SEAs may require LEAs to submit information to the SEA

and comply with specified procedures concerning the child count. The quality control process is described in section 1.10.3.4. This process includes requirements for prospective re-interviewing to validate current-year child eligibility determinations through the re-interview of a randomly selected sample of children previously identified as migratory (34 CFR section 200.89(b)(2)) and other required components (20 USC 6394(c)(7); 34 CFR section 200.89).

The LEA is required to collect the migrant student, education, and health data as established by the SEA to be submitted to NGS to meet the federal requirement of transferring migrant student instructional and health data on both intrastate and interstate levels. LEAs must develop and maintain NGS logs to document the procedures that are followed to input data into NGS as outlined in the Required School District Activities Guidelines.

Audit Objective - Determine whether the SEA and participating LEAs (1) established, (2) implemented, and (3) accurately reported in the Consolidated State Performance Report, Part I a quality control process that ensures an accurate eligible-child count and meets the requirements of ED regulations.

Suggested Audit Procedures

LEAs

- a. Determine if the LEA was required to submit information to the SEA relating to section 1.10 of the Consolidated State Performance Report, Part I, and if so, what information was required, the processes for obtaining it, and how quality was ensured.
- b. Ascertain whether the LEA complied with the SEA's requirements relating to obtaining, processing, and submitting accurate data required for section 1.10 of the Consolidated State Performance Report, Part I.

Appendix 8.C.2.c CFDA 84.041 IMPACT AID (Title VIII of ESEA)**DEPARTMENT OF EDUCATION****I. PROGRAM OBJECTIVES**

The objective of the Impact Aid Program (IAP) under Title VIII of the Elementary and Secondary Education Act (ESEA) is to provide financial assistance to local educational agencies (LEAs) whose local revenues or enrollments are adversely affected by Federal activities. These activities include the Federal acquisition of real property (Section 8002) or the presence of children residing on tax-exempt Federal property or residing with a parent employed on tax-exempt Federal property (“federally connected” children) (Section 8003).

II. PROGRAM PROCEDURES

Funds are provided on the basis of statutory criteria and data supplied by LEAs in applications submitted to the Department of Education (ED), with copies provided simultaneously to the State Educational Agency (SEA). ED makes payments directly to the LEA. Generally, payments under Section 8003 of the ESEA are based on membership and attendance counts of federally connected children, with additional funds provided for certain federally connected children with disabilities and children residing on Indian lands. Payments under Section 8002 of the ESEA are based on the estimated assessed value of eligible Federal property and the applicable tax rate, and, in case of insufficient funds, upon a statutory formula that considers past year payments. Except for the additional funds provided for federally connected children with disabilities under Section 8003(d) of the ESEA, funds provided under Sections 8002 and 8003 are considered general aid and generally have no restrictions on their expenditure. Any formula funds that are provided under Section 8007(a) of the ESEA to certain LEAs that received Section 8003 payments must be used for construction, as defined in the statute. Any discretionary construction grant funds that are provided under Section 8007(b) of the ESEA to certain LEAs that received Section 8002 or 8003 payments must be used for emergency repairs or modernization, as defined in the statute and regulations.

Source of Governing Requirements

This program is authorized by Sections 8001-8014 of the ESEA, which is codified at 20 USC 7701 through 7714. Implementing regulations are 34 CFR part 222.

Availability of Other Program Information

Additional information on this program (including the Impact Aid statute) may be found on the internet at <http://www.ed.gov/about/offices/list/oese/programs.html>.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

A. Activities Allowed or Unallowed

1. *Section 8003(d) - Federally connected children with disabilities*

LEAs must use the payments provided under Section 8003(d) of the ESEA to conduct programs or projects for the free, appropriate public education of the federally connected children with disabilities who generated those funds. Allowable costs include expenditures reasonably related to the conduct of programs or projects for the free, appropriate public education of children with disabilities, including program planning and evaluation and acquisition costs of equipment, except when the title to that equipment would not be held by the LEA. Costs for school construction are not allowable (Section 8003 of ESEA; 34 CFR section 222.53(c)).

2. *Section 8007 – Construction*

LEAs that receive payments under Section 8003 of the ESEA and that meet certain other statutory criteria may receive formula assistance under Section 8007(a) of the ESEA in any fiscal year that the Congress appropriates funds under that Section. LEAs must use the payments provided under Section 8007(a) for construction, as defined in Section 8013(3) of the ESEA. Under Section 8013(3), the term “construction” includes: (a) the preparation of drawings and specifications for school facilities; (b) erecting, building, acquiring, altering, remodeling, repairing, or extending school facilities; (c) inspecting and supervising the construction of school facilities; and (d) debt service for such activities (Sections 8007 and 8013(3) of ESEA). Certain LEAs that receive payments under section 8002 or 8003 of the ESEA and that meet other statutory and regulatory criteria may receive discretionary grant assistance under Section 8007(b) of the ESEA. Selected grantees must use these funds for emergency or modernization construction grant expenditures, as specified in their grant award documents. Emergency and modernization are defined in 34 CFR section 222.176 and the allowable and unallowable uses of these funds are detailed in 34 CFR sections 222.172 through 222.174.

3. *Section 8002 - Federal property payments and Section 8003(b) - Basic support payments*

Funds made available under Sections 8002 and 8003(b) of the ESEA usually become part of the general operating fund of the LEAs. These funds are available as general aid for free public education and may be used for current operating expenditures or capital outlays in accordance with State laws. The auditor is not expected to perform any tests with respect to the expenditure of these funds.

B. Allowable Costs/Cost Principles

Sections 8002 (Federal property payments) and 8003(b) (Basic support payments) are not subject to the A-102 Common Rule (See Appendix I) or Circular A-87.

D. Davis-Bacon Act

Section 8007 construction funds, as well as any Section 8002 or 8003(b) funds spent for construction or minor remodeling, are subject to Davis-Bacon prevailing wage requirements (20 USC 1232b).

G. Matching, Level of Effort, Earmarking

1. Matching - Not Applicable

2.1 Level of Effort - *Maintenance of Effort* - Not Applicable

2.2 Level of Effort - *Supplement Not Supplant*

Section 8003(d) funds may not supplant any State funds (either general or special education State aid) that were or would have been available to the LEA for the free, appropriate public education of federally connected children with disabilities counted under Section 8003(d). A reduction in the per-pupil amount of State aid for children with disabilities, including children counted under Section 8003(d), from that received in the previous year raises a presumption that supplanting has occurred. An LEA can rebut this presumption by demonstrating that the reduction was unrelated to the receipt of Section 8003(d) funds (Section 8003(d) of ESEA; 34 CFR section 222.54).

3. Earmarking - Not Applicable

L. Reporting

1. Financial Reporting - Not Applicable

2. Performance Reporting - Not Applicable

3. Special Reporting

Application for Impact Aid - Section 8003 (OMB No. 1810-0687) - Each year an LEA must submit this application, which provides the following information: counts of federally connected children in various categories, membership and average daily attendance data, and information on expenditures for children with disabilities. Membership and average attendance data should be tested. The auditor should use professional judgment when determining which tables to test, taking into account the relative materiality of the number of children reported in other tables. (Note: Eligible LEAs submit a separate application for Section 8002 or Section 8007(b) funding. The auditor is not expected to perform any tests with respect to the Section 8002 or Section 8007(b) applications.)

N. Special Tests and Provisions

Required Level of Expenditure

Compliance Requirement - For each fiscal year, the amount of expenditures for special education and related services provided to federally connected children with disabilities must be at least equal to the amount of funds received or credited under Section 8003(d) of the ESEA for that fiscal year. This is demonstrated by comparing the amount of Section 8003(d) funds received or credited with the result of the following calculation:

- a. Divide total LEA expenditures for special education and related services for all children with disabilities by the average daily attendance (ADA) of all children with disabilities served during the year.
- b. Multiply the amount determined in a. above by the ADA of the federally connected children with disabilities claimed by the LEA for the year.

If the amount of section 8003(d) funds received or credited is greater than the amount calculated above, an overpayment equal to the excess section 8003(d) funds exists. This overpayment may be reduced or eliminated to the extent that the LEA can demonstrate that the average per pupil expenditure for special education and related services provided to federally connected children with disabilities exceeded its average per pupil expenditure for serving non-federally connected children with disabilities (Section 8003(d) of ESEA; 34 CFR section 222.53(d)).

Audit Objective - To determine whether the LEA met the required level of expenditure for providing special education and related services to federally connected children with disabilities.

Suggested Audit Procedures

- a. Review the LEA's calculation to ascertain if it shows that the required level of expenditure for federally connected children was met. Check accuracy of calculation.
- b. Trace amounts used in the calculation to supporting records.
- c. If the LEA's calculation shows that an overpayment was made, verify that the average per pupil expenditure for federally connected children with disabilities exceeded the average per pupil expenditure for non-federally connected children to the extent of the overpayment.

**Appendix 8.C.2.d CFDA 84.186 SAFE AND DRUG-FREE SCHOOLS
AND COMMUNITIES -- STATE GRANTS (Title IV,
Part A, Subpart 1 of ESEA)**

DEPARTMENT OF EDUCATION

TEA REFERENCE: <http://www.tea.state.tx.us/nclb/>

I. PROGRAM OBJECTIVES

The objective of the Safe and Drug-Free School and Communities program authorized by the Safe and Drug-Free Schools and Communities Act (SDFSCA), contained in Title IV of the ESEA, is to support programs that prevent violence in and around schools and by strengthening programs that prevent the illegal use of alcohol, tobacco, and drugs, involve parents, and are coordinated with related Federal, State, and community efforts and resources.

II. PROGRAM PROCEDURES

In general, SDFSCA funds are allocated to States based on their relative share of school-aged population and Title I Concentration Grant funds. Of each State's annual allocation amount, at least 80 percent is awarded to the State Educational Agency (SEA) for programs described in Section 4112(b) of the SDFSCA and no more than 20 percent may be awarded to the Governor for programs described in Section 4112(a) of the SDFSCA. On the grant documents the Department of Education (ED) codes these programs with an "A" following the CFDA number to indicate a grant to the SEA program and a "B" following the CFDA number to indicate a grant to the Governor's program. However, these are treated as one program under OMB Circular A-133.

SEAs may use a portion of the funds they receive for administrative activities and to carry out State-level program activities. The majority of the funds received by an SEA must be distributed to local educational agencies (LEAs) for drug and violence prevention activities. LEAs must submit an application that includes, among other things, how it will use the funds.

Governors also may use a portion of the funds they receive for administration. Excluding the percentage of funds reserved for administration, Governors must make grants to, or enter into contracts with eligible entities for drug and violence prevention activities. Governors may have another State agency, including an SEA, administer the program on their behalf. No matter which agency administers the program, the program remains the responsibility of the Governor's office (Sections 4112 and 4113 of the SDFSCA (20 USC 7112 and 7113)).

Source of Governing Requirements

This program is authorized by Title IV, Part A, Subpart 1 of the Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001 (Pub. L. No. 107-110), which is codified at 20 USC 7101 through 7117 and 7161 through 7165. There are no program regulations. However, this program is subject to the Education Department General Administrative Regulations (EDGAR) at 34 CFR parts 76, 77, 79, 80, 81, 82, and 85.

Availability of Other Program Information

ED issued non-regulatory guidance to assist in the administration of this program. That guidance and other program information are available on the Internet at <http://www.ed.gov/about/offices/list/osdfs/index.html?src=mr>.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

Certain compliance requirements that apply to multiple ESEA programs are discussed once in the Department of Education (ED) Cross-Cutting Section of the Compliance Supplement rather than being repeated in each individual program. Where applicable, this section references to the Cross-Cutting Section for these requirements. Also, as discussed in the Cross-Cutting Section, SEAs and LEAs may have been granted waivers from certain compliance requirements.

A. Activities Allowed or Unallowed Also see ED Cross-Cutting Section.

1. *Activities Allowed*

a. *Use of Funds by State*

A State may use SDFSCA funds to carry out various activities including:

(1) *Administration Costs* (Sections 4112(a)(6) and (b)(2)(A) of the SDFSCA (20 USC 7112(a)(6) and (b)(2)(A))).

(2) *State-Level Activities*

A State may use a portion of its SDFSCA funds for grants and contracts to plan, develop, and implement capacity building, technical assistance and training, evaluation, program improvement services, and coordination activities for local educational agencies, community-based

organizations, and other public and private entities (Section 4112(c)(2) of the SDFSCA (20 USC 7112(c)(2))).

b. *Use of Funds by the Governor*

A Governor must use a competitive process to award grants or contracts for programs or activities that complement and support the activities of LEAs. Grants or contracts may be awarded to LEAs, community-based organizations (including community anti-drug coalitions) other public entities and private organizations and consortia of these agencies. Grants or contracts awarded under Section 4112(a)(1) shall be subject to a peer review process (Section 4112(a) of the SDFSCA (20 USC 7112(a))).

c. *Use of Funds by LEAs*

- (1) LEAs may use funds for drug and violence prevention activities as listed in Section 4115(b)(2) of the SDFSCA (20 USC 7115(b)(2)). (This Section may be found on the Internet at <http://www.ed.gov/legislation/ESEA02/pg52.html>)
- (2) An LEA may apply to the SEA for a waiver of the requirement found in Section 4115(a)(1)(C) that the program or activity be based on scientifically based research that provides evidence that it will reduce violence and illegal drug use (Section 4115(a)(3) of the SDFSCA (20 USC 7115(a)(3))).

d. *Rural Education Achievement Program (REAP) (LEAs)*

REAP provides authorization to spend all or part of funds under certain programs for activities authorized in other programs. After notification to the SEA, an LEA that meets both of the following requirements may spend all or part of this program's funds for activities authorized in Title I Grants to Local Educational Agencies (LEAs) (84.010); Eisenhower Professional Development State Grants (84.281); and Education Technology Grants (84.318):

- (1) Have an Average Daily Attendance of less than 600 students; and
- (2) All of the schools in the LEA have been coded as rural schools by the National Center for Educational Statistics (NCES code 7 or 8) (Title III of the Consolidated Appropriations Act, 2001, Pub. L. No. 106-554, 114 Stat. 2763A-89, December 21, 2000).

See the program sections of III.A, "Activities Allowed or Unallowed" in this program supplement for the respective compliance requirements.

e. *Transferability*

See ED Cross-Cutting Section

2. **Activities Unallowed** (Governors/SEAs/LEAs) - SDFSCA funds may not be used for construction, or to provide medical services, drug treatment, or rehabilitation. Pupil services or referral to treatment for students who are victims of or witnesses to crime or who use alcohol, tobacco, or drugs are not included in the prohibition (Section 4154 of the SDFSCA (20 USC 7164)).

B. Allowable Costs/Cost Principles

See ED Cross-Cutting Section.

C. Cash Management

See ED Cross-Cutting Section.

G. Matching, Level of Effort, Earmarking

1. **Matching** - Not Applicable

- 2.1 **Level of Effort** - *Maintenance of Effort* (SEAs/LEAs)
See ED Cross-Cutting Section.

- 2.2 **Level of Effort** - *Supplement Not Supplant*
See ED Cross-Cutting Section.

3. **Earmarking**

Also see ED Cross-Cutting Section.

- a. *State-level programs, administrative costs, initial allocations to LEAs* (SEAs)

- (1) A minimum of 93 percent of the SEA's total allocation must be distributed to its LEAs. Of the amount made available for distribution to LEAs, an SEA must allocate (a) 60 percent based on the relative amount LEAs received under Part A of Title 1 for the preceding fiscal year; and (b) 40 percent to LEAs based on their relative share of enrolled students in public and private non-profit elementary and secondary schools (Sections 4112(b)(1) and 4114(a)(1) of the SDFSCA (20 USC 7112(b)(1) and 7114(a)(1))).
- (2) An SEA may reserve not more than five percent of its total allocation for State-level activities authorized under Section 4112(c)(1) of the SDFSCA (20 USC 7112(c)(1))).

- b. *Administrative Cost*

- (1) *Governor's Program*

A Governor may use no more than three percent of its total allocation for administrative activities (Section 4112(a)(6) of the SDFSCA (20 USC 7112(a)(6))).

(2) *SEA*

An SEA may also reserve not more than three percent of its total allocation for administrative costs, including the implementation of the Uniform Management Information and Reporting System. However, in fiscal year 2002, the SEA may reserve up to an additional one percent of its total allocation for administrative costs, provided that the additional reservation is used to support the Uniform Management Information and Reporting System (Section 4112(b)(2) of the SDFSCA (20 USC 7112(b)(2))).

(3) *LEA*

An LEA may use no more than two percent of its total allocation for administrative activities (Section 4114(a)(2) of the SDFSCA (20 USC 7114(a)(2))).

c. *Cap on Security Devices and Security Personnel (LEAs)*

An LEA may use not more than 40 percent of its allocation to support the following activities (a) through (e) but not more than half of that amount or a maximum of 20 percent to support the following activities (a) through (d). An LEA may use the entire 40 percent to support the following activity (5). However, the LEA may use funds for the following activities (a) through (d) only if funding for these activities was not received from other Federal agencies (Section 4115(c) of the SDFSCA (20 USC 7115(c))).

- (1) Acquiring and installing metal detectors, electronic locks, surveillance cameras, or other related equipment and technologies (20 USC 7115(b)(2)(E)(ii)).
- (2) Reporting criminal offenses committed on school property (20 USC 7115(b)(2)(E)(iii)).
- (3) Developing and implementing comprehensive school security plans or obtaining technical assistance concerning those plans (20 USC 7115(b)(2)(E)(iv)).
- (4) Supporting safe zones of passage activities, including bicycle and pedestrian safety programs, which ensure that students can travel; safely to and from school (20 USC 7115(b)(2)(E)(v)).
- (5) Hiring and mandatory training of school security personnel who interact with students in support of youth drug and

violence prevention activities implemented in schools
(20 USC 7115(b)(2)(E)(vi)).

H. Period of Availability of Federal Funds (SEAs/LEAs Programs)

Also see ED Cross-Cutting Section.

1. *Return and Reallocation of Funds (SEA/LEA)*
 - a. Except as stated in III.H.2, “Period of Availability of Federal Funds - Carryover of Funds (LEA)” below, an LEA must return to the SEA any funds that remain unobligated after a period of one-year beginning on the date the LEA receives its original allocation. The SEA must reallocate the funds to LEAs that have submitted plans for using the funds for SDFSCA programs and activities on a timely basis (Section 4114(a)(3)(A) of the SDFSCA (20 USC 7114(a)(3)(A))).
 - b. If an LEA does not apply for SDFSCA funds or if an LEA is disapproved for funding, the SEA must reallocate that amount to one or more of its other LEAs (Section 4114(a)(3)(C) of the SDFSCA (20 USC 7114(a)(3)(C))).
2. *Carryover of Funds (LEA)*
An LEA may retain up to 25 percent of its fiscal year allocation for obligation in the next Federal fiscal year. If an LEA wishes to retain an amount greater than 25 percent of its fiscal year allocation for use in a succeeding year, it must demonstrate good cause for such a carryover to its SEA, and the SEA must approve the request for additional carryover (Section 4114(a)(3)(B) of the SDFSCA (20 USC 7114(a)(3)(B))).

L. Reporting

1. **Financial Reporting** (SEAs/LEAs/Governor’s Programs)
See ED Cross-Cutting Section.
2. **Performance Reporting** - Not Applicable
3. **Special Reporting** - Not Applicable

N. Special Tests and Provisions

1. **Participation of Private School Children** (SEAs/LEAs)
See ED Cross-Cutting Section.
2. **Schoolwide Programs** (LEAs)
See ED Cross-Cutting Section.

3. **Access to Federal Funds for New or Significantly Expanded Charter Schools**
See ED Cross-Cutting Section.

Appendix 8.C.2.e CFDA 84.287 TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS

DEPARTMENT OF EDUCATION

I. PROGRAM OBJECTIVES

The objective of this program is to establish or expand community learning centers that provide students with academic enrichment opportunities along with activities designed to complement the students' regular academic program. Community learning centers must also offer families of these students literacy and related educational development. Centers, which can be located in elementary or secondary schools or other similarly accessible facilities, provide a range of high-quality services to support student learning and development, including tutoring and mentoring, homework help, academic enrichment (such as hands-on science or technology programs), and community service opportunities, as well as music, arts, sports and cultural activities. At the same time, centers help working parents by providing a safe environment for students during non-school hours or periods when school is not in session.

II. PROGRAM PROCEDURES

With enactment of the No Child Left Behind Act of 2001 (NCLB), the requirements for this program were modified from those previously established under the Improving America's Schools Act (IASA). The NCLB converted the 21st Century Community Learning Centers (CCLC) authority to a State formula grant program. In past years, the U. S. Department of Education (ED) made competitive awards directly to local education agencies (LEAs). Under the reauthorized authority, funds flow to States based on their share of Title I, Part A funds. States, in turn, use their allocations to make competitive awards to eligible entities. The Secretary of Education awards 21st CCLC grants through a formula grant process to States; the States then award, through a competitive process, subgrants to LEAs, community-based organizations (CBOs), other public or private entities, or consortia of two or more of such agencies, organizations, or entities.

Source of Governing Requirements

This program is authorized under Title IV, Part B of the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the NCLB (20 USC 7171 *et seq.*; Section 4201 *et seq.* of Pub. L. No. 107-110, 115 Stat. 1765, January 8, 2002) and is subject to the Education Department General Administrative Regulations in 34 CFR parts 74, 76, 77, 79, 80, 81, 82, 85, and 86.

Availability of Other Program Information

Information on this program can be found in Non-Regulatory Guidance on the 21st Century Learning Centers (February 2003) on the Internet at:

<http://www.ed.gov/programs/21stcclc/guidance2003.pdf>.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

Certain compliance requirements that apply to multiple ED programs are discussed once in the ED Cross-Cutting Section of the Compliance Supplement rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements.

A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

1. SEAs

a. *Awards to subrecipients* (20 USC 7172(c)(1)).

b. *State Administration:*

- (1) The administrative costs of carrying out its responsibilities under Title IV, Part B of the ESEA.
- (2) Establishing and implementing a peer review process for grant applications; and

- (3) Supervising the awarding of funds to eligible entities (20 USC 7172(c)(2)).

c. *State Activities:*

- (1) Monitoring and evaluation of programs and activities.
- (2) Providing capacity building, training, and technical assistance.
- (3) Conducting a comprehensive evaluation (directly, or through a grant or contract) of the effectiveness of programs and activities.
- (4) Providing training and technical assistance to eligible entities who are applicants for or recipients of this program. (20 USC 7172(c)(3)).

2. LEAs, CBOs, and Other Public or Private Entities

Grant awards may be used to carry out a broad array of before- and after-school activities (including summer recess periods) that advance student academic achievement including:

- a. Remedial education activities and academic enrichment learning programs, including providing additional assistance to students to allow the students to improve their academic achievement.
- b. Mathematics and science education activities.
- c. Arts and music education activities.
- d. Entrepreneurial education programs.
- e. Tutoring services (including those provided by senior citizen volunteers) and mentoring programs.
- f. Programs that provide after school activities for limited English proficient students that emphasize language skills and academic achievement.
- g. Recreational activities.
- h. Telecommunications and technology education programs.
- i. Expanded library service hours.
- j. Programs that promote parental involvement and family literacy.
- k. Programs that provide assistance to students who have been truant, suspended, or expelled to allow the students to improve their academic achievement.
- l. Drug and violence prevention programs, counseling programs, and character education programs (20 USC 7175(a)).

B. Allowable Costs/Cost Principles

See ED Cross-Cutting Section.

C. Cash Management

See ED Cross-Cutting Section.

E. Eligibility

- 1. Eligibility for Individuals** - Not Applicable
- 2. Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable
- 3. Eligibility for Subrecipients**

SEAs make awards to eligible entities that propose to serve:

- a. Students who primarily attend (1) schools eligible for schoolwide programs under section 1114 of the ESEA; or (2) schools that serve a high percentage of students from low-income families; and
- b. The families of such students (20 USC 7173(a)(3).

G. Matching, Level of Effort, Earmarking

1. Matching -

–LEAs, CBOs, and Other Public or Private Entities

An SEA may require matching funds on a sliding scale based on the relative poverty of the population to be targeted and the ability of the grantee to obtain such matching funds. The match may not exceed the amount of the grant award and may not be derived from other Federal or State funds. Each State educational agency that requires an entity to match funds shall permit the entity to provide all or any portion of such match in the form of in-kind contributions (20 USC 7174(d)).

2.1 Level of Effort - Maintenance of Effort

See ED Cross-Cutting Section

2.2 Level of Effort - Supplement Not Supplant -

See ED Cross-Cutting Section

3. Earmarking

Also see ED Cross-Cutting Section

- a. *General* - A State shall reserve not less than 95 percent of the State allotments for each fiscal year for awards to eligible entities under 20 USC 7174 (20 USC 7172(c)(1)).
- b. *State Administration* - A SEA may use not more than two percent of the State allotment for state administration (20 USC 7172(c)(2)). (See III.A.1.b, “Activities Allowed or Unallowed – State Administration.”)
- c. *State Activities* - A State educational agency may use not more than three percent of the State allotment for State-level activities (20 USC 7172(c)(3)). (See III.A.1.c, “Activities Allowed or Unallowed – State Activities.”)

H. Period of Availability of Federal Funds

Funds not obligated by the end of the Federal fiscal year for which they were appropriated may be obligated for one additional Federal fiscal year. For example, funds appropriated for the Federal fiscal year 2008 are available from October 1, 2007 (the beginning of Federal fiscal year 2008) until September 30, 2009 (Title III of Pub. L. No. 107-116, School Improvement Programs, 115 Stat. 2202) plus an additional 12 months (34 CFR sections 76.707 through 76.709).

L. Reporting

- 1. Financial Reporting**
See ED Cross-Cutting Section.
- 2. Performance Reporting - Not Applicable**
- 3. Special Reporting - Not Applicable**

N. Special Tests and Provisions

- 1. Participation of Private School Children**
See ED Cross-Cutting Section.
- 2. Schoolwide Programs**
See ED Cross-Cutting Section.
- 3. Access to Federal Funds for New or Significantly Expanded Charter Schools**
See ED Cross-Cutting Section.

Appendix 8.C.2.f CFDA 84.298 STATE GRANTS FOR INNOVATIVE PROGRAMS

DEPARTMENT OF EDUCATION

TEA REFERENCE: <http://www.tea.state.tx.us/nclb/>

I. PROGRAM OBJECTIVES

This former Title VI program was reauthorized by the No Child Left Behind Act (NCLB Act), Pub. L. No. 107-110, as Title V, Part A of the Elementary and Secondary Education Act (ESEA). The objectives of Title V, Part A are to: (1) support local educational reform efforts that are consistent with and support statewide education reform efforts; (2) provide funding to enable State Educational Agencies (SEAs) and Local Educational Agencies (LEAs) to implement promising educational reform programs and school improvement programs based on scientifically based research; (3) provide a continuing source of innovation, and educational improvement, including support programs to provide library services and instructional and media materials; (4) meet the educational needs of all students, including at-risk youth; and (5) develop and implement education programs to improve school, student, and teacher performance, including professional development activities and class size reduction programs (Title V, Part A, Section 5101(a) of the ESEA (20 USC 7201(a))).

II. PROGRAM PROCEDURES

Title V, Part A funds are obtained by a State following submission of an application or consolidated plan to the Secretary of Education that satisfies the application requirements as stipulated in the statute. The SEA distributes at least 85 percent of the funds to its LEAs that have filed an application that meets certain requirements. These funds are distributed to LEAs according to the relative enrollments in public and private, nonprofit schools within the school districts of the LEAs, adjusted to provide higher per pupil allocations to those LEAs with children whose education imposes a higher than average cost per child. The criteria for making these adjustments must be approved by the Secretary of Education. LEAs have complete discretion, subject only to legal requirements, in determining the allocation of expenditures of Title V, Part A funds among the allowable program activities (Title V, Part A, Sections 5112 and 5133(d) of the ESEA (20 USC 7211a and 7215b(d))).

Source of Governing Requirements

This program is authorized by Title V, Part A of the ESEA, as amended by the No Child Left Behind Act of 2001 (20 USC 7201 *et seq.*). There are no program regulations. However, the following parts of the Education (ED) Department General Administrative Regulations (EDGAR) apply to this program: 34 CFR parts 76, 77, 80, 81, 82, and 85.

Availability of Other Program Information

Other program information is available on the Internet at <http://www.ed.gov/programs/innovative/titlevguidance2002.doc>.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

Certain compliance requirements that apply to multiple ESEA programs are discussed once in the Department of Education (ED) Cross-Cutting Section of the Compliance Supplement rather than being repeated in each individual program. Where applicable, this section references to the Cross-Cutting Section for these requirements. Also, as discussed in the Cross-Cutting Section, SEAs and LEAs may have been granted waivers from certain compliance requirements.

A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

LEAs must use Title V, Part A funds for programs, projects and activities under one or more of the 27 innovative assistance program areas described in Title V, Part A, section 5131(a) of the ESEA (20 USC 7215(a)). The innovative assistance program areas are:

- (i) Programs to recruit, train, and hire highly qualified teachers to reduce class size, especially in the early grades, and professional development activities carried out in accordance with Title II of the ESEA, as amended.
- (ii) Technology activities related to the implementation of school-based reform efforts, including professional development to assist teachers and other school personnel (including school library media personnel) regarding how to use technology effectively.
- (iii) Programs for the development or acquisition and use of instructional and educational materials, including library services and materials (including media materials), academic assessments, reference materials, computer software and hardware for instructional use, and other curricular materials that are tied to high academic standards, that will be used to improve student achievement, and that are part of an overall education reform program.
- (iv) Promising education reform projects, including effective schools and magnet schools.
- (v) Programs to improve the academic achievement of disadvantaged elementary and secondary school students, including activities to prevent students from dropping out of school.

- (vi) Programs to improve the literacy skills of adults, especially the parents of children served by the LEA, including adult education and family literacy programs.
- (vii) Programs to provide for the educational needs of gifted and talented children.
- (viii) Planning, design and initial implementation of charter schools as described in Title V, Part B of the ESEA.
- (ix) School improvement programs or activities under sections 1116 and 1117 of the ESEA.
- (x) Community service programs that use qualified school personnel to train and mobilize young people to measurably strengthen their communities through nonviolence, responsibility, compassion, respect, and moral courage.
- (xi) Activities to promote consumer, economic, and personal finance education, such as disseminating information on and encouraging use of the best practices for teaching the basic principles of economics and promoting the concept of achieving financial literacy through the teaching of personal financial management skills.
- (xii) Activities to promote, implement, or expand public school choice.
- (xiii) Programs to hire and support school nurses.
- (xiv) Expansion and improvement of school-based mental health services, including early identification of drug use and violence, assessment, and direct individual or group counseling services provided to students, parents, and school personnel by qualified school-based mental health services personnel.
- (xv) Alternative educational programs for those students who have been expelled or suspended from their regular educational setting, including programs to assist students to reenter the regular educational setting upon return from treatment or alternative educational programs.
- (xvi) Programs to establish or enhance prekindergarten programs for children.
- (xvii) Academic intervention programs that are operated jointly with community-based organizations and that support academic enrichment, and counseling programs conducted during the school day (including during extended school day or extended school year programs), for students most at risk of not meeting challenging State academic achievement standards or not completing secondary school.
- (xviii) Programs for cardiopulmonary resuscitation (CPR) training in schools.
- (xix) Programs to establish smaller learning communities.
- (xx) Activities that encourage and expand improvements throughout the area served by the LEA that are designed to advance student academic achievement.

- (xxi) Initiatives to generate, maintain, and strengthen parental and community involvement.
- (xxii) Programs and activities that expand learning opportunities through best practice models designed to improve classroom learning and teaching.
- (xxiii) Programs to provide same-gender schools and classrooms, consistent with applicable law and with guidelines published by the Secretary of Education in the May 8, 2002, *Federal Register* (67 FR 31101).
- (xxiv) Service learning activities.
- (xxv) School safety programs, including programs to implement the unsafe school choice policy described in section 9532 of the ESEA (20 USC 7912) and which may include payment of reasonable transportation and tuition costs.
- (xxvi) Programs that employ research-based cognitive and perceptual development approaches and rely on a diagnostic-prescriptive model to improve students' learning of academic content at the preschool, elementary, and secondary levels.
- (xxvii) Supplemental education services, as defined in section 1116(e) of the ESEA.

B. Allowable Costs/Cost Principles

See ED Cross-Cutting Section.

C. Cash Management

See ED Cross-Cutting Section.

G. Matching, Level of Effort, Earmarking

1. Matching - Not Applicable

2.1 Level of Effort - Maintenance of Effort (SEAs)

The combined fiscal effort per child or the aggregate expenditures within the State for free public education for the preceding fiscal year must be at least 90 percent of the combined fiscal effort per child or aggregate expenditures for the second preceding fiscal year, unless specifically waived by the Secretary of Education for one fiscal year only.

Expenditures to be considered are State and local expenditures for free public education. These expenditures include expenditures for administration, instruction, attendance, health services, pupil transportation, plant operation and maintenance, fixed charges, and net expenditures to cover deficits for food services and student activities. States may include in the maintenance of effort calculation expenditures of Federal funds for which no accountability to the Federal Government is required. Certain

Impact Aid funds are an example of such funds. (However, Impact Aid funds for which there is a requirement of accountability to the Federal Government, such as those received for children with disabilities, cannot be included in the calculation.) States must be consistent in the manner in which they calculate maintenance of effort from year-to-year in order to ensure that the annual comparisons are on the same basis (i.e., calculations must consistently, from year-to-year, either include or exclude expenditures of Federal funds for which accountability to the Federal Government is not required). Expenditures not to be considered are any expenditures for community services, capital outlay, or debt service, and any expenditures of Federal funds for which accountability to the Federal Government is required. (Title V, Part A, section 5141(a) of the ESEA (20 USC 7217(a))).

2.2 Level of Effort - *Supplement Not Supplant* (SEAs/LEAs)
See ED Cross-Cutting Section.

3. Earmarking (SEAs)
Also see ED Cross-Cutting Section.

a. *Minimum 85 Percent Distribution to LEAs*

An SEA must distribute at least 85 percent of the funds to its LEAs, based on relative enrollments in public and private, non-profit schools within the LEAs (Title V, Part A, section 5112(a) of the ESEA (20 USC 7211a(a))).

The calculation of relative enrollments must be based on the number of children currently enrolled in (1) public schools and (2) those private schools that participated in the Title V, Part A programs during the preceding fiscal year (FY). (For FY 2002 LEA allocations, the State will include in the calculation enrollment data for those private schools that participated in the former Title VI program during the FY 2001 fiscal year.) If current enrollment data is not available, an SEA may use enrollment data from the preceding year (Title V, Part A, section 5112(c) of the ESEA (20 USC 7211a(c))).

The SEA must adjust the relative enrollments to provide higher per-pupil allocations only to those LEAs that serve the greatest numbers or percentages of children living in areas with high concentrations of economically disadvantaged families; children from economically disadvantaged families; or children living in sparsely populated areas. The criteria for making these adjustments must be approved by the Secretary of Education (Title V, Part A, section 5112(c)(3) of the ESEA (20 USC 7211a(c)(3))).

- b. *Remaining Reserved for State Use (Maximum of 15 Percent)*
Of the amount reserved for State use, no more than 15 percent may be used for State administration of Title V, Part A or transferred to a Consolidated Administration pool. See “III.A.1, Activities Allowed or Unallowed - SEAs” for what is considered “administration” (Title V, Part A, section 5112(b) of the ESEA (20 USC 7211a(b))).
- c. *Allocation of Increased Amounts*
In any fiscal year in which a State’s Title V, Part A allocation is larger than its FY 2002 Title V, Part A allocation, it must distribute the entire excess amount to its LEAs using the formula described above in “III.G.3a. Matching, Level of Effort, Earmarking - (Minimum 85 Percent Distribution to LEAs)”. In any fiscal year in which the allocation to a small State (any State receiving a minimum allocation of one-half of one percent of the amount available for allocation to the States) exceeds the amount that it received in FY 2002, it must distribute at least 50 percent of the excess amount to its LEAs (Title V, Part A, section 5112(a)(2) of the ESEA (20 USC 7211a(a)(2))).

H. Period of Availability of Federal Funds

See ED Cross-Cutting Section.

L. Reporting

- 1. **Financial Reporting**
See ED Cross-Cutting Section.
- 2. **Performance Reporting** - Not Applicable
- 3. **Special Reporting** - Not Applicable

N. Special Tests and Provisions

- 1. **Participation of Private School Children**
See ED Cross-Cutting Section.
- 2. **Schoolwide Programs (LEAs)**
See ED Cross-Cutting Section.
- 3. **Access to Federal Funds for New or Significantly Expanded Charter Schools**
See ED Cross-Cutting Section.

Appendix 8.C.2.g CFDA 84.318 EDUCATION TECHNOLOGY STATE GRANTS (Enhancing Education through Technology Program)

DEPARTMENT OF EDUCATION

TEA REFERENCE: <http://www.tea.state.tx.us/nclb/>

Note: The Education Technology State Grants (Ed Tech) program was enacted as Part D of Title II of the Elementary and Secondary Act (ESEA), as amended by the No Child Left Behind Act of 2001 (NCLB). This program is the successor program to the previously authorized Technology Literacy Challenge Fund (TLCF) program.

I. PROGRAM OBJECTIVES

The primary goal of the Ed Tech program is to improve student academic achievement through the use of technology in elementary and secondary schools. It is designed to assist every student in becoming technologically literate by the end of eighth grade. The purpose of the program is, among other things, to assist States and localities in implementing and supporting a comprehensive system that effectively uses technology in elementary and secondary schools to improve student academic achievement.

II. PROGRAM PROCEDURES

State educational agencies (SEAs) in the 50 States, the District of Columbia, Puerto Rico, the Outlying areas, and the Bureau of Indian Affairs (BIA) are eligible to participate in the program.

An “eligible local entity” is either a “high-need LEA” or an “eligible local partnership” (Section 2403(3) of the ESEA, as amended by the NCLB (20 USC 6753(1))).

A “high need LEA” is an LEA that (Section 2403(3) of the ESEA as amended by the NCLB (20 USC 6753(3))):

- (1) Is among those LEAs in the State with the highest numbers or percentages of children from families with incomes below the poverty line; and
- (2) Serves one or more schools identified for improvement or corrective action under Section 1116 of the ESEA, or has a substantial need for assistance in acquiring and using technology.

An “eligible local partnership” is a partnership that includes at least one high-need LEA and at least one of the following (Section 2403(3) of the ESEA, as amended by the NCLB (20 USC 6753(2))):

- (1) An LEA that can demonstrate that teachers in its schools are effectively integrating technology and proven teaching practices into instruction, based on a review of

- relevant research, and that integration results in improvement in classroom instruction and in helping students meet challenging academic standards.
- (2) An institution of higher education that is in full compliance with the reporting requirements of section 207(f) of the Higher Education Act of 1965, as amended, and that has not been identified by the State as low-performing under that act.
 - (3) A for-profit business or organization that develops, designs, manufactures, or produces technology products or services or has substantial expertise in the application of technology in instruction.
 - (4) A public or private nonprofit organization with demonstrated expertise in the application of educational technology in instruction.

In making competitive awards, an SEA must give priority to applications from LEAs that receive formula allocations too small to carry out the purposes of the program effectively. In addition, an SEA must ensure that competitive awards are of sufficient size and duration to carry out the purposes of the program effectively (Section 2412(b) of the ESEA, as amended by the NCLB (20 USC 6762(b))).

Source of Governing Requirements

The Ed Tech program is authorized by Title II, Part D, Subpart 1 of the ESEA, as amended by the NCLB (20 USC 6761 through 6766; Section 2411 *et seq.* of Pub. L. No. 107-110, 115 Stat. 1673, January 8, 2002). The Education Department General Administrative Regulations in 34 CFR Parts 76, 77, 79, 80, 81, 82, 85, and 86 apply to this program.

Availability of Other Program Information

Additional information about this program is available on the Internet at <http://www.ed.gov/programs/edtech/index.html>.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

Certain compliance requirements that apply to multiple ED programs are discussed once in the ED Cross-Cutting Section of the Compliance Supplement rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements.

A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

1. SEAs

- a. State-level activities and to assist local efforts to carry out the purpose of the program, including activities such as the following (Section 2415(a)(1) of the ESEA as amended by the NCLB (20 USC 6765(a)(1))):
 - (1) Developing or assisting the development and utilization of innovative strategies for the delivery of academic courses and curricula through the use of technology, including distance learning technologies, and providing other technical assistance with priority given to high-need LEAs.
 - (2) Establishing or supporting public-private partnerships to acquire educational technology for high-need LEAs.
 - (3) Providing professional development.
 - (4) Ensuring access to educational technology for students and faculty.
 - (5) Developing performance measurement systems.
 - (6) Collaborating with other State educational agencies on distance learning.

2. LEAs

- a. Funds may be used for:
 - (1) *Professional Development* - To provide ongoing, sustained, and intensive, high-quality professional development (Section 2416(a) of the ESEA as amended by the NCLB (20 USC 6766(a))).
 - (2) *Other Activities* (Section 2416(b) of the ESEA as amended by the NCLB (20 USC 6766(b)))
 - (a) Increasing accessibility to technology, particularly through public-private partnerships, with special emphasis on accessibility for high-need schools.
 - (b) Adapting or expanding applications to technology to enable teachers to increase student academic achievement, including technology literacy, based on the review of relevant research and use of innovative distance learning strategies.
 - (c) Acquiring proven and effective courses and curricula that include integrated technology and that are designed to help student reach challenging academic standards.

- (d) Using technology to promote parental involvement and foster communication among students, parents, and teachers about curricula, assignments, and assessments.
- (e) Preparing one or more teachers in schools as technology leaders who will assist other teachers, and providing bonus payments to the technology leaders.
- (f) Enhancing existing technology and acquiring new technology to support education reforms and to improve student achievement.
- (g) Acquiring connectivity linkages, resources, and services to be used by students and school personnel to improve academic achievement.
- (h) Using technology to collect, manage, and analyze data to inform and enhance teaching and school improvement efforts.
- (i) Implementing enhanced performance measurement systems to determine the effectiveness of education technology programs funded with Ed Tech funds.
- (j) Developing, enhancing, or implementing information technology courses.

B. Allowable Costs/Cost Principles

See ED Cross-Cutting Section.

C. Cash Management

See ED Cross-Cutting Section.

G. Matching, Level of Effort, Earmarking

1. Matching - Not Applicable

2.1 Level of Effort - *Maintenance of Effort*

See ED Cross-Cutting Section.

2.2 Level of Effort - *Supplement Not Supplant* (LEA)

See ED Cross-Cutting Section.

3. Earmarking

Also see ED Cross-Cutting Section.

- a. An SEA may retain no more than five percent of its annual allocation for State-level activities (Section 2412(a)(1) of the ESEA as amended by the NCLB (20 USC 6762(a)(1))). Of the amount retained for State-level activities, no more than 60 percent may be used for administrative purposes (Section 2404(d) of the ESEA as amended by the NCLB (20 USC 6754(d))).
- b. From the 95 percent or more remaining in its total allocation, an SEA must distribute:
 - (1) 50 percent by formula to eligible LEAs that have submitted applications to the State. The formula is based on each LEA's proportionate share of SEA funds allocated under Part A of Title I (Section 2412(a)(2)(A) of the ESEA, as amended by the NCLB (20 USC 6762(a)(2)(A))).
 - (2) 50 percent on a competitive basis to "eligible local entities" that have submitted applications to the State (Section 2412(a)(2)(B) of the ESEA, as amended by the NCLB (20 USC 6762(a)(2)(B))).
 - (3) Notwithstanding the requirement in paragraph b(1) above, up to 100 percent of fiscal year 2006 funds, but at least 50 percent, may be used for competitive subgrants under Section 2412(a)(2)(B) (Title III of Pub. L. No. 109-149, Department of Education Appropriations Act, 2006, 119 Stat. 2864).
- c. Unless an LEA can demonstrate to the satisfaction of its SEA that it already provides high-quality professional development in the integration of technology into curricula, it must use at least 25 percent of its funds for such professional development. (Section 2416(a) of the ESEA as amended by the NCLB (20 USC 6766(a))).

H. Period of Availability of Federal Funds

See ED Cross-Cutting Section.

Funds are available for obligation for a 15-month period starting July 1 of the fiscal year for which they are appropriated, plus a carryover period of one additional fiscal year. For example, funds appropriated for fiscal year 2006 are available for obligation from July 1, 2006 through September 30, 2008 (34 CFR section 76.709(a)).

L. Reporting**1. Financial Reporting**

See ED Cross-Cutting Section.

2. Performance Reporting - Not Applicable**3. Special Reporting - Not Applicable****N. Special Tests and Provisions****1. Participation of Private Schools**

See ED Cross-Cutting Section.

2. Schoolwide Programs

See ED Cross-Cutting Section.

3. Access to Federal Funds for New or Significantly Expanded Charter Schools

See ED Cross-Cutting Section.

Appendix 8.C.2.h CFDA 84.357 READING FIRST STATE GRANTS**DEPARTMENT OF EDUCATION****TEA REFERENCE:** <http://www.tea.state.tx.us/opge/disc/archive.html>**I. PROGRAM OBJECTIVES**

The purpose of Reading First is to ensure that all children can read at grade level or above by the end of third grade. The Reading First program will provide the necessary assistance to States and districts to implement programs based on scientifically based reading research for students in kindergarten through third grade. Reading First funds will also focus on providing significantly increased teacher professional development to ensure that all teachers, including special education teachers, have the skills they need to teach these programs effectively. Additionally, the program provides assistance to States and districts in preparing classroom teachers to effectively screen, identify and overcome reading barriers facing their students.

II. PROGRAM PROCEDURES

Reading First grants are distributed to States by formula. States must apply to the U.S. Department of Education (ED) for grants. Application review and approval began in spring 2002 and will continue on a rolling basis. The formula is based on States' relative share of children aged 5 to 17 from families with incomes below the poverty line. States then award subgrants to eligible districts on a competitive basis.

Source of Governing Requirements

The Reading First program is authorized by Title I, Part B, Subpart 1 of the Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001 (20 USC 6361 *et seq.*). No regulations have been published on this program. However, this program is subject to the Department of Education's General Administrative Regulations at 34 CFR parts 76, 77, 80, 82 and 85.

Availability of Other Program Information

Other program information is available on the Internet at <http://www.ed.gov/programs/readingfirst/index.html>.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and look to Parts 3 and 4 for details of the requirements.

Certain compliance requirements that apply to multiple ED programs are discussed once in the ED Cross-Cutting Section of the Compliance Supplement rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements.

A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

1. *State Education Agencies (SEAs)*
 - a. Making competitive subgrants to eligible Local Education Agencies (LEAs) in accordance with the SEA's approved grant application (20 USC 6362(b)(4)).
 - b. Professional in-service and preservice development and review (20 USC 6362(d)(3)).
 - c. Technical assistance for LEAs and schools (20 USC 6362(d)(4)).
 - d. Planning, administration, and reporting (20 USC 6362(d)(5)).
2. *Local Education Agencies (LEAs)*
 - a. *Instructional reading assessments* - Selection and administration of screening, diagnostic, and classroom-based instructional reading assessments (with proven validity and reliability) (20 USC 6362(c)(7)(A)(i)).
 - b. *Reading program* - Selection and implementation of a program of reading instruction based on scientifically based reading research that includes the essential components of reading instruction and provides such instruction to children in kindergarten through grade three in the schools served by the LEA (20 USC 6362(c)(7)(A)(ii)).
 - c. *Instructional materials* - Selection and implementation of instructional materials, including education technology such as software and other digital curricula, that are based on scientifically based reading research (20 USC 6362(c)(7)(A)(iii)).
 - d. *Professional development* - Professional development for teachers of kindergarten through grade 3 and special education teachers of kindergarten through grade 12 that will prepare these teachers and other instructional staff in all of the essential components of reading instruction. Professional development must be provided that will assist teachers in becoming fully qualified for reading instruction in accordance with the requirements of section 1119. Providers of professional development must base training in reading instruction on scientifically based reading research (20 USC 6362(c)(7)(A)(iv)).

- e. *Evaluation strategies* - Collection and summary of valid and reliable data to document the effectiveness of Reading First in individual schools and in the LEA as a whole and to stimulate and accelerate improvement by identifying the schools that produce significant gains in reading achievement (20 USC 6362(c)(7)(A)(v)).
- f. *Reporting* - Reporting data for all students and categories of students described in the State's Title I adequate yearly progress definition (20 USC 6362(c)(7)(A)(vi))
- g. *Access to reading material* - Promotion of reading and library programs that provide access to engaging reading material (20 USC 6362(c)(7)(A)(vii)).
- h. *Additional uses* - Additional activities for which an LEA may use Reading First funds, provided they are based on scientifically based reading research and align with the LEA's overall Reading First plan. These activities must be identified and approved in the State's Reading First plan (20 USC 6362(c)(7)(B)).

B. Allowable Costs/Cost Principles

See ED Cross-Cutting Section.

C. Cash Management

See ED Cross-Cutting Section.

E. Eligibility

- 1. **Eligibility for Individuals** - Not Applicable.
- 2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable.
- 3. **Eligibility for Subrecipients**

A LEA that meets both of the following criteria as defined in the SEA's approved grant application is eligible to apply to its State educational agency for Reading First funds:

- a. The LEA is among the local educational agencies in the State with the highest numbers or percentages of students in kindergarten through grade three reading below grade level, based on the most current data available 20 USC 6362(c)(6)(A); and
- b. The LEA has jurisdiction over at least one of the following (20 USC 6362(c)(6)(B)):
 - (1) A geographic area that includes an area designated as an empowerment zone, or an enterprise community, under part I of subchapter U of chapter I of the Internal Revenue Code;

- (2) A significant number or percentage of schools that are identified for school improvement under Title I, Part A; or
- (3) The highest numbers or percentages of children who are counted for allocations under Title I, Part A, in comparison to other LEAs in the State.

G. Matching, Level of Effort, Earmarking

1. Matching - Not Applicable.

2. Level of Effort - Not Applicable.

3. Earmarking

- a. SEAs may not spend more than a total of 20 percent for: professional in-service and preservice development and review; technical assistance for LEAs and schools; and planning, administration, and reporting (20 USC 6362(d)(2)).
 - (1) From this amount, a SEA may not spend more than:
 - (a) 65 percent on professional in-service and preservice development and review (20 USC 6362(d)(3)).
 - (b) 25 percent for technical assistance for LEAs and schools (20 USC 6362(d)(4)).
 - (c) 10 percent for planning, administration, and reporting (20 USC 6362(d)(5)).
 - (2) SEAs must use any funds not reserved for these purposes for subgrants to local educational agencies (20 USC 6362(f)).
- b. LEAs may not spend more than 3.5 percent for planning and administration (20 USC 6362(c)(8)).

H. Period of Availability of Federal Funds - See ED Cross-Cutting Section.

L. Reporting

1. Financial Reporting

See ED Cross-Cutting Section.

2. Performance Reporting - Not Applicable.

3. Special Reporting - Not Applicable.

N. Special Tests and Provisions

1. Participation of Private School Children (SEAs/LEAs)

See ED Cross-Cutting Section.

Appendix 8.C.2.i CFDA 84.365 ENGLISH LANGUAGE ACQUISITION GRANTS

DEPARTMENT OF EDUCATION

TEA REFERENCE: <http://www.tea.state.tx.us/nclb/>

I. PROGRAM OBJECTIVES

The objective of Title III, Part A of the Elementary and Secondary Education Act (ESEA) is to improve the education of limited English proficient (LEP) children and youths by helping them learn English and meet challenging state academic content and student academic achievement standards. The program also provides enhanced instructional opportunities for immigrant children and youths.

II. PROGRAM PROCEDURES

The Department of Education (ED) provides Title III, Part A funds to each State Educational Agency (SEA) on the basis of a statutory formula that takes into account the number of LEP and immigrant children and youth in each State. To receive funds, an SEA must submit to ED for approval either: (1) an individual State plan as provided under Section 3113 of the ESEA (20 USC 6823) or (2) a consolidated plan that includes Part A of Title III in accordance with Section 9302 of the ESEA (20 USC 7842). The plan must be updated to reflect substantive changes.

SEAs use Title III, Part A funds for administration, to carry out State activities, and to make two types of subgrants to LEAs. The two types of subgrants are: (1) for school districts that have experienced a significant increase in the number of immigrant children and youth in their schools and (2) for school district to use to serve LEP children. In order to receive one of these subgrants, an LEA must submit to the SEA a plan under either Section 3116 of the ESEA (20 USC 6826) or an approved consolidated plan under Section 9305 of the ESEA (20 USC 7845) (20 USC 6821).

LEAs use their immigrant subgrants to pay for enhanced instructional opportunities for immigrant children and their LEP subgrants to support activities that increase the English proficiency and academic achievement of LEP children by providing high-quality language instruction educational programs that are based on scientifically based research (20 USC 6824). SEAs are required to develop annual measurable achievement objectives for LEP children concerning their development of English proficiency while meeting challenging State academic standards. SEAs are required to hold LEAs accountable if they failed to meet these annual achievement objectives (20 USC 6842). In addition, LEAs receiving subgrants under Part A of Title III are required to assess the English language proficiency and academic achievement of the LEP children they serve (20 USC 6823).

Source of Governing Requirements

This program is authorized by Title III, Part A of the ESEA, as amended by the No Child Left Behind Act (Pub. L. No. 107-110) (20 USC 6821 through 6871, 7011 through 7014). The Education Department General Administrative Regulations (EDGAR) at 34 CFR parts 76, 77, 81, and 82 also apply to this program.

Availability of Other Program Information

Additional program information is available on the Internet at <http://www.ed.gov/offices/OELA>.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

Certain compliance requirements which apply to multiple ESEA programs are discussed once in the ED Cross-Cutting Section of the Compliance Supplement rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements. Also, as discussed in the Cross-Cutting Section, SEAs and LEAs may have been granted waivers from certain compliance requirements.

A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

1. SEA

- a. *Subgrants to LEAs* (20 USC 6821(b)(1)).
- b. *State administration* (20 USC 6821(b)(3)).
- c. *State activities* - Funds may be used carry out one or more of the following State activities for this program (20 USC 6821(b)(2)):
 - (1) Professional development and other activities that assist personnel in meeting State and local certification and licensing requirements for teaching LEP children.
 - (2) Planning, evaluation, administration, and interagency coordination related to LEA subgrants.
 - (3) Providing technical assistance and other forms of assistance to LEA subgrantees.
 - (4) Providing recognition, which may include providing financial awards, to subgrantees that have exceeded their annual measurable achievement objectives pursuant to 20 USC 6842.

2. **LEA** - There are two types of subgrants to LEAs:

- a. *Immigrant Subgrants* - Subgrants to LEAs that have experienced significant increases in immigrant children and youth. LEAs receiving subgrants Section 3114 (20 USC 6824) shall use the funds awarded to pay for activities that provide enhanced instructional opportunities for immigrant children and youth. These activities include (20 USC 6825(e)):
- (1) Family literacy, parent outreach, and training activities designed to assist parents to become active participants in the education of their children.
 - (2) Support for personnel, including teacher aides who have been specifically trained, or are being trained, to provide services to immigrant children and youth.
 - (3) Provision of tutorials, mentoring, and academic or career counseling for immigrant children and youth.
 - (4) Identification and acquisition of curricular materials, educational software, and technologies to be used in the program carried out with funds.
 - (5) Basic instruction services that are directly attributable to the presence in the school district of immigrant children and youth, including the payment of costs of providing additional classroom supplies, costs of transportation, or such other costs as are directly attributable to such additional basic instruction services.
 - (6) Other instruction services that are designed to assist immigrant children and youth to achieve in elementary schools and secondary schools in the United States, such as programs of introduction to the educational system and civics education.
 - (7) Activities, coordinated with community-based organizations, institutions of higher education, private sector entities, or other entities with expertise in working with immigrants, to assist parents of immigrant children and youth by offering comprehensive community services.
- b. *LEP Subgrants*
- (1) *Administrative Costs* (20 USC 6825(b)).
 - (2) *Required Activities* - An LEA is required to use LEP subgrant funds to (20 USC 6825e):
 - (a) Increase the English proficiency of LEP children by providing high-quality language instruction educational programs that are based on scientifically based research demonstrating the effectiveness of the

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C. Cash Management

See ED Cross-Cutting Section.

G. Matching, Level of Effort, Earmarking**1. Matching** - Not Applicable**2.1 Level of Effort - *Maintenance of Effort***

See ED Cross-Cutting Section.

2.2 Level of Effort - *Supplement Not Supplant*

See ED Cross-Cutting Section.

3. Earmarking (SEAs)

- a. *SEA Reserved Funds* - SEAs can reserve up to 5 percent of their entire grant to carry out State activities and for administration. (Please note, however, discussion under SEA administration below, which indicates that there are circumstances under which an SEA can have a reservation for administration that exceeds 5 percent) (20 USC 6821(b)(2)):

- (1) *State Activities* - SEA reserved funds not used for administration can be used to carry out one or more of the State activities (20 USC 6821(b)(2)).
- (2) *SEA Administration* - SEA's are authorized to reserve up to 3 percent of their grant, or \$175,000, whichever is greater, for the costs of administration. Because SEAs can use up to \$175,000 of their grant for administration, they may, because of that option, reserve more than 5 percent of their grant for administration (20 USC 6821(b)(3)).

- b. *Subgrants to LEAs* - A SEA must expend at least 95 percent for subgrants to LEAs that submit approvable plans under either Section 3116 of the ESEA, (20 USC 6826) or an approvable consolidated plan under Section 9305 of the ESEA (20 USC 7845) as follows (20 USC 6821):

- (1) *Immigrant Subgrants* - SEAs are required to reserve not more than 15 percent of their grants for subgrants to LEAs that have experienced a significant increase, as compared to the average of the two preceding fiscal years, in the percentage or numbers of immigrant children and youth, who have enrolled, during the fiscal year preceding the fiscal year for which the grant is made, in public and nonpublic elementary and secondary schools in the geographic areas served by the LEA. In awarding these subgrants, SEAs must equally consider LEAs that have limited or no experience in serving

immigrant children and youth and the quality of the local plans that the LEAs submit under Section 3116 of the ESEA (20 USC 6826). SEAs have discretion to award these subgrants on a competitive, formula, or some other basis (20 USC 6824(d)).

- (2) *LEP Subgrants* - SEAs are required by to use funds not used for State activities, SEA administration, and immigrant subgrants as described above, to award subgrants to LEAs to serve LEP children. SEAs shall allocate LEP subgrants to their LEAs on a formula basis. The formula is based on the number of LEP children in schools served by a particular LEA as a percentage of the number of such LEP children in the entire State. The SEA, however, shall not award a subgrant if the amount of the subgrant, under the statutory formula for LEP subgrants, would be less than \$10,000 (20 USC 6824).

- c. *LEA Administrative Costs* - An LEA receiving an LEP subgrant may use no more than 2 percent of that subgrant for administrative costs (20 USC 6825(b)).

H. Period of Availability of Federal Funds

See ED Cross-Cutting Section.

L. Reporting

1. **Financial Reporting**
See ED Cross-Cutting Section.
2. **Performance Reporting** - Not Applicable
3. **Special Reporting** - Not Applicable

N. Special Tests and Provisions

1. **Participation of Private School Children**
See ED Cross-Cutting Section.
2. **Schoolwide Programs (LEAs)**
See ED Cross-Cutting Section.
3. **Access to Federal Funds for New or Significantly Expanded Charter Schools**
See ED Cross-Cutting Section.

Appendix 8.C.2.j CFDA 84.366 MATHEMATICS AND SCIENCE PARTNERSHIPS

DEPARTMENT OF EDUCATION

I. PROGRAM OBJECTIVES

The objective of the Mathematics and Science Partnerships program in Title II, Part B of the Elementary and Secondary Education Act (ESEA) of 1965, as amended by the No Child Left Behind Act of 2001 (NCLB) (Pub. L. No. 107-110), is to provide funds to State education agencies (SEAs) for improvement of the academic achievement of students in the areas of mathematics and science through partnerships comprised, at a minimum, of an engineering, mathematics, or science department of an institution of higher education (IHE) and a high-need local educational agency (LEA).

II. PROGRAM PROCEDURES

Mathematics and Science Partnerships grant funds are obtained by a State without the need to submit a program application. Except for funds that it retains for administrative costs, the SEA must award all of the program funds as competitive subgrants to eligible partnerships.

Source of Governing Requirements

This program is authorized by 20 USC 6661-6663. While there are no program regulations, the following parts of the Department of Education (ED) General Administrative Regulations apply to this program: 34 CFR parts 76 and 77. General ESEA requirements in 34 CFR part 299 also apply.

Availability of Other Program Information

There is no additional publicly available guidance on administration of the program.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

Certain compliance requirements that apply to multiple ESEA programs are discussed once in the ED Cross-Cutting Section of the Compliance Supplement rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting

Section for these requirements. Also, as discussed in the Cross-Cutting Section, SEAs and LEAs may have been granted waivers from certain compliance requirements.

A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

1. SEAs

- a. *Subgrants to Eligible Partnerships* (20 USC 6662).
- b. *Administrative Costs.* An SEA may claim a reasonable and necessary amount of program funds for administrative costs (20 USC 6662).

2. Eligible Partnerships

- a. An eligible partnership project may focus one or more of the broad span of activities designed to improve the quality of instruction in mathematics and science in the State's elementary and secondary schools that are identified in 20 USC 6662(c).
- b. Eligible partnerships also may conduct a wide array of other projects designed to recruit qualified individuals to become mathematics and science teachers, or otherwise to enhance the proficiency of mathematics and science teachers who participate in project activities (20 USC 6662(c)).

B. Allowable Costs/Cost Principles

See ED Cross-Cutting Section.

C. Cash Management

See ED Cross-Cutting Section.

E. Eligibility

1. Eligibility for Individuals - Not Applicable

2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable

3. Eligibility for Subrecipients

- a. An eligible partnership must include both of the following:
 - (1) An engineering, mathematics, or science department of an institution of higher education, and
 - (2) A high-need LEA (as defined by the State; the ESEA contains no definition of this term, and ED has not established one) (20 USC 6661(b)(1)).
- b. An eligible partnership may include other entities, such as: another engineering, mathematics, science, or teacher training department of

- an institution of higher education; additional LEAs, public charter schools, public or private elementary schools or secondary schools, or a consortium of such schools; a business; or a non-profit or for-profit organization of demonstrated effectiveness in improving the quality of mathematics and science teachers (20 USC 6661(b)(1)).
- c. Eligible partnerships apply to the SEAs for program funds on a competitive basis. The application must contain, at minimum:
- (1) The results of a comprehensive assessment of the teacher quality and professional development needs of any schools, LEAs, and SEAs that comprise the eligible partnership with respect to the teaching and learning of mathematics and science;
 - (2) A description of how the activities to be carried out by the eligible partnership will be aligned with challenging State academic content and student academic achievement standards in mathematics and science and with other educational reform activities that promote student academic achievement in mathematics and science;
 - (3) A description of how the activities to be carried out by the eligible partnership will be based on a review of scientifically based research, and an explanation of how the activities are expected to improve student academic achievement and strengthen the quality of mathematics and science instruction;
 - (4) A description of:
 - (a) How the eligible partnership will carry out the authorized activities described in 20 USC 6662(c); and
 - (b) The eligible partnership's evaluation and accountability plan described in 20 USC 6662(e); and
 - (5) A description of how the eligible partnership will continue the activities funded under the program after the original grant or subgrant period has expired (20 USC 6662(a)(2) and 6662(b)).

G. Matching, Level of Effort, Earmarking

- 1. Matching** - Not Applicable
- 2.1 Level of Effort** – *Maintenance of Effort* – Not Applicable
- 2.2 Level of Effort** - *Supplement Not Supplant* (SEAs/eligible partnerships)
See ED Cross-Cutting Section.
- 3. Earmarking** – Not Applicable

H. Period of Availability of Federal Funds

See ED Cross-Cutting Section.

L. Reporting

- 1. Financial Reporting**
See ED Cross-Cutting Section.
- 2. Performance Reporting** - Not Applicable
- 3. Special Reporting** - Not Applicable

N. Special Tests and Provisions

- 1. Participation of Private School Children** (LEAs in eligible partnerships)
See ED Cross-Cutting Section.
- 2. Competition** (SEAs)

Compliance Requirement – The SEA must select eligible partnerships for award on a competitive basis. No specific competition requirements have been established by ED. The State must follow its own requirements for competing subgrant awards (20 USC 6662(a)(2)(A)(ii)).

Audit Objective - Determine whether the SEA has selected applications for funding on the basis of a competitive process that follows State procedures.

Suggested Audit Procedures

- a. Review the SEA's procedures for competing subgrant awards.
- b. Review a sample of funded partnerships to determine if the SEA followed State competition procedures.

Appendix 8.C.2.k CFDA 84.367 IMPROVING TEACHER QUALITY STATE GRANTS

DEPARTMENT OF EDUCATION

TEA REFERENCE: <http://www.tea.state.tx.us/nclb/>

I. PROGRAM OBJECTIVES

The objective of the Improving Teacher Quality State Grants program in Title II, Part A of the Elementary and Secondary Education Act (ESEA) of 1965, as amended by the No Child Left Behind Act of 2001 (NCLB) (Pub. L. No. 107-110), is to provide funds to State educational agencies (SEAs), local educational agencies (LEAs), State agencies for higher education (SAHEs), and partnerships comprised of institutions of higher education (IHEs), high-need LEAs and other entities to increase the academic achievement of all students by helping schools and school districts to: (1) improve teacher and principal quality (including hiring teachers to reduce class size) and (2) ensure that all teachers are highly qualified.

II. PROGRAM PROCEDURES

Improving Teacher Quality State Grant funds are obtained by a State on the basis of the Department of Education's (ED) approval of either (1) an individual State plan as provided in Section 2112 of the ESEA (20 USC 2112), or (2) a consolidated application that includes the program, in accordance with Section 9302 of the ESEA (20 USC 7842). Separate grants are provided to SEAs and SAHEs.

Source of Governing Requirements

This program is authorized by Title II, Part A, subparts 1-3 of the ESEA as amended by the NCLB (Pub. L. No. 107-110) (20 USC 2111 - 2134). The program purpose and definitions in Title II, Part A of the ESEA, Sections 2101 and 2102 (20 USC 6601 - 6602), and the accountability provisions in Title II, Part A, Subpart 4, Section 2141 (20 USC 6641) also apply to this program. While there are no program regulations, the following parts of the ED General Administrative Regulations (EDGAR) apply to this program: 34 CFR parts 76, 77, 80, 82, 85, and 86. General ESEA requirements in 34 CFR part 299 also apply. Rules governing the amount of funds available to both the SEA and to the SAHE for the costs of administration and planning were announced in a notice published in the *Federal Register* on May 22, 2002 (67 FR 35967, 35977).

Availability of Other Program Information

Non-regulatory guidance for the Title II, Part A program is available on ED's web site at <http://www.ed.gov/programs/teacherqual/guidance.doc>.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

Certain compliance requirements that apply to multiple ESEA programs are discussed once in the Department of Education (ED) Cross-Cutting Section of the Compliance Supplement rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements. Also, as discussed in the Cross-Cutting Section, SEAs and LEAs may have been granted waivers from certain compliance requirements.

A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

1. *LEAs*

Consistent with the LEA's assessment of need for professional development and hiring, LEAs may use funds for a broad span of activities designed to improve teacher quality that are identified in Section 2123(a) of the ESEA. Examples of allowable activities include: (1) providing "professional development" (as the term is defined in Section 9101(34) of the ESEA, 20 USC 6602(34)) to teachers, and, where appropriate, to principals and paraprofessionals in content knowledge and classroom practice; (2) developing and implementing a wide variety of strategies and activities to recruit, hire, and retain highly qualified teachers and principals; (3) developing and implementing initiatives to promote retention of highly qualified teachers and principals; (4) carrying out professional development programs to assist principals and superintendents in becoming outstanding managers and educational leaders; and (5) carrying out teacher advancement initiatives that promote professional growth and emphasize multiple career paths and pay differentiation, and establish programs and activities related to exemplary teachers. LEAs also may use funds to hire teachers to reduce class size (Sections 2101 and 2123(a) of the ESEA (20 USC 6601 and 6623(a))).

2. *Subrecipients of SAHEs - Eligible Partnerships*

Eligible Partnerships must use the funds for the following activities:

- a. Professional development activities (as the term is defined in Section 9101(34) of the ESEA (20 USC 6602(34)) in core academic subjects to ensure that teachers and "highly qualified paraprofessionals" (as

the term is defined in Section 2102(4) of the ESEA (20 USC 6602(4))), and, if appropriate, principals have subject matter knowledge in the academic subjects the teachers teach, and principals have instructional leadership skills that will help them work effectively with teachers (Sections 2101 and 2134(a)(1) of the ESEA (20 USC 6601 and 6634(a)(1))).

- b. Developing and providing assistance to LEAs and to their teachers, highly qualified paraprofessionals, or principals for sustained, high-quality professional development activities that (Sections 2101 and 2134(a)(2) of the ESEA (20 USC 6601 and 6634(a)(2))):
 - (1) Ensure the use of challenging State academic content standards, student achievement standards, and State assessments to improve instruction.
 - (2) May include intensive programs designed to prepare these individuals to return to school to provide instruction related to their professional development to others in the school.
 - (3) May include activities of partnerships between one or more LEAs, schools or IHEs in order to improve teaching and learning in low-performing schools, as the term is used in Section 1116 of the ESEA.

B. Allowable Costs/Cost Principles (All grantees)

See ED Cross-Cutting Section.

C. Cash Management

See ED Cross-Cutting Section.

E. Eligibility

- 1. **Eligibility for Individuals** - Not Applicable
- 2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable
- 3. **Eligibility for Subrecipients**

- a. A subgrant to an “Eligible Partnership” must be made on a competitive basis and the Eligible Partnership must include all of the following (Sections 2131(1)(A) and 2132(a) of the ESEA (20 USC 6631(1)(A) and 6632(a))):
 - (1) A private or State IHE and the division of the institution that prepares teachers and principals.
 - (2) A school of arts and sciences.
 - (3) A “high-need LEA” (as the term is defined in Section 2102(3) of the ESEA (20 USC 6602(3))).

- b. An Eligible Partnership may include other entities, such as an LEA that is not a high-need LEA, a public charter school, an elementary school or secondary school, an educational service agency, a non-profit educational organization, another IHE, a non-profit cultural organization, a teacher or principal organization, or a business (Section 2131(1)(B) of the ESEA (20 USC 6631(1)(B))).
- c. LEAs apply to the SEAs for program funds. The amount of each LEA's allocation that an SEA provides reflects (1) a "hold-harmless" based on the amount of funds the LEA received in FY 2001 under the former Eisenhower Professional Development and Class-Size Reduction programs, and (2) the LEA's share of any funds still remaining. In any year in which the amount available in the State for LEA grants exceeds the sum of the "hold-harmless" amounts for LEAs in the State, the SEA must distribute the excess funds based on the following formula (Section 2121(a) of the ESEA (20 USC 6621(a))):
 - (1) 20 percent of the excess funds must be distributed to LEAs based on the relative population of children ages five through 17, as determined by the Secretary.
 - (2) 80 percent of the excess funds must be distributed to LEAs based on the relative numbers of individuals ages five through 17 from families with incomes below the poverty line, as determined by the Secretary.

G. Matching, Level of Effort, Earmarking

- 1. **Matching** (LEAs) - Not Applicable
- 2. **Level of Effort** - *Maintenance of Effort* (SEAs/LEAs)
See ED Cross-Cutting Section.
- 2.1 **Level of Effort** - *Supplement Not Supplant* (SEAs/LEAs)
See ED Cross-Cutting Section. Supplement Not Supplant is not applicable to the SAHEs and their subgrants to Eligible Partnerships (Section 2134 of the ESEA (20 USC 6634)).
- 3. **Earmarking**
See ED Cross-Cutting Section.

H. Period of Availability of Federal Funds (All grantees) See ED Cross-Cutting Section.

L. Reporting

- 1. Financial Reporting**
See ED Cross-Cutting Section.
- 2. Performance Reporting** - Not Applicable
- 3. Special Reporting** - Not Applicable

N. Special Tests and Provisions

- 1. Participation of Private School Children (SEAs/LEAs)**
See ED Cross-Cutting Section.
- 2. Schoolwide Programs (LEAs)**
See ED Cross-Cutting Section.
- 3. Access to Federal Funds for New or Significantly Expanded Charter Schools**
See ED Cross-Cutting Section.
- 4. Assessment of Need (LEAs)**

Compliance Requirement - To be eligible to receive a subgrant of Title II, Part A funds, an LEA must conduct an assessment of local needs for professional development and hiring, as identified by the LEA and school staff. The needs assessment must be conducted with the involvement of teachers, including teachers who work in Title I, Part A targeted assistance programs and schoolwide program schools (Sections 2122(b)(8) and (c) (20 USC 2122(b)(8) and (c))).

Audit Objective - Determine whether the LEA, with the required participation of teachers, conducted the required needs assessment.

Suggested Audit Procedure (LEAs)

Review documentation to ascertain if the LEA conducted the required needs assessment and if teachers, including Title I, Part A teachers from targeted assistance or schoolwide program schools, participated in the needs assessment.

Appendix 8.C.3. - Special Revenue Fund Program Requirements - Other

In addition to the applicable general requirements as listed above, a specific federal program accounted for through the above funds may have compliance requirements that are unique to that program. Therefore, special compliance testing will need to be made for the federally-funded programs listed below. Disclosures of noncompliance are to be made in the auditor's report.

Appendix 8.C.3.a. CFDA 84.002 ADULT EDUCATION—BASIC GRANTS TO STATES

DEPARTMENT OF EDUCATION

TEA REFERENCE: <http://www.tea.state.tx.us/adult/>

I. PROGRAM OBJECTIVES

The Adult Education and Family Literacy State Grant program provides grants to eligible agencies to provide adult education and literacy services. These grants help adults become literate and obtain the knowledge and skills necessary for employment; obtain the educational skills necessary to become full partners in the educational development of their children; and complete a secondary school education.

II. PROGRAM PROCEDURES

Funds are provided to the State eligible agency (TEA) each year in accordance with a statutory formula. Eligible agencies develop a 5-year State plan that is approved by the Secretary, which may be revised when substantial changes in conditions occur. Local activities include services or instruction in one or more of the following categories: adult education and literacy services, including workplace literacy services; family literacy services; and English literacy programs.

Eligible providers include a local educational agency; a community-based organization of demonstrated effectiveness; a volunteer literacy organization of demonstrated effectiveness; an institution of higher education; a public or private non-profit agency; a library; a public housing authority; any other non-profit institution that has the ability to provide literacy services to adults and families; and a consortium of the agencies, organizations, institutions, libraries, or authorities described above.

The Texas Education Agency (TEA) selects fiscal agents on a competitive basis from among eligible providers that submit applications to TEA.

Source of Governing Requirements

The program is authorized by the Adult Education and Family Literacy Act (the Act), Title II of the Workforce Investment Act of 1998 (Pub. L. No. 105-220 (20 USC 9201 *et seq.*)).

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

Certain compliance requirements that apply to multiple Department of Education (ED) programs are discussed once in the ED Cross-Cutting Section of the Compliance supplement rather than being repeated in each individual program. Where applicable, this section references to the Cross-Cutting Section for these requirements.

A. Activities Allowed or Unallowed

The eligible agency shall require that each eligible provider receiving a grant or contract establish or operate one or more programs that provide services or instruction in one or more of the following categories: (1) adult education and literacy services, including workplace literacy services; (2) family literacy services; and (3) English literacy programs. Adults include individuals who are at least 16 years of age, who are not enrolled or required to be enrolled in secondary school under State law; and who lack sufficient mastery of basic educational skills, do not have a secondary school diploma or its recognized equivalent, or are unable to speak, read, or write the English language (Pub. L. No. 105-220 (sections 231 and 203 of the Act) (20 USC 9241 and 9202(1))).

1. *State-Level Activities* - State eligible agencies may use funds for the following: (also see III.G.3, “Matching, Level of Effort, Earmarking - Earmarking”)
 - a. Subgrants to eligible providers.
 - b. State administrative costs including the development, and implementation of the State plan; consultation with other appropriate agencies in the development and implementation of activities assisted under the Act; and coordination and non-duplication with related Federal and State programs (section 221 of the Act (20 USC 9221)).

- c. State leadership activities such as professional development programs, technical assistance, support of State literacy resource centers, and monitoring and evaluation of adult education and literacy activities (section 223(a) of the Act (20 USC 9223(a)).

2. *Subrecipient Activities*

Allowable activities are described in the eligible provider's approved application. Generally, eligible providers must establish or operate one or more programs that provide services or instruction in one or more of the following categories: (1) adult education and literacy services, including workplace literacy services; (2) family literacy services; and (3) English literacy programs. Adults include individuals who are at least 16 years of age, who are not enrolled or required to be enrolled in secondary school under State law; and who lack sufficient mastery of basic educational skills, do not have a secondary school diploma or its recognized equivalent, or are unable to speak, read, or write the English language. Funds can also be used for administrative costs (see III.G.3.b, "Matching, Level of Effort, Earmarking - Earmarking" for limitation) (Pub. L. No. 105-220 (sections 231, 232, 234 and 203 of the Act) (20 USC 9241, 9242, 9243 and 9202(1)).

A fiscal agent must expend funds in accordance with state and federal regulations and the application approved by TEA, including assurances in the application.

Suggested Audit Procedures:

1. Review the approved program application.
2. Review financial records and supporting documentation for compliance with the approved application.
3. Review selected student records and quality control procedures and determine the correctness of eligibility information.

B. Allowable Costs/Cost Principles

See ED Cross-Cutting Section.

C. Cash Management

See ED Cross-Cutting Section.

G. Matching, Level of Effort, Earmarking

1. Matching

- a. Each State eligible agency providing adult education and literacy services shall provide a non-Federal contribution of at least 25 percent of the total amount of funds expended for adult education and literacy activities in the State (section 222(b) of the Act (20 USC 9222(b))).
- b. An eligible agency serving an outlying area shall provide a non-Federal contribution equal to 12 percent of the total amount of funds for adult education and literacy activities in the outlying area, unless the Secretary allows a smaller non-Federal contribution (section 222(b) of the Act (20 USC 9222(b))).
- c. An eligible agency's non-Federal contribution may be provided in cash or in-kind, fairly evaluated, and shall include only non-Federal funds that are used for adult education and literacy activities in a manner that is consistent with the purpose of the Act (section 222(b) of the Act (20 USC 9222(b))).

2.1 Level of Effort - *Maintenance of Effort*

An eligible agency may receive funds for any fiscal year if the Secretary finds that the fiscal effort per student or the aggregate expenditures of such eligible agency for adult education and literacy activities, in the second preceding fiscal year, was not less than 90 percent of the fiscal effort per student or the aggregate expenditures of the eligible agency for adult education and literacy activities, in the third preceding fiscal year (section 241(b) of the Act (20 USC 9251(b))).

2.2 Level of Effort - *Supplement Not Supplant*

3. Earmarking

- a. *State Eligible Agency* - The following earmarking requirements are for each yearly grant award and must be met within the period of its availability (generally 27 months) (34 CFR sections 76.703 through 76.710):
 - (1) Grants and contracts for eligible providers shall not be less than 82.5 percent of the eligible agency's grant funds (section 222(a)(1) of the Act (20 USC 9222(a)(1))).
 - (2) Correction education and education for other institutionalized individuals shall not be more than 10 percent of the 82.5 percent mentioned above (section 222(a)(1) of the Act (20 USC 9222(a)(1))).

- (3) State leadership activities under section 223 of the Act shall not exceed 12.5 percent of the grant funds (section 222(a)(2) of the Act (20 USC 9222(a)(2))).
 - (4) Necessary and reasonable administrative expenses of the eligible agency shall not be more than five percent of the grant funds, or \$65,000, whichever is greater (section 222(a)(3) of the Act (20 USC 9222(a)(3))).
- b. *Subrecipients* - Generally, subrecipients may use up to five percent of their funds for non-instructional costs, such as administration of local programs. In cases where the five percent limit is too restrictive, the eligible provider shall negotiate with the eligible agency to determine the adequate level of funds for non-instructional purposes (section 233 of the Act) (20 USC 9243).

The fiscal agent must not spend more than five percent of the federal allocation and 25 percent of the state allocation for administrative cost unless prior approval has been given by TEA. The approved amount is reflected in the approved application.

The fiscal agent cannot use more than 10 percent for programs for correctional education and other institutionalized individuals.

Suggested Audit Procedures:

- 1. Review the approved local education agency project application.
- 2. Determine if actual expenditures of funds are in accordance with the local education agency's application.
- 3. Review financial records and supporting documentation and compare expenditures to those in the approved application and updated application, if appropriate, to determine if compliance requirements were met.
- 4. Test the financial records and ascertain the amounts expended for administration.
- 5. Test the financial records and ascertain the amounts expended for correctional education and/or other institutionalized individuals.

H. Period of Availability of Federal Funds

See ED Cross-Cutting Section.

L. Reporting

1. Financial Reporting

- a. SF-269 - *Financial Status Report* – Applicable (using ED-specific form - OMB No. 1830-0027) -
- b. SF-270 - *Request for Advance or Reimbursement* - Only grantees placed on reimbursement are required to complete this form to

request payment of grant award funds. The requirement to use this form is imposed on an individual recipient basis.

- c. SF-271- *Outlay Report and Request for Reimbursement for Construction Programs*- Not Applicable
- d. SF-272 - *Federal Cash Transactions Report* - Not Applicable
- e. LEAs and other subrecipients are generally required to report financial information to the pass-through entity. These reports should be tested during audits of LEAs and other subrecipients.

2. Performance Reporting - Not Applicable

3. Special Reporting - Not Applicable

N. Special Tests and Provisions

1. Access to Federal Funds for New or Significantly Expanded Charter Schools

See ED Cross-Cutting Section.

Appendix 8.C.3.b. SPECIAL EDUCATION

CFDA 84.027 SPECIAL EDUCATION—GRANTS TO STATES (IDEA, Part B)

**CFDA 84.173 SPECIAL EDUCATION—PRESCHOOL GRANTS (IDEA
Preschool)**

DEPARTMENT OF EDUCATION

TEA REFERENCE: <http://www.tea.state.tx.us/opge/formfund/specialed/index.html>

I. PROGRAM OBJECTIVES

The purposes of the Individuals with Disabilities Education Act (IDEA) are to: (1) ensure that all children with disabilities have available to them a free appropriate public education (FAPE) which emphasizes special education and related services designed to meet their unique needs; (2) ensure that the rights of children with disabilities and their parents or guardians are protected; (3) assist States, localities, educational service agencies and Federal agencies to provide for the education of all children with disabilities; and (4) assess and ensure the effectiveness of efforts to educate children with disabilities. The Assistance for Education of All Children with Disabilities Program (IDEA, Part B) provides grants to States to assist them in meeting these purposes (20 USC 1400 *et seq.*).

IDEA's Special Education—Preschool Grants Program, (Preschool Grants for Children with Disabilities Program), also known as the "619 Program," provides grants to States, and through them to LEAs, to assist them in providing special education and related services to children with disabilities ages three through five and, at a State's discretion, to two-year-old children with disabilities who will turn three during the school year (20 USC 1419).

II. PROGRAM PROCEDURES

A State applying through its State Education Agency (SEA) for assistance under IDEA, Part B must, among other things, submit a plan to the Department of Education (ED) that provides assurances that the SEA has in effect policies and procedures that ensure that all children with disabilities have the right to a FAPE (20 USC 1412(a)).

States that receive assistance under IDEA, Part B, may receive additional assistance under the Preschool Grants Program. A State is eligible to receive a grant under the Preschool Grants Program if (1) the State is eligible under 20 USC 1412 and (2) the State demonstrates to the Secretary that it has in effect policies and procedures that ensure the provision of FAPE to all children with disabilities aged three through five years residing in the State. However, a State that provides early intervention services in accordance with Part C of the IDEA to a child who is eligible for services under Section 1419 is not required to provide that child with FAPE (20 USC 1412(a)(1)(C) and 20 USC 1419(b) and (c)).

Source of Governing Requirements

This program is authorized under the Individuals with Disabilities Education Act, Part B (IDEA-B) as amended on December 3, 2004 (Pub. L. No. 108-446; 20 USC 1400 *et seq.*). Implementing regulations for these programs are 34 CFR part 300.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

Certain compliance requirements that apply to multiple ED programs are discussed once in the ED Cross-Cutting Section of the Compliance Supplement rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements.

A. Activities Allowed or Unallowed

Also see ED Cross-Cutting Section.

IDEA, Part B - An LEA may use Federal funds under IDEA, Part B for the excess costs of providing special education and related services to children with disabilities. Special education includes specially designed instruction, at no cost to the parent, to meet the unique needs of a child with a disability, including instruction conducted in the classroom, in the home, in hospitals and institutions and in other settings, and instruction in physical education. Related services include transportation and such developmental, corrective and other supportive services as may be required to assist a child with a disability to benefit from special education. Related services do not include a medical device that is surgically implanted or the replacement of such device. A portion of these funds, under conditions specified in the law, may also be used by the LEA: for services and aids that also benefit non-disabled children; for early intervening services; to establish and implement high-cost or risk-sharing funds; and for administrative case management (20 USC 1401(26) and (29); 20 USC 1413(a)(2) and (4)).

IDEA Preschool - A LEA may use Federal funds under the Preschool Grants Program only for the costs of providing special education and related services (as described above) to children with disabilities ages three through five and, at a State's discretion, providing a free appropriate public education to two-year-old children with disabilities who will turn three during the school year (20 USC 1419(a)).

B. Allowable Costs/Cost Principles

See ED Cross-Cutting Section.

C. Cash Management

See ED Cross-Cutting Section.

G. Matching, Level of Effort, Earmarking**1. Matching - Not Applicable****2.1 Level of Effort - *Maintenance of Effort* (SEAs/LEAs)****a. SEAs**

- (1) A State may not reduce the amount of State financial support for special education and related services for children with disabilities (or State financial support otherwise made available because of the excess costs of educating those children) below the amount of State financial support provided for the preceding fiscal year. The Secretary reduces the allocation of funds under 20 USC 1411 for any fiscal year following the fiscal year in which the State fails to comply with this requirement by the amount by which the State failed to meet the requirement.

If, for any fiscal year, a State fails to meet the State-level maintenance of effort requirement (or is granted a waiver from this requirement), the financial support required of the State in future years for maintenance of effort must be the amount that would have been required in the absence of that failure (or waiver) and not the reduced level of the State's support (20 USC 1412(a)(18); 34 CFR section 300.163).

- (2) For any fiscal year for which the Federal allocation received by a State exceeds the amount received for the previous fiscal year and if the State pays or reimburses all LEAs within the State from State revenue 100 percent of the non-federal share of the costs of special education and related services, the SEA may reduce its level of expenditure from State sources by not more than 50 percent of the amount of such excess (20 USC 1413(j)(1)).

b. LEAs

- (1) IDEA, Part B funds received by an LEA cannot be used, except under certain limited circumstances, to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds, or a combination of State and local funds, below the level of those expenditures for the preceding fiscal year. To meet this requirement, an LEA must expend, in any particular fiscal year, an amount of local funds, or a combination of State and local funds, for the education of children with disabilities that is at least equal, on either an aggregate or per capita basis, to the amount of local funds, or a combination of State and local funds, expended for this purpose by the LEA in the prior fiscal year. Allowances may be made for: (a) the voluntary departure, by retirement or otherwise, or departure for just cause, of special education personnel; (b) a decrease in the enrollment of children with disabilities; (c) the termination of the obligation of the agency, consistent with this part, to provide a program of special education to a particular child with a disability that is an exceptionally costly program, as determined by the SEA, because the child has left the jurisdiction of the agency, has reached the age at which the obligation of the agency to provide a FAPE has terminated or no longer needs such program of special education; (d) the termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities; or (e) the assumption of costs by the high cost fund operated by the SEA under 34 CFR section 300.704 (20 USC 1413(a)(2); 34 CFR sections 300.203 and 300.204).
- (2) For any fiscal year for which the federal allocation received by a LEA exceeds the amount received for the previous fiscal year, the LEA may reduce the level of local or State and local expenditures by not more than 50 percent of the excess (20 USC 1413(a)(2)(C)(i)). If an LEA exercises this authority, it must use an amount of local funds equal to the reduction in expenditures under Section 1413(a)(2)(C)(i) to carry out activities authorized under the Elementary and Secondary Education Act (ESEA) of 1965. The amount of funds expended by the LEA for early intervening services counts toward the maximum amount of State and local expenditures that the LEA may reduce. However, if an SEA determines that an LEA is unable to establish and maintain programs of FAPE that meet the requirements of Section 1413(a) or the SEA has taken action against the LEA under Section 1416,

the SEA shall prohibit the LEA from reducing its local or State and local expenditures for that fiscal year (20 USC 1413(a)(2)(C)).

2.2 Level of Effort - *Supplement Not Supplant* - Not Applicable

3. Earmarking

a. *Schoolwide Programs* (LEAs)

The amount of IDEA- B funds used in a schoolwide program, may not exceed the amount received by the LEA under IDEA-B for that fiscal year divided by the number of children in the jurisdiction of the LEA multiplied by the number of children participating in the schoolwide program (34 CFR section 300.206).

b. *Redistribution of Formula Funds to LEAs*

If a new LEA is created within a State, the State shall divide the base allocation for the LEAs that would have been responsible for serving children with disabilities now being served by the new LEA among the new LEA and affected LEAs based on the relative numbers of children with disabilities currently provided special education by each of the LEAs. If one or more LEAs are combined into a single LEA, the State shall combine the base allocation of the merged LEAs. If, for two or more LEAs, geographic boundaries or administrative responsibilities for providing services to children with disabilities ages 3 through 21 change, the base allocation of affected LEAs shall be redistributed among affected LEAs based on the relative numbers of children with disabilities currently provided special education by each affected LEA (34 CFR section 300.705(b)(2)).

c. *Early Intervention Services*

An LEA can use not more than 15 percent of the amount of Federal funds (less any amount by which it reduces State and local expenditures under 20 USC 1413(a)(2)(C)) (See G.2.1.b. in this section), in combination with other funds for early intervening services for children in kindergarten through grade 12 who have not been identified under IDEA but need additional academic and behavioral support to succeed in the general education environment (20 USC 1413(f)).

H. Period of Availability of Federal Funds

See ED Cross-Cutting Section.

L. Reporting**1. Financial Reporting**

See ED Cross-Cutting Section.

2. Performance Reporting - Not Applicable**3. Special Reporting**

- a. *Report of Children and Youth with Disabilities Receiving Special Education Under Part B of the Individuals With Disabilities Education Act, as amended (OMB Nos. 1820-0030, 1820-0043, 1820-0517, 1820-0521, and 1820-0621)* - Each SEA is required to report to the Secretary an unduplicated count of children with disabilities receiving special education and related services. The SEA may include in this count children with disabilities who are enrolled in a school or program that is operated or supported by a public agency, and that either (1) provides them with both special education and related services or (2) provides them only with special education if they do not need related services to assist them in benefiting from that special education. The SEA may not, however, include in this count children with disabilities who: (1) are not enrolled in a school or program operated or supported by a public agency; (2) are not provided special education that meets State standards; or (3) are not provided with a related service that they need to assist them in benefiting from special education (34 CFR sections 300.640, 300.643, and 300.644). Each SEA must: (1) establish procedures to be used by LEAs and other educational institutions in counting the number of children with disabilities receiving special education and related services; (2) obtain certification from each agency and institution that an unduplicated and accurate count has been made; and (3) ensure that documentation is maintained that enables the State and the Secretary to audit the accuracy of the count (34 CFR sections 300.645(a), (c), and (e)).

LEAs must report to the SEA in accordance with the SEA-established procedure.

LEAs in Texas must report data through PEIMS in accordance with established procedures. An LEA may only use federal funds for the excess costs of providing special education instruction and related

services to children with disabilities. This requirement is monitored at the state level annually using PEIMS data.

Suggested Audit Procedures

1. Review the report through PEIMS to the Texas Education Agency showing the unduplicated count of students with disabilities served, and determine the accuracy of the count, including a determination regarding whether IEPs and evaluations are current.

N. Special Tests and Provisions

1. Schoolwide Programs

See ED Cross-Cutting Section.

2. Access to Federal Funds for New or Significantly Expanded Charter Schools

See ED Cross-Cutting Section.

**Appendix 8.C.3.c. CFDA 84.048 CAREER AND TECHNICAL
EDUCATION—BASIC GRANTS TO STATES
(Perkins IV)**

DEPARTMENT OF EDUCATION

TEA REFERENCE:

http://www.tea.state.tx.us/opge/formfund/carlperkins/index_2.html

I. PROGRAM OBJECTIVES

Career and Technical Education (Perkins IV) (formerly Vocational and Technical Education - Basic Grants to States (Perkins III)) provides grants to States and outlying areas to develop the career, technical, vocational, and academic skills of secondary students and postsecondary students by: (1) promoting the integration of career, academic, and technical instruction; (2) developing challenging academic and technical standards; (3) increasing State and local flexibility in providing services and activities designed to develop, implement and improve career and technical education, including tech-prep education; (4) conducting and disseminating national research; (5) providing technical assistance; (6) supporting partnerships among secondary schools, postsecondary institutions, baccalaureate degree-granting institutions, area career and technical education schools, local workforce investment boards, business and industry, and intermediaries; and (7) providing individuals with opportunities to develop, in conjunction with other educational and training programs, the knowledge and skills needed to keep the United States competitive..

II. PROGRAM PROCEDURES

Participating States must designate or establish a State board of career and technical education (referred to in Perkins IV as the “eligible agency”) to administer and supervise State career and technical education programs. In order to receive funds for program year (PY) 2008

(July 1, 2008 – June 30, 2009), the State must have an approved 6-year State plan for career and technical education or a unified plan. Any State that submitted a 1-year transitional plan for PY 2007 must then have an approved 5-year plan to receive funds for PY 2008. For subsequent years, funds are distributed based on the approved plan together with such revisions as the State eligible agency determines to be necessary.

The Department of Education (ED) allocates funds to the sole State agency based on a statutory formula. The State must allocate and use funds for the following statutorily prescribed activities or programs (referred to as the “basic programs”):

1. Secondary and postsecondary career and technical education programs (Section 135 of Perkins IV (20 USC 2355));
- (2) State leadership activities (Section 124 of Perkins IV (20 USC 2344));

- (3) State administration (Section 121 of Perkins IV (20 USC 2341)).

The grantee may transfer funds to other State agencies to administer one or more of these programs. A State makes grants to subrecipients (referred to in Perkins IV as the “eligible recipients”), operates programs directly, or contracts for services. Subrecipients submit plans or applications to the State in order to receive funds.

Source of Governing Requirements

This program is authorized by the Carl D. Perkins Career and Technical Education Act of 2006 (Perkins IV) (20 USC 2301 *et seq.*, as amended by Pub. L. No. 109-270). Certain requirements applicable to the Perkins IV grants are contained in the Workforce Investment Act (29 USC 2801 *et seq.*), as amended, (Pub. L. No. 105-220).

Availability of Other Program Information

Program and policy guidance for Perkins IV is available on the Internet at <http://www.ed.gov/policy/sectech/leg/perkins/index.html>. A number of documents contain guidance applicable to the Career and Technical Education—Basic Grants To States (Perkins IV) requirements in this Supplement. They are available on the Internet at <http://www.ed.gov/about/offices/list/ovae/pi/memoperkinsiv.html>, and include:

- Consolidated Annual Report (CAR) for the Carl D. Perkins Career and Technical Education Act of 2006 (Perkins IV) (June 2, 2008)
- Estimated FY 2008 State Allocations under the Carl D. Perkins Career and Technical Education Act of 2006 (Perkins IV) (March 7, 2008)
- Supplemental Information for Completing the Perkins IV Five-Year State Plan (January 22, 2008)
- Questions and Answers Regarding the Implementation of the Carl D. Perkins Career and Technical Education Act of 2006 – Version 2.0 (June 7, 2007)
- Non-Regulatory Guidance Regarding the Consolidation of Title II Tech Prep Funds into Title I Basic Grant Funds (May 17, 2007)
- Student Definitions and Measurement Approaches for the Core Indicators of Performance Under the Carl D. Perkins Career and Technical Education Act of 2006 (Perkins IV) (May 13, 2007)

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

Certain compliance requirements that apply to multiple ED programs are discussed once in the ED Cross-Cutting Section of the Compliance Supplement rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements.

A. Activities Allowed or Unallowed

See ED Cross-Cutting Section.

1. *State-Level Activities* - The State plan describes the specific activities to be carried out. A State must use funds for State leadership activities as described in a, b, and c below and State administration as described in 1.d. below.
 - a. *State Leadership Activities – Required Uses.* A State must use State leadership funds for: (1) assessing programs conducted with assistance under Perkins IV; (2) developing, improving, or expanding the use of technology in career and technical education; (3) professional development activities that, among other things:
 - (a) Provide in-service and pre-service training in career and technical education programs; and
 - (b) Are high-quality, sustained, intensive, and classroom-focused and are not 1-day or short-term workshops or conferences;
 - (4) support for strengthening the academic and career and technical education skills of students;
 - (5) providing preparation for nontraditional fields; (6) supporting partnerships among local educational agencies and other education and business entities assisting students to achieve state academic standards and career and technical skills, or complete career and technical programs of study;
 - (7) serving students in State institutions;
 - (8) support for programs for special populations that lead to high-skill, high-wage, high-demand careers; and
 - (9) Technical assistance for eligible recipients (Section 124(b) of Perkins IV (20 USC 2344(b))).
 - b. *State Leadership Activities – Other Uses.* A State may use State leadership funds for: (1) improvement of career guidance and academic counseling programs; (2) establishment of agreements, including articulation agreements, between secondary and postsecondary career and technical education programs; (3) support of initiatives to facilitate the transition of subbaccalaureate career and technical education students into baccalaureate degree programs; (4) support for career and technical education students' organizations; (5) support for public charter schools operating career and technical education programs; (6) support for career and

technical education programs that offer experience in all aspects of an industry; (7) support for family and consumer sciences programs; (8) support for partnerships between education and business or business intermediaries; (9) support to improve or develop new career and technical education courses and initiatives; (10) awarding incentive grants to eligible recipients; (11) providing for activities to support entrepreneurship education and training; (12) providing career and technical education programs for adults and school dropouts; (13) providing assistance to individuals who participate in career and technical education programs and services under Perkins IV to continue their education and training or to find appropriate jobs; (14) developing valid and reliable assessments of technical skills; (15) developing and enhancing data systems to collect and analyze data on secondary and postsecondary academic and employment outcomes; (16) improving recruitment and retention for career and technical education programs and the transition of individuals to teaching from business and industry; and (17) support for occupational and employment information resources such as described in Section 118 of Perkins IV (Section 124(c) of Perkins IV (20 USC 2344(c))).

- c. *State Leadership Activities - Unallowed Uses.* A State may not use State leadership funds for administrative costs (Section 124(d) of Perkins IV (20 USC 2344(d))).
- d. *State Administration* - A State may use funds reserved for State administration for: (1) developing the State plan; (2) reviewing local applications; (3) monitoring and evaluating program effectiveness; (4) assuring compliance with all applicable Federal laws; (5) providing technical assistance; and (6) supporting and developing State data systems relevant to the provisions of Perkins IV (Section 112(a)(3) of Perkins IV (20 USC 2322(a)(3))).

- 2. *Subrecipient Activities - Secondary and Postsecondary Career and Technical Education Programs* - Funds must be used to improve career and education programs. The subrecipient plan or approved application describes the specific activities to be carried out. Required uses of funds are identified in Section 135(b) of Perkins IV. Examples of other allowable activities are identified in Section 135(c) of Perkins IV (Sections 135(a), (b), and (c) of Perkins IV (20 USC 2355(a), (b), and (c))).

B. Allowable Costs/Cost Principles

See ED Cross-Cutting Section.

C. Cash Management

See ED Cross-Cutting Section.

E. Eligibility

- 1. Eligibility for Individuals - Not Applicable**
- 2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable**
- 3. Eligibility for Subrecipients**
 - a. *Secondary Career and Technical Education Programs - A subrecipient must be: (1) a local educational agency (LEA), including a public charter school, that is eligible to receive \$15,000 or more under Section 131(a) of Perkins IV; (2) an area career and technical education school or an educational service agency that meets the requirements in section 131(e) of Perkins IV; or (3) a consortium of LEAs that meets the requirements in Section 131(f) of Perkins IV (Section 3(14)(A) of Perkins IV (20 USC 2302(14)(A)) and Sections 131(a), (e), and (f) of Perkins IV (20 USC 2351(a), (e), and (f))). The State must treat a secondary school funded by the Bureau of Indian Affairs (BIA) within the State as if such school were an LEA within the State for the purpose of receiving a distribution under Section 131 of Perkins IV (Section 131(h) of Perkins IV (20 USC 2351(h))). Except as noted below, the State must provide funds to charter schools offering a career and technical education program in the same manner as it provides those funds to other schools; career and technical education programs within a charter school must be of sufficient size, scope, and quality to be effective (Section 133(d) of Perkins IV (20 USC 2353(d))). For the definition of “charter school” applicable to Perkins IV, see Section 5210 (20 USC 7221i) of the No Child Left Behind Act of 2001 at <http://www.ed.gov/legislation/ESEA02/pg62.html>.*

For the program year beginning July 1, 2007, and subsequent program years, unless a State has an approved alternative formula, a State must distribute the amount reserved for the secondary school career and technical education programs as follows: (1) 30 percent to each LEA in proportion to the number of individuals aged 5 through 17, inclusive, who reside in the school district served by such LEA for the preceding fiscal year compared to the total number of such individuals who reside in the school districts served by all LEAs in the State for such preceding fiscal year, as determined on the basis of the most recent satisfactory data provided to the Secretary by the Bureau of the Census for the purpose of determining eligibility under Title I of the Elementary and Secondary Education Act of 1965, as

amended (ESEA); or student membership data collected by the National Center for Educational Statistics through the Common Core of Data survey system; and (2) 70 percent to each LEA in proportion to the number of individuals aged 5 through 17, inclusive, who reside in the school district served by such LEA and are from families with incomes below the poverty level for the preceding fiscal year, as determined on the basis of the most recent satisfactory data used under Section 1124(c)(1)(A) of the ESEA (20 USC 6333(c)(1)(A)), compared to the total number of such individuals who reside in the school districts served by all the LEAs in the State for such preceding fiscal year (Section 131(a) of Perkins IV (20 USC 2351(a))).

An LEA that does not meet the minimum grant requirement of \$15,000 can form a consortium with one or more LEAs to meet the minimum grant requirement (Section 131(f) of Perkins IV (20 USC 2351(f))). The State must waive the minimum grant requirement for an LEA that is in a rural, sparsely populated area or that is a public charter school operating a secondary school career and technical education program if the LEA demonstrates that the LEA is unable to enter into a consortium for purposes of providing activities under Title I, Part C of Perkins IV (Section 131(c)(2) of Perkins VI (20 USC 2351(c)(2))).

If the State reserves 15 percent or less for this program, it may distribute funds on a competitive basis or through any alternative method (Section 133(a) of Perkins IV (20 USC 2353(a))).

- b. *Postsecondary Career and Technical Education Programs* - A subrecipient must be an eligible institution, which is: a public or nonprofit private institution of higher education that offers career and technical education courses that lead to technical skill proficiency, an industry-recognized credential, a certificate, or a degree; an LEA providing education at the postsecondary level; an area career technical educational school providing education at the postsecondary level; a postsecondary education institution controlled by BIA or operated by or on behalf of any Indian tribe that is eligible to contract with the Secretary of the Interior for the administration of programs under the Indian Self-Determination and Education Assistance Act (25 U.S.C. 450 *et seq.*); an educational service agency; or a consortium of two or more of these entities (Section 3(13) of Perkins IV (20 USC 2302(13))).

Unless a State has an approved alternative formula, the State must distribute the amounts reserved for the postsecondary career and technical education programs to each eligible institution in proportion to the number of Pell grant recipients and recipients of

assistance from BIA enrolled in programs meeting the requirements of Section 135 of Perkins IV at that institution in the preceding year compared to the total of such recipients enrolled in those programs in the State in the preceding year (Section 132(a) of Perkins IV (20 USC 2352(a))). The minimum grant is \$50,000; a State must reallocate amounts allocated to recipients that are less than \$50,000 to other eligible recipients except as provided below (Section 132(c) of Perkins IV (20 USC 2352(c))).

An eligible institution that does not meet the minimum grant requirement of \$50,000 may form a consortium with one or more eligible institutions to meet the minimum grant requirement (Section 132(a)(3) of Perkins IV (20 USC 2352(a)(3))). The State may waive the minimum grant requirement for eligible institutions in rural, sparsely populated areas (Section 132(a)(4) of Perkins IV (20 USC 2352(a)(4))).

If the State reserves 15 percent or less for its postsecondary program, it may distribute these funds on a competitive basis or through any alternative method (Section 133(a) of Perkins IV (20 USC 2353(a))).

G. Matching, Level of Effort, Earmarking

1. Matching

State Administration - A State must match, from non-Federal sources and on a dollar-for-dollar basis, the funds reserved for administration of the State plan. The matching requirement may be applied overall, rather than line-by-line, to State administrative expenditures (Section 112(b) of Perkins IV (20 USC 2322 (b))).

2.1 Level of Effort - *Maintenance of Effort*

a. *General*

- (1) A State must maintain its fiscal effort in the preceding year from State sources for career and technical education on **either** an aggregate **or** a per-student basis when compared with such effort in the second preceding year, unless this requirement is specifically waived by the Secretary of Education. For example, to receive its PY 2008 grant award, a State must maintain its level of fiscal effort on either an aggregate or per-student basis in program year PY 2007 (July 1, 2007 - June 30, 2008) at the level of its fiscal effort in PY 2006 (July 1, 2006 - June 30, 2007). An example of how a State may maintain effort on a per-student basis, but not in the aggregate, is as follows:

In PY 2006, a State spends \$50 million from State funds to provide career and technical education to 300,000 students. In PY 2007, the State spends only \$49 million to provide vocational education to 290,000 students. Even though the State's aggregate effort decreased by \$1 million, the State's per-student effort increased from \$166.67 per student to \$168.97 per student. Thus, the State met the maintenance-of-effort requirement for its fiscal year 2008 grant (Section 311(b)(1)(A) of Perkins IV (20 USC 2391(b)(1)(A))).

If a State has been granted a waiver of the maintenance-of-effort requirement that allows it to receive a grant for a program year, the maintenance-of-effort requirement for the year after the year of the waiver is determined by comparing the amount spent for career and technical education from non-Federal sources in the first preceding program year with the amount spent in the third preceding program year (Section 311(b)(2) of Perkins IV (20 USC 2391(b)(2))).

In computing the fiscal effort or aggregate expenditures, a State must exclude capital expenditures, special one-time project costs, and the cost of pilot programs (Section 311(b)(1)(B) of Perkins IV (20 USC 2391(b)(1)(B))).

- (2) *Decrease in Federal Support* - If the amount made available for career and technical education programs under Perkins IV for a fiscal year is less than the amount made available for career and technical education programs under Perkins IV for the preceding fiscal year, then the fiscal effort per student or

the aggregate expenditures of a State for such preceding fiscal year shall be decreased by the same percentage as the percentage decrease in the amount so made available (Section 311(b)(1)(C) of Perkins IV (20 USC 2391(b)(1)(C))).

b. *Administration*

- (1) A State must provide from non-Federal sources for State administration under the Perkins Act an amount that is not less than the amount provided by the State from non-Federal sources for State administrative costs for the preceding fiscal or program year (Section 323(a) of Perkins IV (20 USC 2413(a))).
- (2) *Decrease in Federal Support* - If the amount made available for administration of programs under Perkins IV for a fiscal year is less than the amount made available for administration of programs under the Perkins Act for the preceding fiscal year, the amount the State is required to provide from non-Federal sources for costs the State incurs for administration of programs shall be decreased by the same percentage (Section 323(b) of Perkins IV (20 USC 2413(b))).

2.2 **Level of Effort** - *Supplement Not Supplant*

The State and its subrecipients may use funds for career and technical education activities that shall supplement, and shall not supplant, non-Federal funds expended to carry out career and technical education activities and tech-prep activities (Section 311(a) of Perkins IV (20 USC 2391(a))). The examples of instances where supplanting is presumed to have occurred described in III.G.2.2 of the ED Cross-Cutting Section (84.000) also apply to the career and technical education program.

Notwithstanding the above paragraph, funds made available under Perkins IV may be used to pay for the costs of career and technical education services required in an individualized education plan (IEP) developed pursuant to section 614(d) of the Individuals with Disabilities Education Act (IDEA) and services necessary to meet the requirements of section 504 of the Rehabilitation Act of 1973 with respect to ensuring equal access to career and technical education (Section 324(c) of Perkins IV (20 USC 2414(c))).

3. **Earmarking**

- a. *States* - Subject to the requirements discussed below regarding the minimum amount for State administration, a State must reserve the following percentages:
 - (1) *Secondary and postsecondary career and technical education programs*—not less than 85 percent. A State must distribute all of these funds to its subrecipients. A State may reserve no more than 10 percent of the 85 percent of funds to make grants for activities described in Section 135 of Perkins IV (20 USC 2355) to eligible subrecipients in: (a) rural areas; (b) areas with high percentages of career and technical education students; and (c) areas with high numbers of career and technical education students (Sections 112(a)(1) and (c) of Perkins IV (20 USC 2322(a)(1) and (c))).
 - (2) *State leadership activities* - not more than 10 percent. Within the State leadership activities not more than 1 percent of the amount allocated to each State in section 111 of Perkins IV (20 USC 2321) shall be allotted to activities that serve individuals in State Institutions. Also, not less than \$60,000 and not more than \$150,000 of the amount allocated to each State in section 111 of Perkins IV shall be made available for services that prepare individuals for nontraditional fields (Section 112(a)(2) of Perkins IV (20 USC 2322(a)(2))).
 - (3) *State administration* - not more than 5 percent or \$250,000, whichever is greater, for administration of the State plan (Section 112(a)(3) of Perkins IV (20 USC 2322 (a)(3))).

A State must consider any tech-prep-education grant funds that it consolidates, as approved in its State plan submitted under Section 122 of Perkins IV (20 USC 2342), as funds allotted under Section 111 of Perkins IV (20 USC 2321) and must distribute these funds in accordance with Section 112 of Perkins IV (20 USC 2322) requirements as described above in paragraphs (1) – (3) (Section 202 of Perkins IV (20 USC 2372)).
- b. *Subrecipients* - Subrecipients under the secondary and postsecondary career and technical education programs may use no more than 5 percent of those funds for administrative costs (Section 135(d) of Perkins IV (20 USC 2355(d))).

H. Period of Availability of Federal Funds

See ED Cross-Cutting Section.

L. Reporting

1. Financial Reporting

- a. SF-269 - *Financial Status Report* – Not Applicable.
- b. SF-270 - *Request for Advance or Reimbursement* - Only grantees placed on reimbursement are required to complete this form to request payment of grant award funds. The requirement to use this form is imposed on an individual recipient basis.
- c. SF-271 - *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272 - *Federal Cash Transactions Report* - Not Applicable
- e. *Financial Status Report (Part C) for the Consolidated Annual Report for the Carl D. Perkins Career and Technical Education Act of 2006 (CAR) (OMB Form 1830-0569)* - This replaces the SF 269. This form is a web-based format entitled “*Financial Status Report*” (FSR). Each State files two “FSR” forms each December for two distinct grant periods: (1) an interim FSR that reports the expenditure of those Federal funds available to a State on or after July 1 of the preceding year during the first 12 to 15 months of availability and; (2) a final FSR that reports the expenditure of those Federal funds available to the State on or after July 1 of the second preceding year for the full 27 months of availability.
- f. LEAs and other subrecipients are generally required to report financial information to the pass-through entity. These reports should be tested during audits of LEAs.

2. Performance Reporting – Not Applicable

3. Special Reporting - Not Applicable

Annual Accountability Report (Part D) for the Consolidated Annual Report for the Carl D. Perkins Career and Technical Education Act of 2006 (CAR) (OMB No. 1830-0569). A sample of cells on the CAR should be tested (in a similar manner that is done for a financial report) to ensure that the State has data that supports the numbers in the report. The measures and levels are defined in the Final Agreed Upon Performance Levels form that is incorporated in a State plan and attached to the grant award.

Subrecipients - Each LEA and other subrecipients must annually report to the State the progress of the LEA or other subrecipient in achieving its local adjusted levels of performance on the core indicators of performance, including the levels of performance achieved by the special population categories described in Section 3(29) of Perkins IV and other student categories described in Section 1111(h)(1)(C)(i) of ESEA (20 USC 6311(h)(1)(C)(i)) (Section 113(b)(4)(C) of Perkins IV (20 USC 2323(b)(4)(C))).

The LEA or other subrecipient reports on the Perkins IV core indicators described in paragraph a. above (Section 113(b)(4)(C) of Perkins IV (20 USC 2323(b)(4)(C))). The LEA or other subrecipient is also required to report disaggregated data on the performance of students by gender, race, ethnicity, migrant status, and the special population categories described in Section 3(29) of Perkins IV (20 USC 2302 (29))(Section 113(b)(4)(C)(ii) of Perkins IV (20 USC 2323(b)(4)(C)(ii))).

Each LEA or other subrecipient negotiates with the State local adjusted performance levels (i.e. targets) for each core indicator for each program year (Sections 113(b)(4)(A)(iii) and (iv) of Perkins IV (20 USC 2323(b)(4)(A)(iii) and (iv))). Each LEA's or other subrecipient's local adjusted performance levels are incorporated into the local plan required by Section 134 before approval by the State.

M. Subrecipient Monitoring

Each State must evaluate annually, using the local adjusted levels of performance described in Section 113(b)(4) of Perkins IV (20 USC 2323(b)(4)), the career and technical education activities of each subrecipient receiving funds under the basic grant program (Title I of Perkins IV) (Section 123(b)(1) of Perkins IV (20 USC 2343(b)(1))). The State determines whether a subrecipient failed to meet at least 90 percent of an agreed upon local adjusted level of performance for any of the core indicators of performance described in section 113(b)(4) of Perkins IV and, if so, the State must work with the subrecipient to implement the improvement plan required by Section 123(b)(2) (Section 123(b)(2) and (3) of Perkins IV (20 USC 2343(b)(2) and (3))) (See III.N.3, "Special Tests and Provisions – Developing and Implementing Improvement Plans.")

N. Special Tests and Provisions

1. Schoolwide Programs

See ED Cross-Cutting Section

2. Access to Federal Funds for New or Significantly Expanded Charter Schools

See ED Cross-Cutting Section.

3. Developing and Implementing Improvement Plans

Subrecipients - Each LEA or other subrecipient for which the State determines that the LEA or other subrecipient failed to meet at least 90 percent of an agreed upon local adjusted level of performance for any of the core indicators of performance described in section 113(b)(4) of Perkins IV must develop and implement a program improvement plan with special consideration given to performance gaps identified under section 113(b)(4)(C)(ii)(II) of Perkins IV (20 USC 2323(b)(4)(C)(ii)(II)) (Section 123(b)(2) of Perkins IV; 20 USC 2343(b)(2)). The subrecipient must develop and implement the local improvement plan – in consultation with the State, appropriate agencies, individuals, and organizations – during the first program year succeeding the program year for which the LEA or other subrecipient failed to meet any of its local adjusted levels of performance for any of the core indicators of performance (Section 123(b)(2) of Perkins IV (20 USC 2343(b)(2))). The LEA's or other subrecipient's data on each local adjusted level of performance for any of the core indicators of performance described in Section 113(b)(4) of Perkins IV must be available to the general public through a variety of formats, including electronically through the Internet (Section 113(b)(4)(C)(v) of Perkins IV (20 USC 2323(b)(4)(C)(v))).

Audit Objective (*Subrecipients*) - Determine whether: (1) a subrecipient's data are publicly available; and (2) the subrecipient developed and implemented a program improvement plan, as required, if the State determined that it failed to meet at least 90 percent of an agreed upon local adjusted level of performance.

Suggested Audit Procedures (*Subrecipients*)

Verify that the LEA's or other subrecipient's:

- a. Developed and implemented a program improvement plan in a manner consistent with the above requirements, if the State determined that the LEA or other subrecipient failed to meet at least 90 percent of an agreed upon local adjusted level of performance for any of the core indicators of performance.
- b. Provided data on each local adjusted level of performance for the core indicators of performance to the general public through a variety of formats, including electronically through the Internet.

a.

486	Financial Accounting and Reporting Appendices
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Appendix 8.C.3.d. CFDA 84.181 SPECIAL EDUCATION—GRANTS FOR INFANTS AND FAMILIES

DEPARTMENT OF EDUCATION

TEA REFERENCE: <http://www.tea.state.tx.us/opge/formfund/specialed/index.html>

I. PROGRAM OBJECTIVES

The purposes of the Individuals with Disabilities Education Act (IDEA), Part C (Part C) are to: (1) to develop and implement a statewide, comprehensive, coordinated, multi-disciplinary interagency system that provides early intervention services for infants and toddlers with disabilities and their families; (2) to facilitate the coordination of payment for early intervention services from Federal, State, local and private sources (including public and private insurance coverage); (3) to enhance the State's capacity to provide quality early intervention services and expand and improve existing early intervention services and expand and improve existing early intervention services being provided to infants and toddlers with disabilities and their families; and (4) to encourage States to expand opportunities for children under the age of three years who would be at risk of having substantial developmental delay if they did not receive early intervention services (20 USC 1431(b); 34 CFR section 303.1).

II. PROGRAM PROCEDURES

Generally, the State is responsible for maintaining and implementing a statewide system to identify, evaluate and provide early intervention services to eligible children and their families. Such a system includes a public awareness and child find system, development and implementation of an individualized family service plan for eligible children, maintenance of a central directory of information about early intervention services, personnel development and contracting for or otherwise providing services to eligible children and their families.

A State must have an approved application that provides required assurances and describes the statewide system and related policies. The State designates a lead agency that is responsible for administering, and supervising activities funded by this program. Program services may be carried out by the lead agency, other State agencies, or by public or private organizations either under contract to the State or through other arrangements with such agencies. The lead agency also monitors activities that are covered by the program, whether or not this program funds them. The State also must establish a State Interagency Coordinating Council that, among other things, advises and assists the lead agency in the development and implementation of policies and achieving participation, cooperation, and coordination of all appropriate public agencies in the State.

The amount of a State's allocation under Part C for a fiscal year is based on its proportion of the general population of infants and toddlers, from birth through two years, in the State

(i.e., the ratio of the number of infants and toddlers in the State compared to the number of infants and toddlers in all the States).

Source of Governing Requirements

This program is authorized under 20 USC 1431 through 1445. Implementing regulations specific to this program are 34 CFR part 303.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for details of the requirements.

Certain compliance requirements that apply to multiple Department of Education (ED) programs are discussed once in the ED Cross-Cutting Section of the Compliance Supplement rather than being repeated in each individual program. Where applicable, this section references to the Cross-Cutting Section for these requirements.

A. Activities Allowed or Unallowed

The approved application describes the activities to be carried out. Generally, allowable activities for a State include (20 USC 1433 and 1438; 34 CFR section 303.3):

1. Maintaining a statewide, comprehensive, coordinated, multi-disciplinary, interagency system to provide early intervention services for infants and toddlers with disabilities and their families.
2. Providing direct early intervention services for infants and toddlers with disabilities and their families, which are otherwise not funded through other public or private sources.
3. Expanding and improving on services under Part C that are otherwise available for infants and toddlers and their families.
4. Providing a free appropriate public education, in accordance with Part B of the IDEA, to children with disabilities from their third birthday to the beginning of the following school year.
5. With the written consent of the parents, continuing to provide early intervention services under this part to children with disabilities from their third birthday until such children enter, or are eligible under State law to enter, kindergarten, in lieu of a free appropriate public education provided in accordance with Part B.
6. In any State that does not provide services for at risk infants and toddlers, to strengthen the statewide system by initiating, expanding, or improving collaborative efforts related to at-risk infants and toddlers including establishing linkages with appropriate public or private community-based

organizations, services, and personnel for the purpose of: (a) identifying and evaluating at-risk infants and toddlers; (b) making referrals of the infants and toddlers identified and evaluated; and (c) conducting periodic follow-up on each such referral to determine if the status of the infant or toddler involved has changed with respect to the eligibility of the infant and toddler for services.

B. Allowable Costs/Cost Principles

See ED Cross-Cutting Section (84.000, Section III, B.3), which explains that a Restricted Indirect Cost Rate (RICR) must be applied. For States, when ED is cognizant agency for indirect costs under OMB Circular A-87, RICRs are incorporated into indirect cost rate agreements approved by ED.

However, Part C is often administered by State entities for which ED is not the cognizant Federal agency for indirect costs. In addition, subrecipients who may not have had their indirect cost rate approved by ED can also administer Part C funding. For these entities, the provisions of ED regulations pertaining to RICRs may not be reflected in the indirect cost rate charged to Part C. However, indirect costs charged to Part C must conform to the RICR regulations (20 USC 1437(b)(5)(B); 34 CFR sections 76.560 through 34 CFR 76.580).

C. Cash Management

See ED Cross-Cutting Section.

G. Matching, Level of Effort, Earmarking

1. Matching - Not Applicable

2.1 Level of Effort - *Maintenance of Effort*

The total amount of State and local funds budgeted for expenditure in the current fiscal year for early intervention services for children eligible under Part C and their families must be at least equal to the total amount of State and local funds actually expended for early intervention services for these children and their families in the most recent preceding fiscal year for which the information is available. Allowances may be made for: (a) decreases in the number of children who are eligible to receive Part C early intervention services and (b) unusually large amounts of funds expended for such long-term purposes such as the acquisition of equipment and the construction of facilities (20 USC 1437(b)(5); 34 CFR section 303.124).

Although this requirement is identified as a supplement not supplant requirement in the law and regulation, this Supplement classifies this type of requirement as maintenance of effort.

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Appendix 8.C.3.e. CFDA 84.938 HURRICANE EDUCATION RECOVERY

DEPARTMENT OF EDUCATION

TEA REFERENCE: <http://www.tea.state.tx.us/nclb/hera.html>

PROGRAM OBJECTIVES

The Hurricane Education Recovery Act (HERA) (Division B, Title IV of Pub. L. No. 109-148) authorized three new grant programs to assist school districts and schools in meeting the educational needs of students displaced by Hurricanes Katrina and Rita, and to help schools that were closed as a result of the hurricanes to reopen as quickly and effectively as possible. These programs are (1) the Immediate Aid to Restart School Operations (Restart) program, (2) the Assistance for Homeless Youth (Homeless Youth) program, and (3) the Temporary Emergency Impact Aid for Displaced Students (Emergency Impact Aid) program. The Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act of 2006 (Division B, Title I of Pub. L. No. 109-148) also funded three programs for institutions of higher education to provide assistance for students attending institutions of higher education in areas affected by Hurricanes Katrina and Rita. These programs are (1) the Emergency Assistance for Higher Education to the Louisiana Board of Regents, (2) Payments to Institutions of Higher Education to Defray Unexpected Expenses of Displaced Students, and (3) Assistance for Higher Education to the Mississippi Institutes of Higher Learning. The Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006 (Chapter 6, Title II of Pub. L. No. 109-234) provided assistance (Higher Education Recovery Awards) to institutions of higher education that are located in an area in which a major disaster was declared related to hurricanes in the Gulf of Mexico in calendar year 2005, and that were forced to close, relocate, or significantly curtail their activities as a result of damage directly caused by the hurricanes. The U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007 (Chapter 7, Title IV of Pub. L. No. 110-28) authorized a new grant program to assist Louisiana, Mississippi, and Alabama to recruit, retain, and compensate new and current educators who commit to work at least 3 years in a public elementary or secondary school located in an area affected by Hurricanes Katrina or Rita (Hurricane Educator Assistance Program). While all eight programs are funded under the same CFDA number, ED has assigned an alpha suffix for each of them to help identify the individual programs and the related requirements. See Section IV, Other Information for an explanation on the use of alpha suffixes added to the CFDA number.

A. Restart (CFDA 84.938A)

The objective of the Restart program is to award funds to the State educational agencies (SEAs) in Louisiana, Mississippi, Texas, and Alabama to provide

assistance or services to local educational agencies (LEAs) and non-public schools to help defray the expenses related to the restart of operations in, the reopening of, and the re-enrollment of students in elementary and secondary schools that serve an area in which a major disaster has been declared related to Hurricane Katrina or Hurricane Rita.

B. Homeless Youth (CFDA 84.938B)

The objective of the Homeless Youth program is to provide a separate source of funding to SEAs and LEAs to address the needs of homeless children and youth displaced by Hurricane Katrina or Hurricane Rita.

C. Emergency Impact Aid (CFDA 84.938C)

The objective of the Emergency Impact Aid program is to provide funds to SEAs, LEAs, and Bureau of Indian Affairs (BIA)-funded schools to assist with the cost of educating students displaced by Hurricane Katrina or Hurricane Rita during school year 2005-2006. Funds are also provided for non-public schools on behalf of displaced students they serve.

D. Emergency Assistance for Higher Education to the Louisiana Board of Regents (CFDA 84.938D)

This program provides the Louisiana Board of Regents a grant to provide emergency assistance based on demonstrated need under part B of title VII of the Higher Education Act of 1965 (HEA). These funds may be used for student financial assistance, faculty and staff salaries, equipment and instruments, or any purpose authorized under the HEA, to institutions of higher education that are located in an area affected by hurricanes in the Gulf of Mexico in calendar year 2005 and were forced to close, relocate, or curtail their operations as a result of damage directly sustained by reasons of such hurricanes.

E. Payments to Institutions of Higher Education to Defray Unexpected Expenses of Displaced Students (CFDA 84.938E)

Under this program, the Secretary of Education provides grants to institutions of higher education to help defray unexpected expenses associated with enrolling displaced students from institutions of higher education directly affected by hurricanes in the Gulf of Mexico in calendar year 2005.

F. Assistance for Higher Education to the Mississippi Institutes of Higher Learning (CFDA 84.938F)

This program provides the Mississippi Institutes of Higher Learning a grant to provide assistance under the programs authorized by subparts 3 and 4 of part A and part C of title IV of the HEA, for students attending institutions of higher education that are located in an area in which a major disaster has been declared in accordance with section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act related to hurricanes in the Gulf of Mexico in calendar year 2005.

G. Higher Education Recovery Awards (CFDA 84.938H)

The objective of the Higher Education Recovery Awards program is to make payments to institutions of higher education to help defray expenses, including expenses that would have been covered by revenue lost as a direct result of a hurricane, expenses already incurred, and construction expenses, incurred by such institutions that were forced to close, relocate, or significantly curtail activities as a result of damage directly caused by the hurricanes. These institutions of higher education must be located in an area in which a major disaster was declared in accordance with section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act related to hurricanes in the Gulf of Mexico in calendar year 2005. This area includes certain counties in Alabama, Florida, Louisiana, Mississippi, and Texas.

H. Hurricane Educator Assistance Program (CFDA 84.938K)

The objective of the Hurricane Education Assistance Program (HEAP) is to provide funding to the States of Louisiana, Mississippi, and Alabama to help recruit, retain, and compensate educators who commit to work for at least 3 years in an area in which a major disaster area was declared as a result of Hurricane Katrina or Hurricane Rita.

II. PROGRAM PROCEDURES**A. Restart**

The Department of Education (ED) provides Restart funds to the SEAs in Louisiana, Mississippi, Texas, and Alabama taking into consideration the number of students who were enrolled during the 2004 -2005 school year in elementary and secondary schools that were closed on September 12, 2005, as a result of Hurricane Katrina, or on October 7, 2005, as a result of Hurricane Rita. The SEAs use these funds to provide services and assistance to the LEAs and non-public schools located in their States. The services may be provided directly by the SEA, through contractual arrangements, or through subgrants to public agencies. The SEAs are required to consider (1) the number of school-aged children served by LEAs or non-public schools in the academic year preceding the academic year for which the services and assistance are provided, and (2) the severity of the impact of the hurricanes on the LEAs or non-public schools, and the extent of the needs in each LEA or non-public school.

SEAs are required to reserve an amount of funds for non-public schools that bears the same relation to their total payment as the number of non-public schools bears to the total number of non-public and public schools, as determined by the National Center for Education Statistics Common Core of Data for the 2003 – 2004 school year. However, if all of the reserved funds available under this program have not been obligated by April 29, 2006 (120 days after the date of enactment), the SEA may use the remaining funds to provide services or assistance to LEAs or non-public schools. Regardless of whether all of the reserved funds are fully obligated

by this date, the SEA must comply with the requirement to provide equitable services to eligible private school students. Any educational services and assistance provided for eligible non-public school students must be equitable in comparison to those provided for public school students, and must be provided in a timely manner.

LEAs or non-public schools desiring services or assistance under the Restart program must have submitted an application to the SEA at such time, in such manner, and accompanied by such information as the SEA may reasonably require to ensure expedited and timely provision of services or assistance to the LEA or non-public school.

B. Homeless Youth

ED provides assistance to LEAs, through SEAs, to serve homeless children and youth displaced by Hurricane Katrina or Hurricane Rita. Services include identification, enrollment assistance, assessment and school placement assistance, transportation, coordination of school services, supplies, referrals for health, mental health, and other needs. ED disburses funds to SEAs based on demonstrated need, as determined by ED. SEAs must distribute the funds to LEAs based on demonstrated need for the purposes of carrying out section 723 of the McKinney-Vento Homeless Assistance Act.

C. Emergency Impact Aid

Funds are provided on the basis of statutory criteria and student count data supplied by SEAs and LEAs. LEAs provide counts to their SEA, which provides counts to ED. The SEA must have provided student counts for four quarters of the 2005-2006 school year separated into four categories—public school students reported as children without or with disabilities, and non-public school students reported as children without or with disabilities.

On January 12, 2006, ED published a Federal Register notice announcing the availability of funds for this one-time program. Under the statute, LEAs were required to apply to their SEAs for funds under the program no later than 14 calendar days after the date of the Federal Register notice, i.e., January 26, 2006. The law further specified that SEAs must submit their initial applications to the ED no later than 21 calendar days after the publication of the notice, i.e., February 2, 2006. ED made payments to SEAs to enable them to make payments to LEAs as soon as possible, and LEAs must have made payments to accounts on behalf of non-public students within 14 calendar days of receiving payments from their SEAs. When students enroll in different non-public schools on different quarterly count dates, LEAs need to ensure that payments for these students were directed to the correct accounts on their behalf.

SEAs and LEAs that met these specified timelines could make upward or downward revisions to their initial child counts if they collected more accurate data than was available at the time of their initial application submission. SEAs also

provided student counts for quarters 3 and 4. Any SEA application amendments must have been submitted to ED no later than April 30, 2006.

Generally, ED made payments under the Emergency Impact Aid program as follows:

For each quarter, the Secretary provided each State with a payment equal to:

- (1) the number of displaced students who were not reported as children with disabilities determined by the State to be enrolled in public and non-public schools for that quarter, multiplied by \$1,500, plus
- (2) the number of displaced students who were reported as children with disabilities determined by the State to be enrolled in public and non-public schools for that quarter, multiplied by \$1,875.

However, if the amount available to the Secretary was not sufficient to make the payments in full, the Secretary would have to proportionately reduce the payments to fit within the amount available.

In any case, the total amount of a payment on behalf of a displaced student enrolled in a non-public school could not exceed the lesser of—

- (1) \$6,000 for a student who was not reported as a child with a disability;
- (2) \$7,500 for a student who was reported as a child with a disability, or
- (3) the cost of tuition and fees (and transportation expenses, if any) at the non-public school for the 2005-2006 school year.

D. Emergency Assistance for Higher Education to the Louisiana Board of Regents

The program provided a grant to the Louisiana Board of Regents, which in turn may provide emergency assistance authorized under law directly, by contract, or through subgrants.

E. Payments to Institutions of Higher Education to Defray Unexpected Expenses of Displaced Students

Grants were made by the Secretary of Education directly to 99 institutions of higher education to be used by them to cover authorized expenses.

F. Assistance for Higher Education to the Mississippi Institutes of Higher Learning

The program provided a grant to the Mississippi Institutes of Higher Learning, which was to provide services authorized under law directly, by contract, or through subgrants.

G. Higher Education Recovery Awards

Grants have been made by the Secretary of Education directly to 41 institutions of higher education to be used to cover authorized expenses.

H. Hurricane Educator Assistance Program

An SEA must use its allocation to award subgrants to eligible LEAs to support the recruitment, retention, and compensation of new and current educators. The SEA may also use the funds to award subgrants for other activities.

I. Sources of Governing Requirements

Sources of governing requirements are:

<u>Program</u>	<u>Source</u>
Restart (CFDA 84.938A)	HERA, Section 102
Homeless Youth (CFDA 84.938B)	HERA, Section 106
Emergency Impact Aid (CFDA 84.938C)	HERA, Section 107
Emergency Assistance for Higher Education to the Louisiana Board of Regents (84.938D)	Pub. L. No. 109-148
Payments to Institutions of Higher Education to Defray Unexpected Expenses of Displaced Students (CFDA 84.938E)	Pub. L. No. 109-148
Assistance for Higher Education to the Mississippi Institutes of Higher Learning (CFDA 84.938F)	Pub. L. No. 109-148
Higher Education Recovery Awards (CFDA 84.938H)	Pub. L. No. 109-234
Hurricane Educator Assistance Program (CFDA 84.938K)	Pub. L. No. 110-28

ED has not issued specific program regulations, but the Education Department General Administrative Regulations (EDGAR) at 34 CFR parts 76, 77, 81, 86, 97, 98, and 99 also apply, as do the regulations applicable to the Title IV, HEA programs for funds awarded under those programs, subject to any waivers granted by the ED under the authority in the HERA.

Availability of Other Program Information

A copy of the HERA may be found on the internet at:

<http://www.ed.gov/policy/elsec/guid/secletter/051230Bill.pdf>.

Additional information on this program, including the Notice of Availability for Funding for the Homeless Youth and Emergency Impact Aid programs, may be found on the Internet at <http://hurricanehelpforschools.gov/proginfo/index.html>.

Additional information regarding HEAP can be located at:
<http://www.ed.gov/programs/heap/index.html>.

I. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

Certain compliance requirements that apply to multiple programs are discussed once in the ED Cross-Cutting Section of the Compliance Supplement rather than being repeated in each individual program. Where applicable, this section references the Cross-Cutting Section for these requirements.

A. Activities Allowed or Unallowed

1. *Restart*

Services and assistance allowable under this program, whether provided by the SEA, an LEA, or a public entity on behalf of a non-public school, must support the restart of operations in, the re-opening of, and the re-enrollment of students in elementary and secondary schools in areas affected by Hurricane Katrina or Hurricane Rita. An SEA, LEA or public entity can contract with private vendors to offer services and assistance under this program. Such services or assistance must provide for:

a. Allowable costs.

- (1) Recovery of student and personnel data, and other electronic information;
- (2) Replacement of school district information systems, including hardware and software;
- (3) Financial Operations;
- (4) Reasonable transportation costs;
- (5) Rental of mobile educational units and leasing of neutral sites or spaces;

- (6) Initial replacement of instructional materials and equipment, including textbooks;
- (7) Redeveloping instructional plans, including curriculum development;
- (8) Initiating and maintaining education and support services; and
- (9) Such other activities related to the purposes of the program that are approved by ED (HERA, Section 102(e)(1)).

b. Unallowable costs.

Restart program funds may not be used for construction or major renovation of schools. However, funds may be used for minor renovation and minor remodeling of schools (HERA, Section 102(e)(3)(A)).

ED has approved the use of Restart funds for other activities related to the purposes of the program, as authorized under Section 102(e)(1)(I) of HERA. Information on these activities, as well as examples of allowable activities under the other categories, is available on ED's Web site for Immediate Aid to Restart School Operations at <http://www.ed.gov/programs/restart/faq.html> (HERA, Section 102(e)(1)).

An SEA, LEA, or public entity on behalf of a non-public school may use Restart program funds in coordination with other Federal, State, or local funds available for the activities described above (HERA, Section 102(e)(2)).

2. *Homeless Youth*

Funds under this program must be used to provide activities for, and services to, homeless children displaced by Hurricane Katrina or Hurricane Rita consistent with Section 723 of the McKinney Vento Homeless Assistance Act. These services or activities may include identification; enrollment assistance; assessment and school placement assistance; transportation; coordination of school services; supplies; and referrals for health, mental health, and other needs (HERA, Section 106(a)).

3. *Emergency Impact Aid*

a. *Allowable Uses of Funds for a Child Reported without a Disability*

LEAs, BIA-funded schools, or non-public schools may use Emergency Impact Aid funds to provide instructional opportunities for displaced students without disabilities who enroll in their schools and for expenses the recipient incurs in serving those displaced students. Allowable expenses are:

- (1) Paying the compensation of personnel, including teacher aides, in schools enrolling displaced students;
- (2) Identifying and acquiring curricular material and classroom supplies;
- (3) Acquiring or leasing mobile educational units or leasing sites and spaces;
- (4) Providing basic instructional services for displaced students, including tutoring, mentoring, or academic counseling;
- (5) Paying reasonable transportation costs;
- (6) Providing health and counseling services; and
- (7) Providing education and support services (HERA, Section 107(e)).

b. *Allowable Uses of Funds for a Child Reported with a Disability*

Recipients of funds under this program for students reported with disabilities may use those funds only to pay for special education and related services consistent with the Individuals with Disabilities Education Act (IDEA)(20 USC 1400 *et seq.*)(see CFDA 84.027, III.A, “Activities Allowed or Unallowed”). HERA does not require that these funds be used to provide special education and related services only to students displaced by the hurricanes. The funds may become part of an LEA’s or school’s regular special education budget, and the LEA or school may use them to provide activities and services in which both displaced and other students with disabilities participate, taking care to ensure that the special education needs of displaced students are met (HERA, Section 107(e)(4)).

The requirements that apply to the use of the funds provided for displaced students reported with disabilities are the same as those that apply to the use of funds provided under Part B of the IDEA.

They include the requirement that the funds be used for the excess costs of providing special education and related services to students with disabilities (See compliance requirements at CFDA 84.027, III.A.2, “Activities Allowed or Unallowed”) (HERA, Section 107(e)(4)(A)).

c. *Allowable Uses of Funds – General*

While the activities and services must be related to serving displaced students, HERA does not require that they be restricted to displaced students. For instance, one of the allowable activities under the law is the provision of basic instructional services. LEAs may use the funds to provide such services in which both displaced and other students participate (HERA, Sections 107(d)(3) and (e)).

d. *Unallowable Uses*

Costs for construction or major renovation are not allowable (HERA, Section 107(e)(3)).

4. Emergency Assistance for Higher Education to the Louisiana Board of Regents

Funds are to be used based on demonstrated need under part B of title VII of HEA, and may be used for student financial assistance, faculty and staff salaries, equipment and instruments, or any purpose authorized under the HEA, to institutions of higher education that are located in an area affected by hurricanes in the Gulf of Mexico in calendar year 2005 and were forced to close, relocate, or curtail their operations as a result of damage directly sustained by reason of such hurricanes (Pub. L. No. 109-148).

5. Payments to Institutions of Higher Education to Defray Unexpected Expenses of Displaced Students

Funds are to be used to help defray the unexpected expenses associated with enrolling displaced students from institutions of higher education directly affected by hurricanes in the Gulf of Mexico in calendar year 2005 (Pub. L. No. 109-148).

6. Assistance for Higher Education to the Mississippi Institutes of Higher Learning

Funds are available to provide assistance under the programs authorized by subparts 3 (Federal Supplement Educational Opportunity Grants (FSEOG) - CFDA 84.007) and 4 (Leveraging Educational Assistance Partnership (LEAP) - CFDA 84.069) of part A, and part C of title IV (Federal Work-

Study Program (FWS) - CFDA 84.033) of the HEA. Funds may be used to provide assistance for students who attend institutions in an area in which a major disaster has been declared in accordance with section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act related to hurricanes in the Gulf of Mexico in calendar year 2005 and who qualify for assistance under the three programs described in this paragraph (Pub. L. No. 109-148).

7. *Hurricane Educator Assistance Program*

- a. Funds may be used by the SEA to provide funds to the LEAs for allowable recruitment, retention, and compensation activities including:
 - (1) Salary premiums;
 - (2) Performance bonuses;
 - (3) Housing subsidies;
 - (4) Signing bonuses;
 - (5) Relocation costs;
 - (6) Loan forgiveness; and
 - (7) Other mechanisms aimed at recruiting and retaining educators.
- b. The SEA may also use the funds to award subgrants to:
 - (1) Build the capacity, knowledge, and skill of teachers and school-based school principals, assistant principals, principal resident directors, assistant directors, and other educators in such public elementary and secondary schools to provide an effective education, including the design, adaptation, and implementation of high-quality formative assessments;
 - (2) Establish partnerships with nonprofit entities with a demonstrated track record in recruiting and retaining outstanding teachers and other school-based school principals, assistant principals, principal resident directors, and assistant directors; and
 - (3) Pay release time for teachers and principals to identify and replicate successful practices from the fastest-improving and highest-performing schools (Pub. L. No. 110-28).

C. Cash Management

See ED Cross-Cutting Section.

E. Eligibility

1. Eligibility for Individuals –

a. *Assistance for Higher Education to the Mississippi Institutes of Higher Learning*

Students receiving funds under a program authorized by subparts 3 (FSEOG-CFDA 84.007) and 4 (LEAP-CFDA 84.069) of part A, and part C of title IV (FWS-CFDA 84.033) of the Higher Education Act of 1965, must qualify for assistance under (and thus be eligible for) those programs, except for any waivers granted by ED under HERA. See Part 5, SFA Cluster, Appendix A for eligibility requirements for the FSEOG and FWS Programs. Students must attend an institution of higher education located in an area in which a major disaster has been declared in accordance with section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act related to hurricanes in the Gulf of Mexico in calendar year 2005 (Pub. L. No. 109-148 and Section IV of Grant Agreement).

b. *Hurricane Educator Assistance Program*

Individuals who may receive benefits from the Hurricane Educator Assistance Program include teachers, principals, assistant principals, principal resident directors, assistant directors, and other educators who commit to continue employment in school-based positions in public elementary and secondary schools located in the disaster area for at least 3 years (Pub. L. No. 110-28).

2. **Eligibility for Groups of Individuals or Areas of Service Delivery – Not Applicable**

3. **Eligibility for Subrecipients**

a. *Restart*

LEAs and non-public schools located in the declared major disaster areas are eligible to participate in this program. In determining which LEAs and schools should be served, the SEAs should consider (1) the number of school-aged children served by the LEA or non-public school in the academic year preceding the academic year for which the services or assistance are provided, and (2) the severity of the impact of Hurricane Katrina or Hurricane Rita on the LEA or non-public school and the extent of the needs in each school in a declared major disaster area, per section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 USC 5170). For the purposes of this program, a non-public school means a non-public elementary or secondary school that is accredited or licensed or otherwise operates in accordance with State law, and was

in existence prior to August 22, 2005 (HERA, Sections 102(c)(1) and (g)).

b. *Emergency Impact Aid*

LEAs and BIA-funded schools, including charter schools, in which a displaced student is enrolled, are eligible to participate in this program. A non-public school, including a charter school, was eligible to participate if (1) it was accredited or otherwise operated in accordance with State law, (2) was in existence on August 22, 2005, and (3) served at least one displaced student whose family has applied for assistance under the program. Non-public schools must waive tuition or reimburse tuition paid in order to receive funds under this program.

For purposes of determining eligibility, “displaced students,” that is, the students for whom schools may receive payments, are those students who:

- (1) On August 22, 2005, resided in, and were enrolled or were eligible to be enrolled in, a school in an area for which the Federal Government later declared a major disaster related to Hurricane Katrina or Hurricane Rita; and
- (2) As a result of their displacement by the disaster, were enrolled in a different school on a date on which an enrollment count is taken for the purpose of this program (HERA, Section 107(b)).

c. *Emergency Assistance for Higher Education to the Louisiana Board of Regents*

Subrecipients must be institutions of higher education that are located in an area affected by hurricanes in the Gulf of Mexico in calendar year 2005 and were forced to close, relocate, or curtail their operations as a result of damage directly sustained by reason of such hurricanes (Pub. L. No. 109-148).

d. *Assistance for Higher Education to the Mississippi Institutes of Higher Learning*

Subrecipients must be institutions of higher education that are located in an area in which a major disaster has been declared in accordance with section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act related to hurricanes in the Gulf of Mexico in calendar year 2005 (Pub. L. No. 109-148).

e. *Hurricane Educator Assistance Program*

The State may award subgrants to an LEA with at least one public school in an area in which a major disaster was declared as a result of Hurricanes Katrina or Rita. The State may award the subgrants either by formula or competitively. Regardless of the method used, the State must first give priority to LEAs with the highest percentages of public elementary and secondary schools that were closed as of May 25, 2007 as a result of the hurricanes. The State must then give priority to LEAs with the highest percentages of public elementary and secondary schools with a student-teacher ratio of at least 25 to 1. The State may then distribute any remaining funding to other LEAs with demonstrated need (Pub. L. No. 110-28).

G. Matching, Level of Effort, Earmarking

1. Matching – Not Applicable

2.1 Level of Effort – *Maintenance of Effort*

Emergency Impact Aid

The maintenance of effort requirements that apply to the use of the funds provided for displaced students reported with disabilities are the same as those that apply to the use of funds provided under Part B of the IDEA. See CFDA 84.027, Special Education – Grants To States (IDEA, Part B), III.G.2.1.b, “Matching, Level of Effort, Earmarking – Level of Effort – Maintenance of Effort (SEAs/LEAs)” (HERA, Section 107(e)(4)).

2.2 Level of Effort – *Supplement Not Supplant*

Restart

Services or assistance provided by this program shall be used to supplement, not supplant, any funds made available through the Federal Emergency Management Agency or through a State. However, if an SEA, LEA, or school has not received such other benefits by the time of application for assistance under this program, the SEA, LEA, or school may use program funds to supplant such funds until they are received, providing the SEA, LEA, or school agrees to repay all duplicative Federal assistance received. Additionally, ED may waive or modify the supplement/supplant requirements in order to ease fiscal burdens. Any such waiver shall be for fiscal year 2006 (HERA, Sections 102(f) and 105).

3. Earmarking

Emergency Impact Aid

SEAs may not use more than one percent and LEAs may not use more than two percent of their respective allocations for administration of the program (HERA, Section 107 (h)).

H. Period of Availability of Federal Funds

1. Restart

Program funds are available until expended (Pub. L. No. 109-148).

2. Homeless Youth

Under the Tydings amendments, program funds are available for obligation through September 30, 2007 (Pub. L. No. 109-148 and 20 USC 1225(b)).

3. Emergency Impact Aid

- a. Recipients may use these funds for allowable costs incurred during the 2005-2006 school year, including the reimbursement of allowable expenditures incurred prior to the receipt of a grant (HERA, Section 107(g)).
- b. SEAs, LEAs, and BIA schools must obligate funds received under this program by September 30, 2006. The SEA must return any funds that are not obligated by any of these entities by this deadline to the ED. Unless extensions were granted, obligations must have been liquidated within 90 days of September 30, 2006 (HERA, Sections 107(f) and 110; 34 CFR section 80.23; Section 2602 of Pub. L. No. 109-234; 71 FR 41210).

4. Emergency Assistance for Higher Education to the Louisiana Board of Regents

Funds are available for obligation through September 30, 2006 (Pub. L. No. 109-148).

5. Payments to Institutions of Higher Education to Defray Unexpected Expenses of Displaced Students

Funds are available for obligation through September 30, 2006 (Pub. L. No. 109-148).

6. Assistance for Higher Education to the Mississippi Institutes of Higher Learning

Funds are available for obligation through September 30, 2006 (Pub. L. No. 109-148).

7. Higher Education Recovery Awards

Funds are available for obligation through September 30, 2006 (Pub. L. No. 109-234).

8. Hurricane Educator Assistance Program

Program funds are available until expended (Pub. L. No. 110-28).

L. Reporting

1. Financial Reporting - See ED Cross-Cutting Section

2. Performance Reporting - Not Applicable

3. Special Reporting

Emergency Impact Aid

Quarterly Reports of Displaced Students (OMB No. 1810-1762) - For the 2005-2006 school year, affected LEAs and BIA-funded schools applied to their SEA. The parents of displaced students enrolled in eligible non-public schools applied to the LEAs in which the schools are located. LEAs submitted counts of displaced children for four quarters and in turn, SEAs submitted quarterly counts to ED. ED identified four suggested quarterly count dates for identifying numbers of eligible displaced students: October 1, 2005, December 1, 2005, February 1, 2006, and April 1, 2006. States may use these dates or select count dates that fall within a 21-day range for each of the quarters, that is, within 10 calendar days before or after these dates. Each State must select four specific dates for the quarterly counts and use those dates consistently for all applicants within the State.

HERA, Section 107(c)(2) requires that SEAs require LEAs and BIA-funded schools to submit documentation quarterly that indicates the number of displaced students enrolled in each quarter by four categories—public school students reported as displaced students without or with disabilities, and non-public school students reported as displaced students without or with disabilities. The SEA establishes the procedures for this data collection (HERA, Section 107(c)(2)).

An LEA must take a count of the displaced students it has enrolled on each of the count dates, based on the definition of a “displaced student” (See III.E 3.c. above).

M. Subrecipient Monitoring

1. *Emergency Impact Aid*

Non-public schools that access accounts for which parents applied on behalf of non-public students are not considered subgrantees of LEAs, as defined in 34 CFR section 80.3. SEAs are responsible for monitoring the non-public schools with respect to applicable requirements, including ensuring that (1) a school’s attestation regarding its enrollment of displaced students as defined in Sections 107(c)(1) and (d) of HERA is adequately documented; (2) the school is an eligible non-public school as defined in section 107(b)(3); and (3) the funds from accessed accounts are used only for allowable goods and services. An SEA is responsible to for taking appropriate enforcement actions if it determines that a non-public school has not met any of these requirements (HERA, Section 107).

2. *Assistance for Higher Education to the Mississippi Institutes of Higher Learning*

Under this program and the grant agreement with the Mississippi Institutes of Higher Learning, funds used for the FSEOG and FWS programs are subject to the requirements of those programs. Also, the Mississippi Institutes of Higher Education shall notify schools to which it provides such funds that the rules of these programs apply. See Part 5, SFA Custer, Appendix A for the requirements for these programs (Pub. L. No. 109-148 and Section IV of the grant agreement with the Mississippi Institutes of Higher Education).

N. Special Tests and Provisions

1. Public Control of Funds - Restart

Compliance Requirement – The control of funds provided for non-public schools must be in a public agency, and title to materials, equipment, and property purchased with such funds must also be retained by a public agency. ED has issued guidance on this requirement, which is available on ED’s Web site for Immediate Aid to Restart Schools at <http://hurricanehelpforschools.gov/proginfo/faq-restart.doc>. (page 4 of 6) Only a public agency or its contractor can provide services and administer such funds, materials, equipment, and property (HERA, Section 102(h)(3)).

Audit Objective – Determine whether the public agency receiving funds has maintained the required control of funds and title property provided to non-public schools.

Suggested Audit Procedures

- a. Verify that the public agency has maintained control of all funds, and maintains title to all material, equipment, and property provide to non-public schools.
- b. Verify that contracts providing services to non-public schools contain provisions that provide for public control of funds, and public title to materials, equipment, and supplies provide to non-public schools.

2. Enrollment of Displaced Students – Emergency Impact Aid

LEAs

Compliance Requirement - Before making a quarterly payment to an account established for a displaced student enrolled in a non-public school, the LEA shall verify with the parent or guardian that the student is, or was, enrolled in the non-public school for the quarter (HERA, Section 107(e)(2)).

Audit Objective – Determine whether the LEA has performed the enrollment verification prior to making quarterly disbursements to accounts.

Suggested Audit Procedures

- a. Review and the procedures used by the LEA to accomplish the enrollment verification.
- b. Perform testing of selected quarterly payments to accounts established for displaced students to determine that enrollment verifications were performed.

3. Documentation of Enrollment Status – Emergency Impact Aid

LEAs and BIA-Funded Schools

Compliance Requirement - LEAs and BIA-funded schools are required to keep records to show compliance with program requirements (34 CFR section 76.731). Therefore LEAs must document that, on August 22, 2005, each such reported displaced student was enrolled, or eligible to be enrolled, in a public or non-public school within the disaster areas covered by the declarations for Hurricane Katrina or Hurricane Rita and resided in that area on that date. Examples of such documentation include, but are not limited to, the following kinds of documentation that establish the displaced student's residence in the disaster area on August 22, 2005: a transcript from the student's former school; a student registration form

with a former address; verification of enrollment from an SEA; a utility bill; or a copy of a parent's driver's license.

For a list of states and counties from which displaced students are eligible, see <http://www.ifap.ed.gov/eannouncements/katrinaDA.html>

An LEA with an eligible displaced student may identify that student as a student with a disability by determining the student's eligibility for services under the IDEA. This could be done either by the LEA conducting its own evaluation and determining the student's eligibility or obtaining evidence, such as the most recent IDEA eligibility determination for the student or the student's last individualized education program (IEP), as defined in Section 614(d)(2) of the IDEA (20 USC 1414(d)(2)), that the former school or LEA had used to determine the student to be eligible under the IDEA. Any funds received by an LEA on behalf of a displaced student with a disability must be used for special education and related services consistent with the IDEA (HERA, Section 107(e)(4)).

Disbursements are to be based on the number of displaced students reported by each LEA and BIA-funded school per quarter, with 25 percent of the authorized annual payment paid each quarter (HERA Section 107 (d)(2)).

Audit Objective - Determine whether displaced students reported in the quarterly reports were properly counted, and that students reported as with disabilities, were properly categorized as without or with disabilities.

Suggested Audit Procedures

LEAs and BIA-Funded Schools

- a. Review how the LEA/BIA-funded school compiles the numbers of displaced students and categories (with or without disabilities) reported in the quarterly reports to the SEA.
- b. Perform tests of quarterly reports by selecting students included in reported counts to determine that records support that they were displaced students, attended on the applicable count date, and were correctly categorized as being without or with disabilities.

4. Prohibition on Using Funds for Section 8003 Impact Aid Students – Emergency Impact Aid

Compliance Requirement – An LEA cannot include displaced students who generate Emergency Impact Aid payments in its annual Section 8003 Impact Aid application (Section 107(i) of HERA). (See also III.L.3 above and CFDA 84.041)

Audit Objective – Determine if the LEA included displaced students in its application for Emergency Impact Aid funds and in its application for Section 8003 Impact Aid.

Suggested Audit Procedures

- a. Compare supporting documentation for the Section 8003 Impact Aid application with the supporting documentation for the displaced students covered under the Emergency Impact Aid program.
- b. Ascertain that students are not included under both programs.

IV. OTHER INFORMATION

As part of audit planning, the auditor must determine for which of the eight programs grant funds were awarded to the auditee. Some auditees have received grants under two or more of the eight programs. As indicated above, compliance requirements vary among the programs. To help distinguish the individual programs, separate alpha suffixes were added to CFDA 84.938 to distinguish the programs as follows:

- Restart (CFDA 84.938A)
- Homeless Youth (CFDA 84.938B)
- Emergency Impact Aid (CFDA 84.938C)
- Emergency Assistance for Higher Education to the Louisiana Board of Regents (CFDA 84.938D)
- Payments to Institutions of Higher Education to Defray Unexpected Expenses of Displaced Students (CFDA 84.938E)
- Assistance for Higher Education to the Mississippi Institutes of Higher Learning (CFDA 84.938F)
- Higher Education Recovery Awards (CFDA 84.938H)
- Hurricane Educator Assistance Program (CFDA 84.938K)

Where these suffixes are not clearly identified, the auditor will need to determine which program funds were expended through review of grant documents and inquiry of the auditee or grant/subgrant source agency.

For purposes of Major Program Determination, the Schedule of Expenditures of Federal Awards and the Single Audit Data Information Form (Form SF-SAC), if the auditee has received funds under more than one of these eight programs, the combined total of grants expended under the applicable programs should be considered and reported as one Federal program under CFDA 84.938.

Appendix 8.D. CLUSTERS OF PROGRAMS - PART 5, COMPLIANCE SUPPLEMENT

INTRODUCTION

Part 5 of the Compliance Supplement identifies those programs that are considered to be clusters of programs as defined by OMB Circular A-133 (§____.105). A cluster of programs means Federal programs with different CFDA numbers that are defined as a cluster of programs because they are closely related programs that share common compliance requirements. This part of the Compliance Supplement identifies research and development (R&D) and Student Financial Assistance (SFA) as clusters, as well as certain other programs included in Part 4, Agency Program Requirements that are deemed to be clusters. For R&D and SFA, the following sections of this Part are the equivalent of Part 4. These 2 programs should not be relevant to school districts.

This Part also defines other clusters of programs that are **not** included in the Compliance Supplement. If a cluster is defined in this Part, but not included in Part 4 of the Compliance Supplement, the auditor will have to determine the compliance requirements to test in accordance with Part 7 of the Compliance Supplement, Guidance for Auditing Programs Not Included in This Compliance Supplement.

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2 of the Compliance Supplement, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 of the Compliance Supplement are applicable and then look to Parts 3 and 5 of the Compliance Supplement for the details of the requirements. The descriptions of the compliance requirements in Parts 3 and 5 of the Compliance Supplement are generally a summary of the actual compliance requirements. The auditor should refer to the referenced citations (e.g., laws and regulations) for the complete compliance requirements.

Common School District Programs Included in the Compliance Supplement Deemed to Be Other Clusters

<u>Agency</u>	<u>CFDA No.</u>	<u>Name of Other Cluster/Program</u>
		Child Nutrition Cluster
USDA	10.553	School Breakfast Program (SBP)
	10.555	National School Lunch Program (NSLP)
	10.556	Special Milk Program for Children (SMP)
	10.559	Summer Food Service Program for Children (SFSPC)
		Special Education Cluster (IDEA)
ED	84.027	Special Education--Grants to States (IDEA, Part B)
	84.173	Special Education--Preschool Grants (IDEA Preschool)

Appendix 8.E. INTERNAL CONTROL - PART 6, COMPLIANCE SUPPLEMENT

INTRODUCTION

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. OMB Circular A-133 requires auditors to obtain an understanding of the non-Federal entity's internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs, plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program, and, unless internal control is likely to be ineffective, perform testing of internal control as planned.

This Part 6 is intended to assist non-Federal entities and their auditors in complying with these requirements by describing, for each type of compliance requirement, the objectives of internal control, and certain characteristics of internal control that, when present and operating effectively, may ensure compliance with program requirements. However, the categorizations reflected in this Part 6 may not necessarily reflect how an entity considers and implements internal control. Also, this part is not a checklist of required internal control characteristics. Non-Federal entities could have adequate internal control even though some or all of the characteristics included in Part 6 are not present. Further, non-Federal entities could have other appropriate internal controls operating effectively that have not been included in this Part 6. Non-Federal entities and their auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements.

The objectives of internal control pertaining to the compliance requirements for Federal programs (Internal Control Over Federal Programs), as found in §____.105 of OMB Circular A-133, are as follows:

- (1) Transactions are properly recorded and accounted for to:
 - (i) Permit the preparation of reliable financial statements and Federal reports;
 - (ii) Maintain accountability over assets; and
 - (iii) Demonstrate compliance with laws, regulations, and other compliance requirements;
- (2) Transactions are executed in compliance with:

- (i) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and
- (ii) Any other laws and regulations that are identified in the compliance supplements; and
- (3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control-Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements. COSO also has published *Guidance on Monitoring Internal Control Systems* (January 2009), which is available at www.coso.org/GuidanceonMonitoring.htm. Statement on Auditing Standards No. 78 (SAS 78), *Consideration of Internal Control in a Financial Statement Audit*, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) and a related AICPA audit guide, *Consideration of Internal Control in a Financial Statement Audit*, incorporate the components of internal control presented in the COSO Report.

This Part 6 describes characteristics of internal control relating to each of the five components of internal control that should reasonably assure compliance with the requirements of Federal laws, regulations, and program compliance requirements. A description of the components of internal control and examples of characteristics common to the 14 types of compliance requirements are listed below. Objectives of internal control and examples of characteristics specific to each of 13 of the 14 types of compliance requirements follow this introduction. (Because Special Tests and Provisions are unique for each program, we could not provide specific control objectives and characteristics for this type of compliance requirement.)

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.

- Sense of conducting operations ethically, as evidenced by a code of conduct or other verbal or written directive.
- If there is a governing Board, the Board has established an Audit Committee or equivalent that is responsible for engaging the auditor, receiving all reports and communications from the auditor, and ensuring that audit findings and recommendations are adequately addressed.
- Management's positive responsiveness to prior questioned costs and control recommendation.
- Management's respect for and adherence to program compliance requirements.
- Key managers' responsibilities clearly defined.

- Key managers have adequate knowledge and experience to discharge their responsibilities.
- Staff knowledgeable about compliance requirements and being given responsibility to communicate all instances of noncompliance to management.
- Management's commitment to competence ensures that staff receive adequate training to perform their duties.
- Management's support of adequate information and reporting system.

Risk Assessment is the entity's identification and analysis of risks relevant to achievement of its objectives, forming a basis for determining how the risks should be managed.

- Program managers and staff understand and have identified key compliance objectives.
- Organizational structure provides identification of risks of noncompliance:
 - Key managers have been given responsibility to identify and communicate changes.
 - Employees who require close supervision (e.g. inexperienced) are identified.
 - Management has identified and assessed complex operations, programs, or projects.
 - Management is aware of results of monitoring, audits, and reviews and considers related risk of noncompliance.
- Process established to implement changes in program objectives and procedures.

Control Activities are the policies and procedures that help ensure that management's directives are carried out.

- Operating policies and procedures clearly written and communicated.
- Procedures in place to implement changes in laws, regulations, guidance, and funding agreements affecting Federal awards.
- Management prohibition against intervention or overriding established controls.
- Adequate segregation of duties provided between performance, review, and recordkeeping of a task.
- Computer and program controls should include:
 - Data entry controls, e.g., edit checks.
 - Exception reporting.
 - Access controls.
 - Reviews of input and output data.
 - Computer general controls and security controls.
- Supervision of employees commensurate with their level of competence.
- Personnel with adequate knowledge and experience to discharge responsibilities.
- Equipment, inventories, cash, and other assets secured physically and periodically counted and compared to recorded amounts.

- If there is a governing Board, the Board conducts regular meetings where financial information is reviewed and the results of program activities and accomplishments are discussed. Written documentation is maintained of the matters addressed at such meetings.

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.

- Accounting system provides for separate identification of Federal and non-Federal transactions and allocation of transactions applicable to both.
- Adequate source documentation exists to support amounts and items reported.
- Recordkeeping system is established to ensure that accounting records and documentation retained for the time period required by applicable requirements; such as the A-102 Common Rule (§____.42), OMB Circular A-110 (2 CFR 215.53), and the provisions of laws, regulations, contracts or grant agreements applicable to the program.
- Reports provided timely to managers for review and appropriate action.
- Accurate information is accessible to those who need it.
- Reconciliations and reviews ensure accuracy of reports.
- Established internal and external communication channels.
 - Staff meetings.
 - Bulletin boards.
 - Memos, circulation files, e-mail.
 - Surveys, suggestion box.
- Employees' duties and control responsibilities effectively communicated.
- Channels of communication for people to report suspected improprieties established.
- Actions taken as a result of communications received.
- Established channels of communication between the pass-through entity and subrecipients.

Monitoring is a process that assesses the quality of internal control performance over time.

- Ongoing monitoring built-in through independent reconciliations, staff meeting feedback, rotating staff, supervisory review, and management review of reports.
- Periodic site visits performed at decentralized locations (including subrecipients) and checks performed to determine whether procedures are being followed as intended.
- Follow up on irregularities and deficiencies to determine the cause.
- Internal quality control reviews performed.
- Management meets with program monitors, auditors, and reviewers to evaluate the condition of the program and controls.
- Internal audit routinely tests for compliance with Federal requirements.

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A. ACTIVITIES ALLOWED OR UNALLOWED and B. ALLOWABLE COSTS/COST PRINCIPLES

Control Objectives

To provide reasonable assurance that Federal awards are expended only for allowable activities and that the costs of goods and services charged to Federal awards are allowable and in accordance with the applicable cost principles.

Control Environment

- Management sets reasonable budgets for Federal and non-Federal programs so that no incentive exists to miscode expenditures.
- Management enforces appropriate penalties for misappropriation or misuse of funds.
- Organization-wide cognizance of need for separate identification of allowable Federal costs.
- Management provides personnel approving and pre-auditing expenditures with a list of allowable and unallowable expenditures.

Risk Assessment

- Process for assessing risks resulting from changes to cost accounting systems.
- Key manager has a sufficient understanding of staff, processes, and controls to identify where unallowable activities or costs could be charged to a Federal program and not be detected.

Control Activities

- Accountability provided for charges and costs between Federal and non-Federal activities.
- Process in place for timely updating of procedures for changes in activities allowed and cost principles.
- Computations checked for accuracy.
- Supporting documentation compared to list of allowable and unallowable expenditures.
- Adjustments to unallowable costs made where appropriate and follow-up action taken to determine the cause.
- Adequate segregation of duties in review and authorization of costs.
- Accountability for authorization is fixed in an individual who is knowledgeable of the requirements for determining activities allowed and allowable costs.

Information and Communication

- Reports, such as a comparison of budget to actual provided to appropriate management for review on a timely basis.
- Establishment of internal and external communication channels on activities and costs allowed.
- Training programs, both formal and informal, provide knowledge and skills necessary to determine activities and costs allowed.
- Interaction between management and staff regarding questionable costs.
- Grant agreements (including referenced program laws, regulations, handbooks, etc.) and cost principles circulars available to staff responsible for determining activities allowed and allowable costs under Federal awards.

Monitoring

- Management reviews supporting documentation of allowable cost information.
- Flow of information from Federal agency to appropriate management personnel.
- Comparisons made with budget and expectations of allowable costs.
- Analytic reviews (e.g., comparison of budget to actual or prior year to current year) and audits performed.

C. CASH MANAGEMENT

Control Objectives

To provide reasonable assurance that the draw down of Federal cash is only for immediate needs, States comply with applicable Treasury agreements, and recipients limit payments to subrecipients to immediate cash needs.

Control Environment

- Appropriate assignment of responsibility for approval of cash drawdowns and payments to subrecipients.
- Budgets for drawdowns are consistent with realistic cash needs.

Risk Assessment

- Mechanisms exist to anticipate, identify, and react to routine events that affect cash needs.
- Routine assessment of adequacy of subrecipient cash needs.
- Management has identified programs that receive cash advances and is aware of cash management requirements.

Control Activities

- Cash flow statements by program are prepared to determine essential cash flow needs.
- Accounting system is capable of scheduling payments for accounts payable and requests for funds from Treasury to avoid time lapse between draw down of funds and actual disbursements of funds.
- Appropriate level of supervisory review of cash management activities.
- Written policy that provides:
 - Procedures for requesting cash advances as close as is administratively possible to actual cash outlays;
 - Monitoring of cash management activities;
 - Repayment of excess interest earnings where required.
- For State programs subject to a Treasury-State agreement, a written policy exists which includes:
 - Programs covered by the agreement;
 - Methods of funding to be used;
 - Method used to calculate interest; and
 - Procedures for determining check clearing patterns (if applicable for the funding method).

Information and Communication

- Variance reporting of expected versus actual cash disbursements of Federal awards and drawdowns of Federal funds.
- Established channel of communication between pass-through entity and subrecipients regarding cash needs.

Monitoring

- Periodic independent evaluation (e.g. by internal audit, top management) of entity cash management, budget and actual results, repayment of excess interest earnings, and Federal draw down activities.
- Subrecipients' requests for Federal funds are evaluated.
- Review of compliance with Treasury-State agreements.

D. DAVIS-BACON ACT

Control Objectives

To provide reasonable assurance that contractors and subcontractors were properly notified of the Davis-Bacon Act requirements and the required certified payrolls were submitted to the non-Federal entity.

Control Environment

- Management understands and communicates to staff, contractors, and subcontractors the requirements to pay wages in accordance with the Davis-Bacon Act.
- Management understands its responsibility for monitoring compliance.

Risk Assessment

- Mechanisms in place to identify contractors and subcontractors most at risk of non-compliance.
- Management identified how compliance will be monitored and the related risks of failure to monitor for compliance with Davis-Bacon Act.

Control Activities

- Contractors informed in the procurement documents of the requirements for prevailing wage rates.
- Contractors and subcontractors are required by contract to submit certifications and copies of payrolls.
- Contractors' and subcontractors' payrolls monitored to ensure certified payrolls are submitted.

Information and Communication

- Prevailing wage rates requirements are appropriately communicated.
- Reports provide sufficient information to determine if requirements are being met.
- Channels are established for staff to report non-compliance.

Monitoring

- Management reviews to ensure that contractors and subcontractors are properly notified of the Davis-Bacon Act requirements.
- Management reviews to ensure that certified payrolls are properly received.

E. ELIGIBILITY

Control Objectives

To provide reasonable assurance that only eligible individuals and organizations receive assistance under Federal award programs, that subawards are made only to eligible subrecipients, and that amounts provided to or on behalf of eligible individuals or groups of individuals were calculated in accordance with program requirements.

Control Environment

- Staff size and competence provides for proper making of eligibility determinations.
- Realistic caseload/performance targets established for eligibility determinations.
- Lines of authority clear for determining eligibility.
- Adequate knowledge of and access to computer system and/or database used for eligibility assessment and recording.

Risk Assessment

- Identification of risk that eligibility information prepared internally or received from external sources could be incorrect.
- Conflict-of-interest statements are maintained for individuals who determine and review eligibility.
- Process for assessing risks resulting from changes to eligibility determination systems.

Control Activities

- Written policies provide direction for making and documenting eligibility determinations.
- Procedures to calculate eligibility amounts consistent with program requirements.
- Eligibility objectives and procedures clearly communicated to employees.
- Authorized signatures (manual or electronic) on eligibility documents periodically reviewed.
- Adequate safeguards in place to ensure access to eligibility records limited (manual or electronic) to appropriate persons.
- Manual criteria checklists or automated process used in making eligibility determinations.
- Process for periodic eligibility re-determinations in accordance with program requirements.
- Verification of accuracy of information used in eligibility determinations.
- Procedures to ensure the accuracy and completeness of data used to determine eligibility requirements.

- Process in place to ensure benefits were discontinued when eligibility requirements no longer met or period of eligibility expired.

Information and Communication

- Information system meets needs of eligibility decision-makers and program management.
- Processing of eligibility information subject to edit checks and balancing procedures.
- Training programs inform employees of eligibility requirements.
- Channels of communication exist for people to report suspected eligibility improprieties.
- Management receptive to suggestions to strengthen eligibility determination process.
- Documentation of eligibility determinations in accordance with program requirements.

Monitoring

- Periodic analytical reviews of eligibility determinations performed by management.
- Monitoring by reviewers of changes in eligibility determinations to ensure that overrides in determination process are appropriate.
- Program quality control procedures performed for eligibility determination process.
- Periodic audits of detailed transactions.

F. EQUIPMENT AND REAL PROPERTY MANAGEMENT

Control Objectives

To provide reasonable assurance that proper records are maintained for equipment acquired with Federal awards, equipment is adequately safeguarded and maintained, disposition or encumbrance of any equipment or real property is in accordance with Federal requirements, and the Federal awarding agency is appropriately compensated for its share of any property sold or converted to non-Federal use.

Control Environment

- Management committed to providing proper stewardship for property acquired with Federal awards.
- No incentives exist to under-value assets at time of disposition.
- Sufficient accountability exists to discourage temptation of misuse of Federal assets.

Risk Assessment

- Procedures to identify risk of misappropriation or improper disposition of property acquired with Federal awards.
- Management understands requirements and operations sufficiently to identify potential areas of noncompliance (e.g., decentralized locations, departments with budget constraints, transfers of assets between departments).

Control Activities

- Accurate records maintained on all acquisitions and dispositions of property acquired with Federal awards.
- Property tags are placed on equipment.
- A physical inventory of equipment is periodically taken and compared to property records.
- Property records contain description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and disposition data.
- Procedures established to ensure that the Federal awarding agency is appropriately reimbursed for dispositions of property acquired with Federal awards.
- Policies and procedures in place for responsibilities of recordkeeping and authorities for disposition.

Information and Communication

- Accounting system provides for separate identification of property acquired wholly or partly with Federal funds and with non-Federal funds.
- A channel of communication exists for people to report suspected improprieties in the use or disposition of equipment.
- Program managers are provided with applicable requirements and guidelines.

Monitoring

- Management reviews the results of periodic inventories and follows up on inventory discrepancies.
- Management reviews dispositions of property to ensure appropriate valuation and reimbursement to Federal awarding agencies.

G. MATCHING, LEVEL OF EFFORT, EARMARKING

Control Objectives

To provide reasonable assurance that matching, level of effort, or earmarking requirements are met using only allowable funds or costs which are properly calculated and valued.

Control Environment

- Commitment from management to meet matching, level of effort, and earmarking requirements (e.g., adequate budget resources to meet a specified matching requirement or maintain a required level of effort).
- Budgeting process addresses/provides adequate resources to meet matching, level of effort, or earmarking goals.
- Official written policy exists outlining:
 - Responsibilities for determining required amounts or limits for matching, level of effort, or earmarking.
 - Methods of valuing matching requirements, e.g., “in-kind” contributions of property and services, calculations of levels of effort.
 - Allowable costs that may be claimed for matching, level of effort, or earmarking.
 - Methods of accounting for and documenting amounts used to calculate amounts claimed for matching, level of effort, or earmarking.

Risk Assessment

- Identification of areas where estimated values will be used for matching, level of effort, or earmarking.
- Management has sufficient understanding of the accounting system to identify potential recording problems.

Control Activities

- Evidence obtained such as a certification from the donor, or other procedures performed to identify whether matching contributions:
 - Are from non-Federal sources.
 - Involve Federal funding, directly or indirectly.
 - Were used for another federally-assisted program.

Note: Generally, matching contributions must be from a non-Federal source and may not involve Federal funding or be used for another federally assisted program.
- Adequate review of monthly cost reports and adjusting entries.

Information and Communication

- Accounting system capable of:
 - Separately accounting for data used to support matching, level of effort, or earmarking amounts or limits or calculations.
 - Ensuring that expenditures or expenses, refunds, and cash receipts or revenues are properly classified and recorded only once as to their effect on matching, level of effort, or earmarking.
 - Documenting the value of “in-kind” contributions of property or services, including:
 - Basis for local labor market rates for valuing volunteer services.
 - Payroll records or confirmation from other organizations for services provided by their employees.
 - Quotes, published prices, or independent appraisals used as the basis for donated equipment, supplies, land, buildings, or use of space.

Monitoring

- Supervisory review of matching, level of effort, or earmarking activities performed to assess the accuracy and allowability of transactions and determinations, e.g., at the time reports on Federal awards are prepared.

H. PERIOD OF AVAILABILITY OF FEDERAL FUNDS

Control Objectives

To provide reasonable assurance that Federal funds are used only during the authorized period of availability.

Control Environment

- Management understands and is committed to complying with period of availability requirements.
- Entity's operations are such that it is unlikely there will be Federal funds remaining at the end of the period of availability.

Risk Assessment

- The budgetary process considers period of availability of Federal funds as to both obligation and disbursement.
- Identification and communication of period of availability cut-off requirements as to both obligation and disbursement.

Control Activities

- Accounting system prevents obligation or expenditure of Federal funds outside of the period of availability.
- Review of disbursements by person knowledgeable of period of availability of funds.
- End of grant period cut-offs are met by such mechanisms as advising program managers of impending cut-off dates and review of expenditures just before and after cut-off date.
- Cancellation of unliquidated commitments at the end of the period of availability.

Information and Communication

- Timely communication of period of availability requirements and expenditure deadlines to individuals responsible for program expenditure, including automated notifications of pending deadlines.
- Periodic reporting of unliquidated balances to appropriate levels of management and follow up.

Monitoring

- Periodic review of expenditures before and after cut-off date to ensure compliance with period of availability requirements.

- Review by management of reports showing budget and actual for period.

I. PROCUREMENT AND SUSPENSION AND DEBARMENT

Control Objectives

To provide reasonable assurance that procurement of goods and services are made in compliance with the provisions of the A-102 Common Rule or OMB Circular A-110, as applicable, and that covered transactions (as defined in the suspension and debarment common rule) are not made with a debarred or suspended party.

Control Environment

- Existence and implementation of codes of conduct and other policies regarding acceptable practice, conflicts-of-interest, or expected standards of ethical and moral behavior for making procurements.
- Procurement manual that incorporated Federal requirements.
- Absence of pressure to meet unrealistic procurement performance targets.
- Management's prohibition against intervention or overriding established procurement controls.
- Board or governing body oversight required for high dollar, lengthy, or other sensitive procurement contracts.
- Adequate knowledge and experience of key procurement managers in light of responsibilities for procurements for Federal awards.
- Clear assignment of authority for issuing purchasing orders and contracting for goods and services.

Risk Assessment

- Procedures to identify risks arising from vendor inadequacy, e.g., quality of goods and services, delivery schedules, warranty assurances, user support.
- Procedures established to identify risks arising from conflicts-of-interest, e.g., kickbacks, related party transactions, bribery.
- Management understands the requirements for procurement and suspension and debarment, and, given the organization's staff, departments, and processes, has identified where noncompliance could likely occur.
- Conflict-of-interest statements are maintained for individuals with responsibility for procurement of goods or services.

Control Activities

- Job descriptions or other means of defining tasks that comprise particular procurement jobs.
- Contractor's performance with the terms, conditions, and specifications of the contract is monitored and documented.
- Establish segregation of duties between employees responsible for contracting and accounts payable and cash disbursing.
- Procurement actions appropriately documented in the procurement files.

- Supervisors review procurement and contracting decisions for compliance with Federal procurement policies.
- Procedures established to verify that vendors providing goods and services under the award have not been suspended or debarred by the Federal Government.
- Official written policy for procurement and contracts establishing:
 - Contract files that document significant procurement history.
 - Methods of procurement, authorized including selection of contract type, contractor selection or rejection, and the basis of contract price.
 - Verification that procurements provide full and open competition.
 - Requirements for cost or price analysis, including for contract modifications.
 - Obtaining and reacting to suspension and debarment certifications.
 - Other applicable requirements for procurements under Federal awards are followed.
- Official written policy for suspension and debarment that:
 - Contains or references the Federal requirements;
 - Prohibits the award of a subaward, covered contract, or any other covered agreement for program administration, goods, services, or any other program purpose with any suspended or debarred party; and
 - Requires staff to determine that entities receiving subawards of any value and procurement contracts equal to or exceeding \$25,000 and their principals are not suspended or debarred, and specifies the means that will be used to make that determination, i.e., checking the *Excluded Parties Listing System* (EPLS), which is maintained by the General Services Administration; obtaining a certification; or inserting a clause in the agreement.

Information and Communication

- A system in place to assure that procurement documentation is retained for the time period required by the A-102 Common Rule, OMB Circular A-110, (2 CFR part 215), award agreements, contracts, and program regulations.
Documentation includes:
 - The basis for contractor selection;
 - Justification for lack of competition when competitive bids or offers are not obtained; and
 - The basis for award cost or price.
- Employees' procurement duties and control responsibilities are effectively communicated.
- Procurement staff are provided a current hard-copy *EPLS* or have on-line access.
- Channels of communication are provided for people to report suspected procurement and contracting improprieties.

Monitoring

- Management periodically conducts independent reviews of procurements and contracting activities to determine whether policies and procedures are being followed as intended.

J. PROGRAM INCOME

Control Objectives

To provide reasonable assurance that program income is correctly earned, recorded, and used in accordance with the program requirements.

Control Environment

- Management recognizes its responsibilities for program income.
- Management's prohibition against intervention or overriding controls over program income.
- Realistic performance targets for the generation of program income.

Risk Assessment

- Mechanisms in place to identify the risk of unrecorded or miscoded program income.
- Variances between expected and actual income analyzed.

Control Activities

- Pricing and collection policies procedures clearly communicated to personnel responsible for program income.
- Mechanism in place to ensure that program income is properly recorded as earned and deposited in the bank as collected.
- Policies and procedures provide for correct use of program income in accordance with Federal program requirements.

Information and Communication

- Information systems identify program income collections and usage.
- A channel of communication for people to report suspected improprieties in the collection or use of program income.

Monitoring

- Internal audit of program income.
- Management compares program income to budget and investigates significant differences.

K. REAL PROPERTY ACQUISITION AND RELOCATION ASSISTANCE

Control Objectives

To provide reasonable assurance of compliance with the real property acquisition, appraisal, negotiation, and relocation requirements.

Control Environment

- Management committed to ensuring compliance with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (URA).
- Written policies exist for handling relocation assistance and real property acquisition.

Risk Assessment

- Identification of risk that relocation will not be conducted in accordance with the URA, e.g., improper payments will be made to individuals or businesses that relocate.

Control Activities

- Employees handling relocation assistance and real property acquisition have been trained in the requirements of the URA.
- Review of expenditures pertaining to real property acquisition and relocation assistance by employees knowledgeable in the URA.

Information and Communication

- A system is in place to adequately document relocation assistance and real property acquisition.

Monitoring

- Management monitors relocation assistance and real property acquisition for compliance with the URA.

L. REPORTING

Control Objectives

To provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

Control Environment

- Persons preparing, reviewing, and approving the reports possess the required knowledge, skills, and abilities.
- Management's attitude toward reporting promotes accurate and fair presentation.
- Appropriate assignment of responsibility and delegation of authority for reporting decisions.

Risk Management

- Mechanisms exist to identify risks of faulty reporting caused by such items as lack of current knowledge of, inconsistent application of, or carelessness or disregard for standards and reporting requirements of Federal awards.
- Identification of underlying source data or analysis for performance or special reporting that may not be reliable.

Control Activities

- Written policy exists that establishes responsibility and provides the procedures for periodic monitoring, verification, and reporting of program progress and accomplishments.
- Tracking system which reminds staff when reports are due.
- The general ledger or other reliable records are the basis for the reports.
- Supervisory review of reports performed to assure accuracy and completeness of data and information included in the reports.
- The required accounting method is used (e.g., cash or accrual).

Information and Communication

- An accounting or information system that provides for the reliable processing of financial and performance information for Federal awards.

Monitoring

- F

M. SUBRECIPIENT MONITORING

Control Objectives

To provide reasonable assurance that Federal award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient noncompliance on the pass-through entity is evaluated. Also, the pass-through entity should perform procedures to provide reasonable assurance that the subrecipient obtained required audits and takes appropriate corrective action on audit findings.

Control Environment

- Establishment of “tone at the top” of management’s commitment to monitoring subrecipients.
- Management’s intolerance of overriding established procedures to monitor subrecipients.
- Entity’s organizational structure and its ability to provide the necessary information flow to monitor subrecipients are adequate.
- Sufficient resources dedicated to subrecipient monitoring.
- Knowledge, skills, and abilities needed to accomplish subrecipient monitoring tasks defined.
- Individuals performing subrecipient monitoring possess knowledge, skills, and abilities required.
- Subrecipients demonstrate that:
 - They are willing and able to comply with the requirements of the award, and
 - They have accounting systems, including the use of applicable cost principles, and internal control systems adequate to administer the award.
- Appropriate sanctions taken for subrecipient noncompliance.

Risk Assessment

- Key managers understand the subrecipient’s environment, systems, and controls sufficient to identify the level and methods of monitoring required.
- Mechanisms exist to identify risks arising from external sources affecting subrecipients, such as risks related to:
 - Economic conditions.
 - Political conditions.
 - Regulatory changes.
 - Unreliable information.
- Mechanisms exist to identify and react to changes in subrecipients, such as:
 - Financial problems that could lead to diversion of grant funds.
 - Loss of essential personnel.
 - Loss of license or accreditation to operate program.
 - Rapid growth.

- New activities, products, or services.
- Organizational restructuring.

Control Activities

- Identify to subrecipients the Federal award information (e.g., CFDA title and number, award name, name of Federal agency, amount of award) and applicable compliance requirements.
- Include in agreements with subrecipients the requirement to comply with the compliance requirements applicable to the Federal program, including the audit requirements of OMB Circular A-133.
- Subrecipients' compliance with audit requirements monitored using techniques such as the following:
 - Determining by inquiry and discussions whether subrecipient met thresholds requiring an audit under OMB Circular A-133.
 - If an audit is required, assuring that the subrecipient submits the report, report package or the documents required by OMB circulars and/or recipient's requirements.
 - If a subrecipient was required to obtain an audit in accordance with OMB Circular A-133 but did not do so, following up with the subrecipient until the audit is completed. Taking appropriate actions such as withholding further funding until the subrecipient meets the audit requirements.
- Subrecipient's compliance with Federal program requirements monitored using such techniques as the following:
 - Issuing timely management decisions for audit and monitoring findings to inform the subrecipient whether the corrective action planned is acceptable.
 - Maintain a system to track and following-up on reported deficiencies related to programs funded by the recipient and ensure that timely corrective action is taken.
 - Regular contacts with subrecipients and appropriate inquiries concerning the Federal program
 - Reviewing subrecipient reports and following-up on areas of concern.
 - Monitoring subrecipient budgets.
 - Performing site visits to subrecipient to review financial and programmatic records and observe operations.
 - Offering subrecipients technical assistance where needed.
- Official written policies and procedures exist establishing:
 - Communication of Federal award requirements to subrecipients.
 - Responsibilities for monitoring subrecipients.
 - Process and procedures for monitoring.
 - Methodology for resolving findings of subrecipient noncompliance or weaknesses in internal control.
 - Requirements for and processing of subrecipient audits, including appropriate adjustment of pass-through entity's accounts.

Information and Communication

- Standard award documents used by the non-Federal entity contain:
 - A listing of Federal requirements that the subrecipient must follow. Items can be specifically listed in the award document, attached as an exhibit to the document, or incorporated by reference to specific criteria.
 - The description and program number for each program as stated in the CFDA. If the program funds include pass-through funds from another recipient, the pass-through program information should also be identified.
 - A statement signed by an official of the subrecipient, stating that the subrecipient was informed of, understands, and agrees to comply with the applicable compliance requirements.
- A recordkeeping system is in place to assure that documentation is retained for the time period required by the recipient.
- Procedures are in place to provide channels for subrecipients to communicate concerns to the pass-through entity.

Monitoring

- Establish a tracking system to assure timely submission of required reporting, such as: financial reports, performance reports, audit reports, onsite monitoring reviews of subrecipients, and timely resolution of audit findings.
- Supervisory reviews performed to determine the adequacy of subrecipient monitoring.

Appendix 8.F. GUIDANCE FOR AUDITING PROGRAMS NOT INCLUDED IN PART 7, COMPLIANCE SUPPLEMENT

Purpose - OMB Circular A-133 (§___.500(d)(3)) states that for those Federal programs not covered in the compliance supplement, the auditor should use the types of compliance requirements (see 14 types of compliance requirements described in Part 3) contained in the compliance supplement (this Supplement) as guidance for identifying the types of compliance requirements to test, and determine the requirements governing the Federal program by reviewing the provisions of contract and grant agreements and the laws and regulations referred in such contract and grant agreements.

The purpose of this Part is to provide the auditor with guidance on how to identify the applicable compliance requirements for programs not included in this Supplement for single audits and for program-specific audits when a program-specific audit guide is not available. This Supplement includes only the largest and/or riskiest Federal programs. However, there are more than 600 assistance programs currently funded by the Federal Government. Therefore, it is likely that the auditor will encounter programs that the auditor is required to test as major programs that are not included in the Compliance Supplement. For this reason, the following guidance is provided for the auditor to identify those compliance requirements that should be tested.

Organization of this Supplement - First, a review of how the Supplement is organized will be helpful, since the auditor must consider several parts of the Supplement in identifying compliance requirements to be tested. The Supplement is comprised of the following parts:

- Part 1 - Background, Purpose, and Applicability
- Part 2 - Matrix of Compliance Requirements
- Part 3 - Compliance Requirements
- Part 4 - Agency Program Requirements
- Part 5 - Clusters of Programs
- Part 6 - Internal Control
- Part 7 - Guidance for Auditing Programs Not Included in This Compliance Supplement

In determining the compliance requirements to test for programs not included in the Supplement, the auditor shall refer to Parts 3 and 5. Part 3 identifies and describes the 14 types of compliance requirements where noncompliance may have a direct and material effect on a Federal program and provides audit objectives and suggested audit procedures. The 14 types of compliance requirements are:

- A. Activities Allowed or Unallowed
- B. Allowable Costs/Cost Principles
- C. Cash Management
- D. Davis-Bacon Act
- E. Eligibility

- F. Equipment and Real Property Management
- G. Matching, Level of Effort, Earmarking
- H. Period of Availability of Federal Funds
- I. Procurement and Suspension and Debarment
- J. Program Income
- K. Real Property Acquisition and Relocation Assistance
- L. Reporting
- M. Subrecipient Monitoring
- N. Special Tests and Provisions

Part 5 enumerates those programs that are considered to be clusters of programs as defined by OMB Circular A-133 (§___.105). A cluster of programs means Federal programs with different *Catalog of Federal Domestic Assistance* (CFDA) numbers that are defined as a cluster of programs because they are closely related programs and share compliance requirements. Part 5 identifies research and development (R&D) and Student Financial Assistance (SFA) as clusters, as well as certain other clusters. Also, Part 5 identifies other clusters of programs that are not included in the Supplement.

For programs not included in the Compliance Supplement, the auditor must determine the applicable compliance requirements. While a Federal program may have many compliance requirements, normally there are only a few key compliance requirements that could have a direct and material effect on the program. Since the single audit process is not intended to cover every compliance requirement, the Supplement and the auditor's focus should be on the 14 types of compliance requirements enumerated in Part 3. The following are suggested procedures to assist the auditor in making this determination.

Although the focus of the Supplement is on compliance requirements that could have a direct and material effect on a major program, auditors also have responsibility under *Generally Accepted Government Auditing Standards* (GAGAS) for other requirements when specific information comes to the auditors' attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on a major program.

Steps for Identifying Compliance Requirements

Determining what compliance requirements to test involves several steps. The auditor should address the following questions:

1. What are the program objectives, program procedures, and compliance requirements for a specific program?
2. Which of the compliance requirements could have a direct and material effect on the program?
3. Which of the compliance requirements are susceptible to testing by the auditor?
4. Into which of the 14 types of compliance requirements does each compliance requirement fall?

5. For Special Tests and Provisions, what are the applicable audit objectives and audit procedures?

1. What are the program objectives, program procedures, and compliance requirements for a specific program?

The first step is to gain an understanding of how the program works (e.g., the program objectives and procedures) and determine what laws, regulations, and provisions of contract or grant agreements (compliance requirements) apply to the program. The auditor should consider the following steps:

- a. Discuss the program with the non-Federal entity and, if necessary, the Federal agency or, in the case of a subrecipient, the pass-through entity.
- b. Review the contract and grant agreements and referenced laws and regulations applicable to the program, including any amendments or closeout agreements. The documents or agreements may identify the name and telephone number of a Federal contact person or, if a subaward, the contact person for the pass-through entity whom the auditor may wish to contact for additional information.

Note: The auditor should be aware that a particular non-Federal entity or Federal award may be subject to provisions that are unique to that entity or award. For example, previous noncompliance by a non-Federal entity may result in additional requirements to which the non-Federal entity must adhere, in order to continue its participation in the Federal program. Such provisions would generally not be based on laws and regulations applicable to all awards under the Federal program. Reasonable procedures to identify such compliance requirements would be inquiry of non-Federal entity management and review of the contract and grant agreements pertaining to the program. Any such requirements identified which could have a direct and material effect on a major program should be included in the audit.

- c. Review the CFDA. The CFDA provides summary information about each program and includes the name and telephone number of a Federal contact person. A searchable copy of the CFDA is available through the Internet at <http://www.cfda.gov>.
- d. If there is a program-specific audit guide or other audit guidance issued by the Federal agency's Office of the Inspector General (OIG), the auditor may wish to consider this guidance in identifying the program objectives, program procedures, and compliance requirements. The availability of program audit guides can be determined by contacting the appropriate Regional OIG.
- e. Consider other audit guidance, including previously issued guidance, pertaining to the program that has continuing relevance.

2. *Which of the compliance requirements could have a direct and material effect on the program?*

Generally Accepted Government Auditing Standards require that the auditor plan the audit to provide reasonable assurance that the financial statements are free of material misstatement resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts. OMB Circular A-133 requires the auditor to perform procedures to determine whether the non-Federal entity has complied with laws, regulations, and the provisions of contract or grant agreements that could have a direct and material effect on each major program. Therefore, the auditor must determine which compliance requirements could have a direct and material effect on each major program.

In assessing materiality, the auditor should consider that materiality is based on qualitative as well as quantitative aspects. Also, the auditor should consider whether to set materiality at lower levels in audits of Federal programs than private sector audits of financial statements due to the visibility and sensitivity of such programs. Examples of characteristics indicative of compliance requirements that could have a direct and material effect on a major program include:

- Noncompliance could likely result in questioned costs.
- The requirement affects a large part of the Federal program (e.g., a material amount of program dollars).
- Noncompliance could cause the Federal agency, or pass-through entity, in the case of a subrecipient, to take action, such as seeking reimbursement of all or a part of the award and suspending the recipient's or subrecipient's participation in the program.

3. *Which of the compliance requirements are susceptible to testing by the auditor?*

The auditor is only expected to test compliance for those requirements that are susceptible to testing by the auditor (i.e., the requirements can be evaluated against objective criteria, and the auditor can reasonably be expected to have sufficient basis for recognizing noncompliance). Further, the auditor would not be expected to test for compliance with requirements that the Federal agency should have the ability to verify in the normal course of administering the program (e.g., if the requirement is that the non-Federal entity must file a report by a certain date, the Federal agency should know whether it received the report on time).

Characteristics of compliance requirements that auditors are typically expected to test include those:

- That are practical to test.
- With objective criteria available for the auditor to assess compliance.

- Where an audit objective can be written that supports an opinion on compliance.
- When testing adds value, for example:
 - It is likely that the auditor could document the noncompliance in a manner that (1) permits the Federal or pass-through entity to take action, or (2) gives the Federal or pass-through entity an early warning to initiate a monitoring visit or other contact with the non-Federal entity.
 - The Federal or pass-through entity does not otherwise have information that verifies compliance.

4. *Into which of the 14 types of compliance requirements does each compliance requirement fall?*

Note: In performing this step, the auditor may find it helpful to prepare a matrix similar to the matrix included in Part 2 for programs included in the Supplement.

The auditor shall use the 14 types of compliance requirements listed for identifying which requirements applicable to the program are subject to testing. Not all compliance requirements apply to all programs. Conversely, certain types almost always apply.

- A. **Activities Allowed or Unallowed** almost always applies to Federal programs. The auditor should look at the program requirements and Federal award documents for what constitutes allowable or unallowable activities.
- B. **Allowable Costs/Cost Principles** almost always applies since most Federal programs have charges for goods or services. However, if a program only involves benefits to eligible recipients, with no administrative costs, purchases of goods or services (including salaries and overhead), or allocated costs, then allowable costs may not apply.
- C. **Cash Management** almost always applies to Federal programs. An exception would be a Federal award that operates on a cost reimbursement basis only with no cash being advanced.
- D. **Davis-Bacon Act** only applies as required by the Act itself, the Department of Labor's (DOL) governmentwide implementation of the Davis-Bacon Act, or by Federal program legislation, for construction contracts in excess of \$2000 financed by Federal funds. The auditor should review award documents to determine whether the Davis-Bacon Act applies.

- E. **Eligibility** applies to most Federal programs which provide benefits to individuals, groups of individuals, or make subawards. For programs with eligibility requirements, the auditor should review the program laws, regulations, and provisions of contract or grant agreements to determine the specific eligibility requirements. Eligibility involves not only individuals but also possibly groups of individuals, geographical areas, or subrecipients. Additionally, the auditor should consider whether continuing, as well as initial, eligibility requirements apply. Furthermore, eligibility involves both who is eligible and the amount of benefits provided to the eligible.
- F. **Equipment and Real Property Management** requirements apply to Federal programs which purchase equipment or real property.
- G. **Matching, Level of Effort, Earmarking** is not universal, and, if applicable, would be specific to the Federal program and often the non-Federal entity. Therefore, the auditor will have to review the laws, regulations, contract or grant agreements applicable to the program to determine specific requirements for matching, level of effort, and/or earmarking.
- H. **Period of Availability of Federal Funds** almost always applies to Federal programs. The contract or grant agreement applicable to the program often indicates the period during which the funds are available for obligation under the program. The auditor should also look for program requirements regarding carry-over of unused funds to future funding periods, and whether pre-award costs are allowable, to what extent, and under what circumstances.
- I. **Procurement and Suspension and Debarment** applies, in the case of procurement, any time the entity procures goods or services. Suspension and debarment applies to certain procurements and to all subawards.
- J. **Program Income** applies to any program that generates program income (primarily related to the disposition of the income). Program regulations or the contract or grant agreements applicable to the program may specify additional criteria.
- K. **Real Property Acquisition and Relocation Assistance** only applies as required by the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (URA) for payments to persons displaced from their homes, businesses, or farms by federally-assisted programs. While this requirement only applies to a few programs, when it does apply, it is generally a significant aspect of the program. For example, the U.S. Department of Transportation (DOT) funds many programs to construct highways in which real property acquisition and relocation assistance is a significant part of the program activities. The U.S. Department of Housing

and Urban Development has the most transactions subject to the URA and DOT has the most Federal dollars affected.

- L. **Reporting** almost always applies to Federal programs. The standard financial reports are described in Part 3; however, the Federal agency or the pass-through entity may have developed its own forms for financial reporting. These forms may be in addition to or in lieu of the standard Federal financial reports and may include electronic submissions. The auditor should determine whether the standard reports are used, and if not, whether other forms are used to report the same or similar information. Information collections (which, as defined in 5 CFR section 1320.3(c), involves 10 or more respondents) by Federal agencies must be approved by OMB in accordance with the Paperwork Reduction Act of 1995 (44 USC 3501-3520) and assigned an OMB control number. A Federal agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a valid control number.
- For performance reporting and special reporting, if there is a program in this Supplement funded by the same Federal agency that requires the same performance or special reporting required by the program for which the auditor is seeking to identify compliance requirements, and this Supplement requires testing of those data, then the auditor should use such guidance in identifying compliance requirements to test. Otherwise, the auditor is only required to test financial reporting.
- M. **Subrecipient Monitoring** applies when Federal awards are passed through to a subrecipient. If the entity is not a pass-through entity, this requirement does not apply.
- N. **Special Tests and Provisions** includes those compliance requirements that do not fit the description of the types of compliance requirements discussed above. These will generally be the most difficult type of compliance requirement to identify because, by definition, they are unique to each program. In addition to reviewing the program's contract and grant agreements and referenced laws and regulations, the auditor should also make inquiries of the non-Federal entity to help identify and understand Special Tests and Provisions.

For each of the types of compliance requirements listed above, except for Special Tests and Provisions, the auditor shall consider the compliance requirements and related audit objectives in Part 3. In making a determination not to test a compliance requirement, the auditor must conclude that the requirement either does not apply to the particular non-Federal entity or that noncompliance with the requirement could not have a material effect on a major program (e.g., the auditor would not be expected to test Procurement if the non-Federal entity charges only small amounts of purchases to a major program). The suggested audit procedures

in Part 3 are provided to assist auditors in planning and performing tests of non-Federal entity compliance with the requirements of Federal programs. Auditor judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objective and whether additional or alternative audit procedures are needed.

Internal Control - Consistent with the requirements of OMB Circular A-133, Part 3 includes audit objectives and suggested audit procedures to test internal control. However, the auditor must determine the specific procedures to test internal control on a case by case basis considering factors such as the non-Federal entity's internal control, the compliance requirements, the audit objectives for compliance, the auditor's assessment of control risk, and the audit requirement to test internal control as prescribed in OMB Circular A-133.

5. *For Special Tests and Provisions, what are the applicable audit objectives and audit procedures?*

For each of the types of compliance requirements discussed above, Part 3 of the Compliance Supplement includes audit objectives and suggested audit procedures, except for Special Tests and Provisions. As noted above, Special Tests and Provisions are sufficiently unique to every program that including audit objectives and suggested audit procedures is not practicable. Therefore, the auditor will have to develop audit objectives and audit procedures for each identified Special Test and Provision using the guidance described in Part 3 of the Compliance Supplement under Special Tests and Provisions.

Appendix 8.G. - General/Special Revenue/Enterprise Fund Federally-Funded Programs or Revenues and Child Nutrition Programs

Some programs that are funded fully or in-part by federal monies may still be accounted for through the General Fund. Many of these revenues, such as impact aid and indirect costs, are intended for general use for any legal purpose and there is no need to relate expenditures specifically to revenue. Other revenues are credited to the General Fund as they are for reimbursement of expenditures made from the fund. An example is a grant wherein a federal or state agency reimburses a school district for expenditures made on the basis of an application or contractual agreement; these types of reimbursements are usually made on an after-the-fact basis. It is to be noted that the auditor is required to identify in the notes to the financial statements those federal revenues credited to the General Fund. Disclosures of noncompliance are to be made in the auditor's report.

Appendix 8.G.1. UNITED STATES DEPARTMENT OF AGRICULTURE

CFDA 10.553	SCHOOL BREAKFAST PROGRAM (SBP)
CFDA 10.555	NATIONAL SCHOOL LUNCH PROGRAM (NSLP)
CFDA 10.556	SPECIAL MILK PROGRAM FOR CHILDREN (SMP)
CFDA 10.559	SUMMER FOOD SERVICE PROGRAM FOR CHILDREN (SFSPC)

I. PROGRAM OBJECTIVES

The objectives of the child nutrition cluster programs are to: (1) assist States in administering food services that provide healthful, nutritious meals to eligible children in public and non-profit private schools, residential child care institutions, and summer recreation programs; and (2) encourage the domestic consumption of nutritious agricultural commodities.

II. PROGRAM PROCEDURES

General Overview

At the Federal level, these programs are administered by the Food and Nutrition Service (FNS) of the U.S. Department of Agriculture (USDA). FNS generally administers these programs through grants to State agencies. Each State agency, in turn, enters into agreements with subrecipient organizations for local level program operation and the delivery of program benefits and services to eligible children. The types of organizations

that receive subgrants under each program are described below under “Program Descriptions.” In cases where a State agency is not permitted or is not available to administer the program(s), they are administered directly by FNS regional offices. The regional offices then perform the administrative functions for local program operators that are normally performed by a State agency (7 CFR sections 210.3, 215.3, 220.3, and 225.3). For purposes of this discussion, State agencies and FNS regional offices are referred to collectively as “administering agencies.”

In Texas, the Texas Department of Agriculture is the State Authority over this program.

Under 7 CFR part 250 (General Regulations and Policies - Food Distribution), USDA makes donated agricultural commodities available for use in the operation of all child nutrition programs except the SMP. FNS enters into agreements with State distributing agencies for the distribution of USDA donated commodities. The State distributing agencies, in turn, enter into agreements with local program operators, which are defined collectively as “recipient agencies.” A State may designate a recipient agency to perform its storage and distribution duties. A State distributing agency may engage a commercial food processor to use the commodities in the manufacture of food products, and then deliver such manufactured products to recipient agencies.

Program Descriptions

Common Characteristics

The programs in the Child Nutrition Cluster are all variants of a basic program design having the following characteristics:

- a. Local program operators provide prepared meals to children in structured settings. Four types of meal service may be authorized: breakfast, lunch, supplements (snacks), and supper. Milk service may be authorized only under the SMP. The types a particular program operator may offer are determined first by the respective program’s authorizing statute and regulations, and second by the program operator’s agreement with its administering agency.
- b. While all children in attendance are entitled to receive these program benefits, children whose households meet stated income eligibility criteria generally receive their meals (or milk, where applicable) free or at a reduced price. With certain exceptions, children not eligible for free or reduced price meals or free milk must pay the full prices set by the program operator for these items. A program meal must be priced as a unit. There are two systems of charging for program meals: “pricing” and “nonpricing” programs. In a pricing program, children who do not qualify for free meals pay a separate fee for their meals. The fee may be collected at the point of service; through a separate daily, weekly, or monthly meal

charge or meal ticket payment; by earmarking a portion of the child's tuition payment expressly for food service; or through an identifiable reduction from the standard tuition rate for meals provided by parents. In a nonpricing program, no separate identifiable charges are made for meals served to enrolled children. Examples of organizations that often operate nonpricing programs include juvenile detention centers, boarding schools, other residential child-care institutions, and some private schools.

- c. Federal assistance to local program operators takes the form of cash reimbursement. In addition, USDA donates food (commodities) under 7 CFR part 250 for use in preparing meals to be served under the NSLP, SBP, and SFSPC.
- d. To obtain cash and commodity assistance, a local program operator must submit monthly claims for reimbursement to its administering agency. All meals (and half-pints of milk under SMP) claimed for reimbursement must meet Federal requirements and be served to eligible children.
- e. The program operator's entitlement to reimbursement payments is generally computed by multiplying the number of meals (and/or half-pints of milk under the SMP) served by a prescribed per-unit payment rate (called a "reimbursement rate"). Different reimbursement rates are prescribed for different categories and types of service. "Type" refers to the kind of service (breakfast, lunch, milk, etc.), while "category" refers to the beneficiary's eligibility (free, reduced price, or paid). Under this formula, a local program operator's entitlement to funding from its administering agency is generally a function of the categories and types of service provided. Therefore, the child nutrition cluster programs are said to be "performance funded."

Characteristics of Individual Programs

The program-specific variants of this basic program model are outlined below.

- a. *School Nutrition Programs* (NSLP and SBP) – These programs target children enrolled in schools. For program purposes, a "school" is a public or non-profit private school of high school grade or under, or a public or licensed non-profit private residential child-care institution. At the local level, a school food authority (SFA) is the entity with which the administering agency makes an agreement for the operation of the programs. A SFA is the governing body (such as a school board) legally responsible for the operation of the NSLP and/or SBP in one or more schools. A school operated by a SFA may be approved to serve breakfast and lunch. A school participating in the NSLP that also has an afterschool care program with an educational or enrichment component may also be

approved to serve afterschool snacks. See also the description of the SMP below.

- b. *SFSPC* – The SFSPC is directed toward children in low-income areas when school is not in session. It is locally operated by approved sponsors, which may include public or private non-profit SFAs, public or private non-profit residential summer camps, or units of local, municipal, county or State governments or other private non-profit organizations that develop a special summer or other school vacation program providing food service similar to that available to children during the school year under the NSLP and SBP.

A feeding site under a sponsor's oversight may be approved to serve breakfast, lunch, snacks, and/or supper. Except for children enrolled in participating summer camps, all participating children receive their meals free. Participating summer camps must identify children eligible for free or reduced price meals and may charge those not income-eligible for free meals.

Although USDA donated foods are made available under the SFSPC, they are restricted to sponsors that prepare the meals to be served at their sites and those that have entered into an agreement with a SFA for the preparation of meals.

- c. *SMP* – The SMP provides milk to children in schools and child-care institutions that do not participate in other Federal meal service programs. However, schools operating the NSLP and/or SBP may also participate in the SMP to provide milk to children in half-day pre-kindergarten and kindergarten programs where children do not have access to the NSLP and SBP. A SFA or institution operating the SMP as a pricing program may elect to serve free milk but there is no Federal requirement that it do so. The SMP has no reduced price benefits.

Program Funding

FNS furnishes funds to State agencies by letter of credit. The State agencies use the meal reimbursement funds to support program operations by SFAs, institutions, and sponsors under their oversight, and the administrative funds to fund their own administrative costs. Funding for FNS regional office-administered programs is handled through FNS's Integrated Program Accounting System.

Funding Program Benefits

FNS provides cash reimbursement to each State agency for each meal served under the NSLP, SBP, and SFSPC and for each half pint of milk served under the SMP. The State agency's entitlement to cash assistance for NSLP and SBP meals, NSLP supplements, and SMP milk not reimbursed at the "free" rate is determined by multiplying the number of units served within the State by a "national average payment rate" set by FNS. Cash reimbursement to a State agency under the SFSPC is the product obtained by multiplying the number of meals served by maximum rates of reimbursement established by FNS.

FNS sets the national average payment rate or maximum rate of reimbursement for each type of meal service (breakfast, lunch, supplement, supper) within each program. A national average payment rate is also set for each eligibility category within the NSLP and SBP. Basic levels of cash assistance are provided for all lunches and breakfasts, respectively. This basic rate is increased by two cents for each lunch served in SFAs in which 60 percent or more of the lunches served during the second preceding school year were served free or at a reduced price. Additional assistance is provided for lunches and breakfasts served to children eligible for free or reduced price meals. A higher rate of reimbursement is paid for each breakfast served free or at reduced price in schools determined to be in "severe need." A "severe need" school is one in which at least 40 percent of the school lunches served in the second preceding school year had been served free or at reduced price. Milk served free under the SMP is funded at the average cost of milk. Since all meals are served free under the SFSPC, all meals of the same type are funded at the same rate.

State agencies earn commodity assistance based on the number of program meals served in schools participating in the NSLP and for certain sponsors participating in the SFSPC. The State agency's level of commodity assistance is the product of the number of meals served in the preceding year multiplied by the national average payment for donated foods. FNS adjusts the national average payment rates and maximum rates for reimbursement annually for NSLP, SBP, and SFSPC to reflect changes in the Consumer Price Index and for the SMP to reflect changes in the Producer Price Index. FNS adjusts commodity assistance rates annually to reflect changes in the Price Index for Food Used in Schools and Institutions. The current announcements of all these assistance rates can be found on the Internet at <http://www.fns.usda.gov/cnd> (7 CFR sections 210.4(b), 220.4(b), 215.1, and 225.9(d)(9)).

A State agency uses the cash assistance obtained through performance funding to reimburse participating SFAs and sponsors for eligible meals served to eligible persons. Like "national average payments" to States, reimbursement payments are also made on a per-meal (performance funding) basis. SFAs and SFSPC sponsors receive commodities to the extent they can use them for program purposes; however, certain types of products are limited by an entitlement.

Funding State-Level Administrative Costs

In addition to funding for reimbursement payments to SFAs and sponsors, State agencies receive funding from several sources for costs they incur to administer these programs.

- a. *State Administrative Expense (SAE) Funds* – These funds are granted under CFDA 10.560, which is not included in the Child Nutrition Cluster.
- b. *SFSPC State Administrative (SAF) Funds* – In addition to regular SAE grants, administrative funds are made available to State agencies under CFDA 10.559 to assist with administrative costs of the SFSPC (7 CFR section 225.5). The State agency must describe its intended use of the funds in a Program Management and Administrative Plan submitted to FNS for approval (7 CFR section 225.4).

Source of Governing Requirements

The programs included in this cluster are authorized by the Richard B. Russell National School Lunch Act (NSLA) (42 USC 1751 *et seq.*) and the Child Nutrition Act of 1966 (CNA) (42 USC 1771 *et seq.*). The implementing regulations for each program are codified in parts of 7 CFR as indicated: National School Lunch Program (NSLP), part 210; School Breakfast Program (SBP), part 220; Special Milk Program for Children (SMP), part 215; and, Summer Food Service Program for Children (SFSPC), part 225. Regulations at 7 CFR part 245 address eligibility determinations for free and reduced price meals and free milk in schools and institutions. Regulations at 7 CFR part 250 give general rules for the receipt, custody, and use of USDA donated commodities provided for use in the Child Nutrition Cluster of programs.

Availability of Other Program Information

Additional program information is available from the FNS's Child Nutrition site on the Internet at <http://www.fns.usda.gov/cnd>. Information on the distribution of USDA donated commodities for the Child Nutrition Cluster programs is available from the FNS Food Distribution web site at <http://www.fns.usda.gov/fdd/programs/schcnp/>.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

A. Activities Allowed or Unallowed**1. SFSPC Sponsor Reimbursement**

Prior to January 1, 2008, sponsors generally were required to separately report SFSPC operating and administrative costs as follows:*a.*

Administrative Costs

Sponsor reimbursement is provided for central-level general administrative overhead, including such costs as planning and organizing, site monitoring, preparation of claims and reports, and audits. Payment to sponsors for administrative costs amounted to the lesser of: actual net expenses incurred for administrative costs; or the number of meals by type actually served to eligible children multiplied by the administrative rates for those meals; or the administrative budget that was approved by the administering agency and included in the program agreement, along with any approved amendments to it (7 CFR sections 225.9(d)(5) and (d)(8)), and section 225.15(c)). Also see the definition of “administrative costs” at 7 CFR section 225.2.

b. Exception for States with Simplified SFSPC Programs

Operating and administrative cost comparisons are not required for eligible school, public, and camp sponsors in 26 States (Alaska, Arizona, Arkansas, Colorado, Idaho, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Michigan, Mississippi, Nebraska, New Hampshire, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Tennessee, Texas, Washington, West Virginia, Wisconsin, and Wyoming) and Puerto Rico from October 1, 2004 through December 31, 2007 (42 USC 1769(f)).

To be eligible for federal reimbursement, lunches and breakfasts must meet the nutrition standards and menu planning methods as prescribed by program regulations (7 CFR 210.10 and 7 CFR 210.10a) and the Texas Public School Nutrition Policy.

2. *SFSPC Sponsor Reimbursement on or after January 1, 2008*
Effective January 1, 2008, all States must operate the SFSPC under simplified cost accounting procedures. Sponsors are no longer required to report operating and administrative costs, although they must maintain records of them. Sponsor reimbursement is no longer related to operating and administrative cost comparisons; it is determined solely by applying the applicable meals X rates formula. Separate rates are used to compute reimbursement for operating and administrative costs, but a sponsor can use its entire reimbursement payment for any combination of operating and administrative costs (Title VII, Section 738 of Pub. L. No. 110-161, December 26, 2007).

E. Eligibility

1. Eligibility for Individuals

Any child enrolled in a participating school or summer camp, or attending a SFSPC feeding site, who meets the applicable program's definition of "child" may receive meals under the applicable program. Children belonging to households meeting nationwide income eligibility requirements may receive meals at no charge or, in the case of the NSLP and SBP, at reduced price. Children in schools operating the School Nutrition Programs, or in camps operating the SFSPC, who have been determined ineligible for free or reduced price meals pay the full price, set by the SFA or sponsor, for their meals (7 CFR sections 225.15(f), 245.1(a), and 245.3(c); definition of "subsidized lunch (paid lunch)" at 7 CFR section 210.2; and definitions of "camp," "closed enrolled site," "open site," and "restricted open site" at 7 CFR section 225.2).

a. General Eligibility

The specific groups of children eligible to receive meals under each program are identified in the respective program's regulations.

- (1) *School Nutrition Programs (NSLP and SBP)* – A "child" is defined as: (a) a student of high school grade or under (as determined by the State educational agency) enrolled in an educational unit of high school grade or under, including students who are mentally or physically handicapped (as determined by the State) and who are participating in a school program established for the mentally or physically handicapped; (b) a person who has not reached his/her twenty-first birthday and is enrolled in a public or non-profit private residential child care institution; or (c) for meal supplements served in afterschool care programs operated by

an eligible school, a person who is 18 years of age or under, except that children who turn 19 during the school year remain eligible for the duration of the school year (42 USC 1766a(b); definition of “child” at 7 CFR sections 210.2 and 220.2).

- (2) *SFSPC* – A “child” is defined as: (a) any person 18 years of age and under; and (b) a person over 18 years of age, who has been determined by the State educational agency or a local public educational agency to be mentally or physically handicapped, and who participates in a public or non-profit private school program established for the mentally or physically handicapped (Definition of “children” at 7 CFR section 225.2).
- (3) *SMP* – Schools operating this program use the same definition of “child” that is used in the NSLP and SBP, except for provision (3) under the definition of “child” at 7 CFR section 210.2 regarding supplements served in afterschool care programs. Where the program operates in child-care institutions, as defined in 7 CFR section 215.2, a “child” is any enrolled person who has not reached his/her nineteenth birthday (7 CFR section 215.2).

b. *Eligibility for Free or Reduced Price Meals or Free Milk*

- (1) *General Rule: Annual Certification* – A child’s eligibility for free or reduced price meals under a Child Nutrition Cluster program may be established by the submission of an annual application or statement which furnishes such information as family income and family size. Local educational agencies (LEAs), institutions, and sponsors determine eligibility by comparing the data reported by the child’s household to published income eligibility guidelines. In addition to publishing income eligibility information in the *Federal Register*, FNS makes it available on the FNS web site (<http://www.fns.usda.gov/cnd/>) under “Income Eligibility Guidelines.”
 - (a) *School Nutrition Programs* – Children from households with incomes at or below 130 percent of the Federal poverty level are eligible to receive meals or milk free under the School Nutrition Programs. Children from households with incomes above 130 percent but at or below 185 percent of the Federal poverty level are eligible to receive reduced price

meals. Persons from households with incomes exceeding 185 percent of the poverty level pay the full price (7 CFR sections 245.2, 245.3, and 245.6; section 9(b)(1) of the NSLA (42 USC 1758 (b)(1); sections 3(a)(6) and 4(e) of the CNA (42 USC 1772(a)(6) and 1773(e))).

- (b) *SFSPC* – While all SFSPC meals are served at no charge, the sponsors of certain types of feeding sites must make individual determinations of eligibility for free or reduced price meals in accordance with 7 CFR section 225.15(f). See III.E.3. “Eligibility - Eligibility for Subrecipients” for more information.
- (c) *SMP* – Eligibility for free milk in SFAs electing to serve free milk is limited to children of households meeting the income eligibility criteria for free meals under the School Nutrition Programs. The SMP has no provision for reduced price benefits (Definition of “free milk” at 7 CFR section 215.2, and 7 CFR sections 215.7(b), 245.3, and 245.6).

Annual eligibility determinations may also be based on the child’s household receiving benefits under the Supplemental Nutrition Assistance Program (SNAP) (formerly the Food Stamp Program), Food Distribution Program on Indian Reservations (FDPIR), the Head Start Program (CFDA 93.600) (42 USC 1758(b)(6)(A)), or, under most circumstances, the Temporary Assistance for Needy Families (TANF) program (CFDA 93.558) (42 USC 1758(b)). A household may furnish documentation of its participation in one of these programs; or the school, institution, or sponsor may obtain the information directly from the State or local agency that administers these programs. Certain runaway, homeless, and migrant children are categorically eligible for free school lunches and breakfasts (42 USC 1758(b)(5)(A); 7 CFR section 245.6(b)).

- (2) *Exceptions* – The following are exceptions to the requirement for annual determinations of eligibility for free or reduced price meals and free milk under the Child Nutrition Cluster programs.
 - (a) *Puerto Rico and the Virgin Islands* – These two State agencies have the option to provide free meals and milk to all children participating in the School

Nutrition Programs, regardless of each child's economic circumstances. Instead of counting meals and milk by type, they may determine the percentage that each type comprises of the total count using statistical surveys. The survey design must be approved by FNS (7 CFR section 245.4).

- (b) *Special Assistance Certification and Reimbursement Alternatives* – Special Assistance Certification and Reimbursement Alternatives, Provisions 1, 2 and 3, are authorized by Section 11(a)(1) of the NSLA (42 USC 1759a(a)(1)). Provision 1 may be used in schools where at least 80 percent of the children enrolled are eligible for free or reduced price meals. Under Provision 1, eligibility determinations for children eligible for free meals under the School Nutrition Programs must be made once every two consecutive school years. Children who qualify for reduced price meals are certified annually (42 USC 1759a(a)(1)(B); 7 CFR section 245.9(a)).

For Provisions 2 and 3, extended cycles are allowed for eligibility determinations. Since the schools also use alternative meal counting and claiming procedures, descriptions of Provisions 2 and 3 are presented below in III.L.3, “Reporting - Special Reporting.”

- (c) *SFSPC Open Sites and Restricted Open Sites* – Determinations of individual household eligibility are not required for meals served free at SFSPC “open sites,” or at restricted open sites. See III.G.3, “Eligibility - Eligibility for Subrecipients,” for more information.

c. *Reduced Price Charges for Program Meals*

The SFA sets meal prices. However, the price for a reduced price lunch, breakfast, or snack may not exceed \$0.40, \$0.30, and \$0.15, respectively (See definition of “reduced price meal” in 7 CFR section 245.2).

2. **Eligibility for Group of Individuals or Area of Service Delivery** – Not Applicable
3. **Eligibility for Subrecipients**

Administering agencies may disburse program funds only to those organizations that meet eligibility requirements. Under the NSLP, SBP and SMP, this means the definition of “school food authority” (SFA) as described at 7 CFR sections 210.2, 215.2, and 220.2, respectively. Eligible SFSPC organizations are described at 7 CFR section 225.2 under the definition of “sponsor.” Additional organizational eligibility requirements apply to the SFSPC, NSLP Afterschool Snacks, and the SBP at the feeding site level (see detail below).

- a. *SFSPC* – Federal regulations at 7 CFR section 225.2 define sites in four ways:
 - (1) *Open Sites* – At an open site, meals are made available to all children in the area where the site is located. This area must be one in which poor economic conditions exist (one in which at least 50 percent of the children are from households that would be eligible for free or reduced price school meals under the NSLP and the SBP). Data to support a site’s eligibility may include: (a) free and reduced price eligibility data maintained by schools that serve the same area; (b) census data; or (c) other statistical data, such as information provided by departments of welfare and zoning commissions.
 - (2) *Restricted Open Sites* – A restricted open site is one that was initially open to broad community participation, but at which the sponsor has restricted attendance for reasons of safety, security, or control. A restricted open site must serve an area in which poor economic conditions exist, and its eligibility may be documented with the same kinds of data listed above for open sites.
 - (3) *Closed Enrolled Sites* – A closed enrolled site makes meals available only to enrolled children, as opposed to the community at large. Its eligibility is based not on serving an area where poor economic conditions exist, but on the eligibility of enrolled children for free or reduced price school meals. At least 50 percent of them must be so eligible. The sponsor must determine their eligibility through the application process described at 7 CFR section 225.15(f).
 - (4) *Camps* – Eligible camps include residential summer camps and nonresidential day camps that offer regularly scheduled food service as part of organized programs for enrolled children. A camp need not serve an area where poor economic conditions exist. Instead, the camp’s sponsor must

determine each enrolled child's eligibility for free SFSPC meals through the application requirements at 7 CFR sections 225.15(e) and (f). Unlike other sponsors, the sponsor of a camp receives reimbursement only for meals served to children eligible for free or reduced price school meals (7 CFR section 225.14(d)(1)).

- b. *SBP - Severe Need Schools* – In addition to the national average payment, FNS makes additional payments for breakfasts served to children qualifying for free or reduced price meals at schools that are in severe need. The administering agency must determine whether a school is eligible for severe need reimbursement based on the following eligibility criteria: (1) the school is participating in or desiring to initiate a breakfast program and (2) 40 percent or more of the lunches served to students at the school in the second preceding school year under the NSLP were served free or at a reduced price. Administering agencies must maintain on file, and have available for reviews and audits, the source of the data to be used in making individual severe need determinations (42 USC 1773(d); 7 CFR section 220.9(d)).
- c. *NSLP - Afterschool Snacks* – Reimbursement for afterschool snacks is made available to those school districts which (1) operate the NSLP in one or more of their schools and (2) sponsor or operate afterschool care programs with an educational or enrichment purpose. In the case of snacks served at an eligible site located in the attendance area of a school in which at least 50 percent of the enrolled children are certified eligible for free and reduced price school meals, all snacks are served free and are reimbursed at the free rate regardless of individual eligibility. Schools and sites not located in such an area may also participate, but they must count and claim supplements as free, reduced price and paid, depending on the eligibility status of the children served, and they must maintain documentation of eligibility for children receiving free or reduced price supplements (42 USC 1766a).

G. Matching, Level of Effort, Earmarking

1. Matching

NSLP - State Revenue Matching Requirement

The State is required to contribute State-appropriated funds amounting to at least 30 percent of the funds it received under Section 4 of the NSLA in the school year beginning July 1, 1980, unless otherwise exempted by 7 CFR

section 210.17. In the fall of each year, FNS furnishes each State with a report giving data for the State's use in determining its matching requirements. However, the State revenues derived from the operation of the NSLP and State revenues expended for salaries and administrative expenses of the NSLP at the State level are not considered in this computation. In States with per capita income lower than the national average, the 30 percent match is proportionately reduced (sections 7(a)(1) and (2) of the NSLA, and 7 CFR section 210.17(a)).

- a. *Private School Exemption* – States that are prohibited by law from disbursing State appropriated funds to non-public schools are not required to match “General Cash Assistance” (Section 4) funds expended for meals in such schools, or to disburse to such schools any of the State revenue required to meet the matching requirements. Also, the matching requirements do not apply to schools in which the program is administered by a FNS regional office (7 CFR section 210.17(b)).
- b. *Applicable State Revenues* – State revenues, appropriated or used specifically for program purposes, are eligible for meeting the matching requirement. States use a number of methods to apply funds toward the matching requirement. For example, they may: (1) disburse such funds directly to SFAs, generally on a per-meal basis; (2) pay bills that SFAs would otherwise have had to pay themselves (such as FICA payments for school food service workers); and (3) track State-appropriated funds that SFAs have indirectly applied to the program through transfers from their general funds to their school food service funds (7 CFR section 210.17(d)).

2. Level of Effort – Not Applicable

3. Earmarking – Not Applicable

I. Procurement and Suspension and Debarment

1. *Procurement* –
 - a. General Procurement - Regardless of whether the State elects to follow State or Federal rules in accordance with the A-102 Common Rule, the following requirements must be followed for procurements initiated by State agencies and SFSPC institutions on or after October 1, 2000. The effective date of these requirements for SFAs is set by their administering agencies, but cannot be later than July 1, 2001.
 - (1) *Contractor Selection* – A State agency, SFA, institution, or sponsor shall not award a contract to a firm it used to orchestrate the procurement leading to that contract. Examples of services that

would disqualify a firm from receiving the contract include preparing the specifications, drafting the solicitation, formulating contract terms and conditions, etc. (7 CFR sections 3016.60(b) and 3019.43).

- (2) *Geographical Preference* – A State or local government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts (7 CFR section 3016.60(c)). However, a SFA, institution, or sponsor operating one or more Child Nutrition Cluster programs may use a geographical preference for the procurement of unprocessed agricultural products, both locally grown and locally raised (Section 4302 of Pub. L. No. 110-246, 122 Stat. 1887, June 18, 2008).
- b. *Contracts With Food Service Management Companies* – Before awarding a contract to a food service management company, or amending such a contract, an SFA operating the NSLP and SBP must: (1) obtain its administering agency’s review and approval of the contract terms; (2) incorporate all changes required by the administering agency; (3) obtain written administering agency approval of any changes made by the SFA or its food service management company to a pre-approved prototype contract; and (4) when requested, submit procurement documents for administering agency inspection (7 CFR sections 210.16(a)(10) and 220.7(d)(1)(ix)). (This requirement is effective for new contracts with solicitations issued on or after November 30, 2007. For amendments/renewals of contracts existing on November 30, 2007 or for other new contracts, see Final Rule, Procurement Requirements for the National School Lunch, School Breakfast, and Special Milk Programs, III. Implementation, see 72 FR 61479, October 31, 2007.)
- c. *Cost-Reimbursable Contracts* –
 - (1) Cost-reimbursable contracts awarded by SFAs operating the NSLP, SMP, and SBP, including contracts with cost-reimbursable provisions and solicitation documents prepared to obtain offers of such contracts, must include the following provisions:
 - (a) Billing documents submitted by the contractor will either separately identify allowable and unallowable portions of each cost, or include only allowable costs and a certification that payment is sought only for such costs.
 - (b) The contractor must identify the amount of each discount, rebate, and other applicable credit on bills and invoices presented to the SFA for payment and individually identify the amount as a discount, rebate, or in the case of other applicable credits, the nature of

the credit. If approved by the State agency, the school food authority may permit the contractor to report this information on a less frequent basis than monthly, but no less frequently than annually.

- (2) No cost resulting from a cost-reimbursable contract may be paid from the SFA's nonprofit school food service account if:
 - (a) the underlying contract does not include the foregoing provisions; or
 - (b) such disbursement would result in the contractor receiving payments in excess of the contractor's actual, net allowable costs (7 CFR sections 210.21(f), 215.14a(d), and 220.16(e)). (This requirement is effective for new contracts with solicitations issued on or after November 30, 2007. For amendments/renewals of contracts existing on November 30, 2007 or for other new contracts, see Final Rule, Procurement Requirements for the National School Lunch, School Breakfast, and Special Milk Programs, III. Implementation, see 72 FR 61479, October 31, 2007.)
2. *Suspension and Debarment* – Mandatory awards by pass-through entities to subrecipients are excluded from the suspension and debarment rules (7 CFR section 3017.215(h)).

L. Reporting

1. Financial Reporting

- a. SF-269, *Financial Status Report* – Applicable
- b. SF-270, *Request for Advance or Reimbursement* – Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
- d. SF-272, *Federal Cash Transactions Report* – Not Applicable
- e. FNS-13, *Annual Report of State Revenue Matching (OMB No. 0584 - 0075)* – This report is due 120 days after the end of each school year and identifies the State revenues to be counted toward meeting the State revenue matching requirement (7 CFR section 210.17(g)).
Key Line Item – The following line item contains critical information:
 Line 5 – *State revenues to be counted toward the State Revenue Matching Requirement*
- f. *Subrecipient Financial Reporting* – A State agency may require SFAs, institutions, and sponsors under its oversight to report information the State agency needs to prepare the financial reports identified above. Such subrecipient reports should be tested during audits of the subrecipients.

2. Performance Reporting – Not Applicable

3. Special Reporting

a. *State Agency Special Reporting*

To receive funds for the Child Nutrition Cluster programs, a State agency administering one or more of these programs compiles the data gathered on its subrecipients' claims for reimbursement into monthly reports to its FNS regional office. Such reports present the number of meals, by category and type, served by SFAs or sponsors under the State agency's oversight during the report period.

An initial monthly report, which may contain estimated participation figures, is due 30 days after the close of the report month. A final report containing only actual participation data is due 90 days after the close of the report month. A final closeout report is also required in accordance with the FNS closeout-schedule. Revisions to the data presented in a 90-day report must be submitted by the last day of the quarter in which they are identified. However, the State agency must immediately submit an amended report if, at any time following the submission of the 90-day report, identified changes to the data cause the State agency's level of funding to change by more than (plus or minus) 0.5 percent. The specific reports for each program are described below.

- (1) FNS-10, *Report of School Program Operations* (OMB No. 0584-0002) – This report captures meals served under the NSLP and SBP, and half-pints of milk served under the SMP (7 CFR sections 210.5(d), 210.8, 215.10, 215.11, 220.11, and 220.13).

Key Line Items – The following line items contain critical information:

- (a) Item 5 – *National School Lunch Program*:
 - Line 5a – *Total lunches served in the NSLP*
 - Line 5b – *Lunches served in school food authorities that qualify the State for additional payment*
 - Line 5c – *Total afterschool snacks served in all approved schools and sites*
 - Line 5d – *Total afterschool snacks served in area eligible schools and sites*
- (b) Line 6 – *School Breakfast Program (Include schools with severe need)*
- (c) Line 7 – *School Breakfast Program (Severe need only)*
- (d) Line 8 – *Commodity Schools (Lunches only)*

- (e) Item 9 – *Special Milk Program*:
 - Line 9a – *Schools (Include Residential Child Care Institutions)*
 - Line 9b – *Nonresidential Child Care Institutions*
 - Line 9c – *Summer Camps*
 - (f) Item 10 – *No. of Meals Served in Private Schools Only*:
 - Line 10a – *National School Lunch Program*
 - Line 10b – *Afterschool snacks*
 - Line 10c – *Afterschool snacks served in area eligible schools and sites*
 - Line 10d – *School Breakfast Program (Include Severe Need)*
 - Line 10e – *Severe Need School Breakfast Program*
 - (g) Item 11 – *No. of Meals Served in Residential Child Care Institutions (RCCIs) Only*:
 - Line 11a – *National School Lunch Program*
 - Line 11b – *NSLP – Snacks*
 - Line 11c – *School Breakfast Program (Include Severe Need)*
 - Line 11d – *Severe Need School Breakfast Program*
- (2) FNS-418, *Report of the Summer Food Service Program for Children (OMB No. 0584-0280)* – This report documents the number of meals served under the SFSPC by sponsors under the State agency’s oversight. Unlike the FNS-10 and FNS-44 (*Report of the Child and Adult Care Food Program*), which are generally submitted year round, the FNS-418 is filed only for the months when the program is in operation (7 CFR sections 225.8(b) and 225.9(d)(5)).
- Key Line Items* – The following line items contain critical information:
- Part A – Meals Served
- (a) Lines 5 through 7 – *Breakfasts*
 - (b) Lines 8 through 10 – *Lunches*
 - (c) Lines 11 through 13 – *Suppers*
 - (d) Lines 14 through 16 – *Supplements*
 - (e) Lines 17 through 19 – *Total*

b. *Subrecipient Special Reporting*

To receive reimbursement payments for meals (and milk under the SMP) served, a SFA, institution, or sponsor must submit claims for reimbursement to its administering agency (7 CFR sections 210.8(b), 225.9(d), and 225.15(c)(2)). The claiming process is as follows:

(1) *Claiming – General Process*

At a minimum, a claim must include the number of reimbursable meals/milk served by category and type during the period (generally a month) covered by the claim. All meals claimed for reimbursement must (a) be of types authorized by the SFAs, institution's, or sponsor's administering agency; (b) be served to eligible children; and (c) be supported by accurate meal counts and records indicating the number of meals served by category and type (7 CFR sections 210.7(c), 210.8(c), and 225.9(d)).

(a) *School Nutrition Programs* – The following types of service may be authorized for schools participating in these programs: breakfast, lunch, afterschool snack (if the school operates an afterschool care program), and milk (under the SMP). A school may be approved for the SMP only if it: (i) does not operate any other Federal Child Nutrition meal service programs; or (ii) operates the NSLP and/or SBP, but makes milk available to children in half-day pre-kindergarten or kindergarten programs who do not have access to the NSLP and SBP. All claims must be supported by accurate meal counts by category and type taken at the point of service or developed through an approved alternative procedure (7 CFR sections 210.7, 210.8, 215.8, 215.10, 220.9, and 220.11).

(b) *SFSPC* – The meals that may be claimed under the program are: breakfast, lunch, supper, and snack. Food service sites other than camps and sites which primarily serve migrant children may claim either: one meal each day (a breakfast, a lunch, a supper, or a snack), or two meals each day if one is a lunch or supper and the other is a breakfast or a snack. Camps or sites which serve meals primarily to migrant children may serve three meals or two meals and one snack (7 CFR sections 225.9(d), 225.15(c), and 225.16).

(2) *Claiming – Exceptions*

As noted above in III.E.1.b, “Eligibility for Individuals - Eligibility for Free or Reduced-Price Meals or Free Milk,” schools operating the School Nutrition Programs under Special Assistance Certification and Reimbursement Alternative Provisions 2 and 3 may use alternative counting and claiming procedures. Under either provision, the schools must serve meals at no charge to all children regardless of income eligibility for program benefits; and the SFA pays, from sources other than Federal funds, for the costs of serving the lunches or breakfasts that are in excess of the value of assistance received under the NSLA and CNA (42 USC 1759a(a)(1)).

- (a) *Provision 2* – Provision 2 has a four-year cycle for annual notification and certification for free and reduced price meals. In the first year, schools must take daily counts of the number of meals served by meal category (paid, free, reduced price) and establish the percentage of meals served by category each month. In the second, third and fourth school years, schools must count only the total number of reimbursable meals served each month; the monthly percentages established in the first year are then applied to the counts taken in the corresponding months of the current year. At the end of four years, the cycle may be extended for another four years if the State determines that the economic condition of the school’s enrollment has not improved. Additional four-year extensions may be approved on the same basis (42 USC 1759a(a)(1)(C) and (D); 7 CFR section 245.9(b)).
- (b) *Provision 3* – Provision 3 has a four-year cycle. Cash reimbursement and commodity assistance are provided at the same level as the school received in the last year free and reduced price applications were taken and daily meal counts by category and type were made, adjusted for inflation, the number of operating days, and enrollment. Schools opting for this alternative are not required to make annual free and reduced price eligibility determinations. Free and reduced price eligibility determinations and daily meal counts by income category are only required

during a base year which is not included as part of the four year cycle. Provisions exist for authorizing subsequent four-year extensions if the economic condition of the school's enrollment has not improved (42 USC 1759a(a)(1)(E); 7 CFR section 245.9(d).

M. Subrecipient Monitoring

State agencies administering the programs included in the Child Nutrition Cluster are required to perform specific monitoring procedures in accordance with 7 CFR sections 210.18 and 210.19(a)(4) (SBP and NSLP), 7 CFR section 215.11 (SMP), and 7 CFR section 225.7 (SFSPC).

N. Special Tests and Provisions

1. Verification of Free and Reduced Price Applications (NSLP)

Compliance Requirement – By December 15th of each school year, the local education agency (LEA) (or State in certain cases) must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals, unless the LEA is otherwise exempt from the verification requirement. The verification sample size is based on the total number of approved applications on file on October 31st.

A State agency may, with FNS approval, assume from LEAs under its jurisdiction the responsibility for performing the verifications. If the LEA performs the verification function it must be in accordance with instructions provided by the State agency. The LEA must follow-up on children whose eligibility status has changed as the result of verification activities to put them in the correct category.

LEAs (or State agencies) must select the sample by one of the following methods:

- a. **Standard Sample Size:** The lesser of 3 percent or 3000 of the approved applications on file as of October 31, selected from error-prone applications. For this purpose, error prone applications are those showing household incomes within \$100 monthly or \$1,200 annually of the income eligibility guidelines for free and reduced price meals
- b. **Alternative Sample Sizes.**
 - (1) The lesser of .3 percent or 3,000 applications selected at random from approved applications on file as of October 31 of the school year, or
 - (2) The sum of: (a) the lesser of 1 percent of all applications identified as error-prone or 1,000 error-prone applications, and (b) the lesser of 1/2 of

- 1 percent of, or 500, approved applications in which the household provided, in lieu of income information, a case number showing participation in the Food Stamp Program, TANF, or the FDPIR.
- (3) The use of alternative sample sizes are available only as follows:
- (a) Any LEA may qualify if its non-response rate for the preceding school year's verification was less than 20 percent; or
 - (b) An LEA with more than 20,000 children approved by application for free and reduced price meals may qualify if its non-response rate for the preceding year had improved over the rate for the second preceding year by at least 10 percent.
- "Non-response rate" is defined as the percentage of approved household applications selected for verification for which the LEA has not obtained verification information (7 CFR section 245.6a(a)).

Sources of information for verification include written evidence, collateral contacts, and systems of records, as described in 7 CFR section 245.6a(b) (42 USC 1758(b)(3)(D)).

Specific Texas Guidance

A local school district must verify the information presented on a sample of the applications that it has approved for free or reduced-price meals. All districts are required to use the Basic (error prone) method of verification unless the non-response rate of the district in the preceding year was less than 20 percent. If the non-response rate was less than 20 percent, a district may choose Basic or either of the two alternate selection methods.

Alternate #1, Basic (error prone) verification – selects those applications that are within \$100 of the monthly income guidelines or \$1,200 of the annual income guidelines. Basic verification is the lesser of 3,000 or 3 percent of the total approved applications on file, chosen from error prone applications. If the minimum requirement cannot be chosen from error prone applications, the remainder should be chosen from all applications on file at random.

Alternate #2, Random method of verification – the lesser of 3,000 or 3 percent of the total approved applications on file; may be utilized by the district if the non-response rate from the preceding year was less than 20 percent. These applications are chosen randomly from all approved applications on file.

Alternate #3, Focused method – requires the selection and verification of a minimum of 1 percent or 1,000 of total approved income applications claiming a monthly income within \$100 of the monthly income guidelines or \$1,200 of the annual income guidelines, plus the lesser of one-half of 1 percent (.5%) or 500 approved Food Stamp/TANF applications on file.

Audit Objective – Determine whether the LEA (or State) selected and verified the required sample of approved free and reduced price applications and made the appropriate changes to eligibility status.

Suggested Audit Procedures

- a. Obtain the current family size and income guidelines published by FNS.
- b. Through examination of documentation, ascertain that:
 - (1) The sampling and verification of free and reduced price applications were performed, as required.
 - (2) Changes were made to eligibility status based on documentation and other information obtained through the verification process.

2. Accountability for Commodities

The following compliance requirements do not apply to recipient agencies (as defined at 7 CFR section 250.3), including SFAs and SFSPC institutions. Auditors making audits of recipient agencies are not required to test compliance with these requirements.

Compliance Requirement

- a. *Maintenance of Records*
Distributing and subdistributing agencies (as defined at 7 CFR section 250.3) must maintain accurate and complete records with respect to the receipt, distribution, and inventory of donated foods including end products processed from donated foods. Failure to maintain records required by 7 CFR section 250.16 shall be considered *prima facie* evidence of improper distribution or loss of donated foods, and the agency, processor, or entity may be required to pay USDA the value of the food or replace it in kind (7 CFR sections 250.16(a)(6) and 250.15(c)).
- b. *Physical Inventory*
Distributing and subdistributing agencies shall take a physical inventory of all storage facilities. Such inventory shall be reconciled annually with the storage facility's inventory records and maintained on file by the agency that contracted with or maintained the storage facility. Corrective action shall be taken immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency (7 CFR section 250.14(e)).

Audit Objective – Determine whether an appropriate accounting was maintained for donated food commodities, that an annual physical inventory was taken, and the physical inventory was reconciled with inventory records.

Suggested Audit Procedures

- a. Determine storage facility, processing, and end use locations of all donated food commodities, including end products processed from donated foods. Determine the commodity records maintained by the entity and obtain a copy of procedures for conducting the required annual physical inventory. Obtain a copy of the annual physical inventory results.
- b. Perform analytical procedures, obtain explanation and documentation for unusual or unexpected results. Consider the following:

- (1) Compare receipts, distribution, losses and ending inventory of donated foods for the audit period to the previous period.
 - (2) Compare distribution by entity for the audit period to the previous period.
- c. Ascertain the validity of the required annual physical inventory. Consider performing the following steps, as appropriate:
 - (1) Observe the annual inventory process at selected locations and recount a sample of commodity items.
 - (2) If the annual inventory process is not observed, select a sample of significant commodities on hand as of the physical inventory date and, using the commodity records, “roll forward” the balance on hand to the current balance observed.
 - (3) On a test basis, recompute physical inventory sheets and related summarizations.
 - (4) Ascertain that the annual physical inventory was reconciled to commodity records. Investigate any large adjustments between the physical inventory and the commodity records.
- d. On a sample basis, test the mathematical accuracy of the commodity records and related summarizations. From the commodity records, vouch a sample of receipts, distributions, and losses to supporting documentation. Ascertain that activity is properly recorded, including correct quantity, proper period and, if applicable, correct recipient agency.

3. School Food Accounts

Compliance Requirement – A 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)).

Audit Objective – Determine whether a separate accounting is made of the school food service, Federal reimbursement payments are promptly credited to the school food service account, and transfers out of the school food service account are for the benefit of the school food service.

Suggested Audit Procedures

- a. Review the school food service accounting records and ascertain if a separate accounting is made for the school food service.
- b. Test Federal reimbursement payments received monthly from the administering agency to ascertain if promptly credited to the food service account.
- c. Test transfers out of the school food service account and ascertain if the transfers were for the benefit of the school food service.

IV. OTHER INFORMATION

FNS no longer requires recipient agencies to inventory commodities separately from purchased food. However, the value of commodities used during a State or recipient agency's fiscal year is considered Federal awards expended in accordance with the OMB Circular A-133 §____.105 definition of Federal financial assistance and should be valued in accordance with §____.205(g). Therefore, recipient agencies must determine the value of commodities used. FNS recommends that recipient agencies use the value of commodities delivered to them during the audit period for this purpose.

Appendix 8.G.2. Additional Guidance Related to Child Nutrition Program

The information below is for background purposes and is to provide compliance requirements for the national school lunch and school breakfast programs in addition to those appearing previously. Any matters of noncompliance in these programs are to be reported in the audit report. The same method of disclosure that applies to other federal programs is necessary, i.e., details as to questioned amounts, etc.

The National School Lunch Act was enacted June 4, 1946, by the Forty-second United States Congress, and certain sections of the Act were amended in October 1962, by Public Law 87-823. The Special Milk Program was enacted by Congress under Section 201(c) of the Agriculture Act of 1949, and was operated in Texas in 1954. The Child Nutrition Act of 1966 incorporated the lunch and milk programs with the School Breakfast Program. The Special Milk Program was eliminated in Texas as of October 1, 1981. The School Meals Initiative for Healthy Children was enacted by Congress in 1995 and implemented in 1996. These programs are administered to the several states by the United States Department of Agriculture, Food and Nutrition Service, which is responsible for promulgating regulations for program operations to the various state departments of education. The states are responsible for administering the programs to local schools, except the federal office may directly administer programs in private schools whenever laws prohibit the state government from being involved financially with private schools.

State administration of the lunch and breakfast programs in Texas is the responsibility of the Food and Nutrition Division, Texas Department of Agriculture (TDA). The central office of the Food and Nutrition Division is located at 1700 N. Congress, 10th Floor, in Austin, and program specialists are employed by each of the 20 regional education service centers throughout the state. Reimbursement claims and other required reports are submitted to TDA through Child Nutrition Programs Information Management System (CNPIMS) by local education agencies, and such claims are processed by the central office staff of the Food and Nutrition Division.

Regulations pertaining to the programs are published in the Federal Register, however, such regulations are usually directed from the TDA to local schools through the use of the *Child Nutrition Programs Administrator's Reference Manual* and general distribution letters addressed to school superintendents and authorized representatives of local school lunch programs. In addition to general distribution letters, the TDA maintains a website at www.squaremeals.org, in which regulations, reimbursement rates, and other information concerning the lunch and breakfast programs are disseminated. The Food and Nutrition Division also distributes to local schools certain publications of the United States Department of Agriculture.

Beginning with the 1992-93 fiscal year, school districts are to account for food service programs operating under the National School Lunch and Breakfast Programs through the General/Special Revenue/Enterprise Fund. Program revenues and expenditures are subject to inclusion in the official annual budget. Prior to 1992-93, many school districts accounted for food service programs through the General Fund, and separate bank accounts were a program requirement. Since a separate cash account for the food service program must still be kept, it is suggested that separate bank accounts be maintained at the option of the school district.

Resource Management

(a) *Nonprofit school food service.* School food authorities shall maintain a nonprofit school food service. Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service, except that, such revenues shall not be used to purchased land or buildings, unless otherwise approved by FNS, or to construct building. Expenditures of nonprofit school food service revenues shall be in accordance with the financial management system established by the State agency under §210.19(a) of Title 7 of the Code of Federal Regulations (CFR). School food authorities may use facilities, equipment and personnel supported with nonprofit school food revenues to support a nonprofit nutrition program for the elderly, including a program funded under the Older Americans Act of 1965 (U.S.C. 3001 *et seq.*).

(b) *Net cash resources.* The School food authority shall limit its net cash resources to an amount that does not exceed 3 average expenditures for its nonprofit school food service or such other amount as may be approved by the State agency in accordance with §210.19(a).

(c) *Financial assurances.* The school food authority shall meet the requirements of the State agency for compliance with §210.19(a) including any separation of records of nonprofit school food service from records of any other food service which may be operated by the school food authority as provided in paragraph (a) of this section.

(d) *Use of donated foods.* The school food authority shall enter into an agreement with the distributing agency to receive donated foods as required by 7 CFR 250. In addition, the school food authority shall accept and use, in as large quantities as may be efficiently utilized in its nonprofit school food service, such foods as may be offered as a donation by the United States Department of Agriculture.

(e) *Assurance of compliance for finances.* TDA shall ensure that school food authorities comply with the requirements to account for all revenues and expenditures of their nonprofit school food service. School food authorities shall meet the requirements for the allowability of nonprofit school food service expenditures in accordance with 7 CFR part 3015 and 7 CFR part 3016 or 7 CFR part 3019, as applicable. All cost resulting for contracts that do not meet requirements are unallowable nonprofit school food service account expenses. When the school food authority fails to incorporate required changes to solicitation or contract documents, all cost resulting from the subsequent contract award are unallowable changes to the nonprofit school food service account.

To maintain the nonprofit status of the NSLP and SBP, the fund balance or net cash resources of the Child Nutrition account should not exceed three months' average expenditures. If an excess balance should occur, the SFA must immediately take steps to reduce the balance or have an acceptable plan for using surplus revenues. The plan should be such that the balance would be reduced within a year. The plan must be submitted to TDA, Food and Nutrition division (FND). Since program funds may be used only for program purposes, and excess balance could be reduced by improving the quality of food served, reducing the prices of meals served to children, or purchasing needed supplies, service or equipment.

To determine if an excessive balance exists, complete the following calculation:

A. Total Net Cash Resources

\$ _____

B. Year's Expenditure

\$ _____

Number of months operation x 3 months

If A exceeds B, The SFA must submit to TDA a plan to reduce the excessive balance within one year.

(f) *Additional Requirements.* Nothing contained in this part shall prevent TDA from imposing additional requirements for participation in the Program which are not inconsistent with the provisions of this section.

The following list consists of regulations and interpretations of law made over the years by state and federal school lunch officials. Items listed are taken from letters, inter-office communications, reports, and from www.squaremeals.org.

1. Definitions or formulas concerning information requested on claims or reports are:
 - a. Participating School - an attendance unit with its own principal, head teacher, or other administrative head. More than one school or attendance unit may be housed in one building.
 - b. Average Daily Participation - total number of meals served pupils divided by the number of days in operation.
 - c. Reimbursable Lunch - determined by which of the four menu planning systems the school selects. The systems are: Enhanced Food-Based Menus, Traditional Food-Based, Nutrient Standard and Assisted Nutrient Standard. Refer to the Texas Department of Agriculture, Child Nutrition Program Administrator's Reference Manual, Section 12, for specific requirements
 - d. Full Price - a lunch or breakfast sold at a rate established by the school for pupils who can afford to pay.
 - e. Reduced Price - a lunch or breakfast sold at a rate less than the full price rate to an eligible student.
 - f. Free - a lunch or breakfast provided without charge to an eligible student.
 - g. Rate of Reimbursement - amount established per lunch, breakfast, or snack and paid to school districts on the basis of claims. Rates are revised annually as of July 1 and disseminated to school districts by special mailing and posted at www.squaremeals.org. Reimbursement may be claimed only for pupils of high school grade and under.
 - h. Income from Children - considered as amounts paid for full and reduced-price reimbursable lunches or breakfasts. Payment is actually made by participating children and excludes amounts paid from other school funds or outside organizations for children's lunches or breakfasts. This includes milk, snack bar, a la carte and other sales.
 - i. Food Expenditures - disbursements and payables for all types of food served under the programs. This covers all costs related to food and commodities,

including transportation and processing charges and storage or handling costs of food purchases and federal commodities. This value may be included in the basic financial statements of the school district.

- j. Labor Expenditures - disbursements and payables for salaries and wages paid to food service and maintenance personnel for services related to the programs, including employer's share of retirement, social security, and insurance and other payroll charges or contributions. Wages and salaries, fringe benefits, and other compensation for staff engaged in carrying out the Child Nutrition Programs (CNP) are allowable, so long as they are: (1) Incurred according to formal, written State or local agency personnel policies and/or collective bargaining agreements. Whether a staffer's compensation is all federally-funded, all State/local-funded, or half-and-half, it is governed by the same State and/or local rules because these are State administered programs. (2) Documented. A-87 describes documentation necessary to support the assignment of staffers' wages and salaries to cost objectives. It includes payroll records and records of the distribution of staffers' time and effort among cost objectives.
 - k. Other Expenditures - disbursements and payables for non-food items such as napkins, straws, brooms and equipment. Expenditures should include a breakdown of direct and indirect costs. (TEA Financial Accountability System Resource Guide 1.6.1. 1-3, and Attachment B to OMB Circular A-87).
- 2. Lunches served without charge to food service workers and other non-pupil school employees directly involved in the operation of the program should be recorded as lunches served free to adults. (Attachment B to OMB Circular A-87).
 - 3. Lunches are to be considered free, reduced-price, or full price meals in accordance with the pupil's eligibility status if pupils work for such meals.
 - 4. All records and reports of food service programs must be made and maintained by the school district.
 - 5. An important feature of the National School Lunch Program agreement is that schools must serve lunches at reduced prices or without cost to children who are determined by school authorities to be unable to pay regular rates. The Act provides special rates of reimbursement to help cover the costs incurred in serving reduced-price and free lunches to needy children (defined as children who attend schools participating in the program and who meet the school's eligibility standards for free or reduced-price meals as approved by the state agency). Under

circumstances where the actual costs per lunch exceeds reimbursement rates; other types of funds may be used to cover the difference.

6. School districts participating in the National School Lunch and School Breakfast Programs must have on file a Free and Reduced-Price Meal Policy Statement approved by the Food and Nutrition Division. This policy establishes income-family size guidelines which must be used to determine those pupils eligible to receive free or reduced-price meals. A public announcement of the eligibility criteria must be made annually, and a letter to parents that includes an application form and reduced-price only income scale must be sent to the parents of each child at the start of each school year. School districts must process and either approve or disapprove applications, establish hearing procedures and develop collection methods in accordance with their approved Policy Statement.
7. School districts participating in the food programs shall comply with the Civil Rights Act of 1964, which makes it illegal to discriminate against persons or ethnic groups because of race, national origin, sex, color, age, or handicap.
8. School districts are required to keep within the General/Special Revenue/Enterprise Fund a separate cash account, fund balance or net assets, or checking accounts, for school lunch and breakfast revenues, and receipts from the TDA for reimbursement are to be debited to that account, and considered as revenues to the General/Special Revenue/Enterprise Fund. Any positive balance remaining in the school food authority's child nutrition (CN) account at the end of the school year must be carried over to the next school year as a beginning balance in the child nutrition (CN) account at the end of the school year must be carried over to the next school year (7 CFR 3019.25(3)). A negative balance must be adjusted to zero and the amount supplemented from the district's general operating fund must be indicated and posted to the CN account. Funds shall be maintained in an interest bearing account (7 CFR 3019.22 k). Any monthly positive balance remaining in the CN account must be allocated to the CN account regardless if the funds are deposited in a separate bank account or comingled in a bank account with general revenue funds (7 CFR 3015.46).
9. A provision of the National School Lunch Program Act requires that participating schools operate a non-profit food service program. As a result, schools are not normally allowed to accumulate balances in the food service cash account in excess of three months normal operating costs (Note: At year-end or as accruals are posted during interim periods, the three-month limit applies to the fund balance amount as reflected under the modified accrual or accrual basis of accounting). If such balances are reached, the school should reduce the balance by either:

- a. Improving the quality of meals.
- b. Reducing the prices of lunches and/or breakfasts to children.
- c. Purchasing and maintaining adequate and necessary supplies, services, and equipment used in storing, preparing or serving meals to children.

There may be some circumstances that could possibly justify excess cash balances. If so, the district should submit the Plan for Reducing Excessive Operating Balance (Section 14 of Administrator's Reference Manual). Some examples may include:

- a. Large accounts payable.
 - b. Recent contributions from outside sources intended for a specific purpose, such as purchasing expensive items or equipment.
 - c. An intentional building-up of cash balance to make extensive purchases, such as food by car load lots and major items of equipment.
 - d. Anticipated increases in labor costs (opening new school or initiating new program).
10. All revenues, including, but not limited to the receipts from operations of the lunch and breakfast programs, as well as snack bar and a la carte programs, earnings on investments, other local revenues, state revenues, and federal cash reimbursement which are received by or accrue to the school food service operation may only be used for the benefit of the program. Such revenue may be used for:
- a. Food purchases and costs directly related to the storage, handling, processing and transportation of such food.
 - b. Other supplies and expendable equipment subject to reasonably frequent replacement, such as pots and pans, kettles, serving trays, dishes, glassware, silverware, linen, brooms, mops, brushes, soaps, straws, napkins, etc.
 - c. Non-expendable kitchen and dining room articles which are generally classified as movable capital outlay types of property and are used directly in preparing, storing, or serving school lunch, such as pressure cooker, stoves, sinks, refrigerators, freezers, storage cabinets, garbage containers, tables, chairs, grinders, mixers, dish washing machines, hot water heaters, etc., and charges for installing equipment and connecting to utilities in the building in which the

property is operated, and service and repair of equipment, provided the school lunch operation is of such volume as to justify the purchase and use of such equipment on an economical basis.

- d. Payments for labor (salary and wages) and other services directly related to the operation of the school lunch program. This includes the employer's share of retirement, social security and insurance, and the state's portion of the Teacher Retirement contribution of allowable federal funds available to pay food service employees. List any employee whose salaries are prorated to the CN account; include the formula used to compute the proration.
- e. Travel on official school lunch business, such as workshops and training programs.
- f. Rental of food storage facilities or equipment as required for program needs. However, charging rent for use of school district-owned facilities is prohibited.
- g. Cash registers, adding machines, typewriters, and other office equipment used exclusively for the lunchroom operation.
- h. Automotive equipment used exclusively in the transporting of food.
- i. Services such as pest control, trash removal, security, etc.
- j. Utilities (When separate billings for actual costs are not made, amounts paid from the food service cash account are to be based upon reliable estimates or surveys from utility companies.)

11. Food service cash may not be used to pay for:

- a. Purchase of land, acquisition or construction of buildings, or alterations or attachments to existing buildings that materially increases the value of capital assets. However, paint and decorator items would not be considered capital expenditures. Only those improvements that materially increase the value or life of the building would be considered capital expenditures.
- b. Contributions and donations.
- c. Entertainment, amusements, social activities, gratuities and related activities.

- d. Interest on borrowings.
 - e. Any other purchases or expenses not directly related to food service operations.
12. The reimbursable lunch must be priced and served as a unit. Regulations state that the offer versus serve provision is not to affect the selling price established by the district. Regardless of which items a student chooses, he/she must pay the established full or reduced-price meal charge, as appropriate. Milk substitutions may be made for children who, for medical reasons, documented by a physician, cannot drink milk. A lunch may be claimed for reimbursement only if each of the following conditions is met:
- a. The student must be offered the complete reimbursable lunch, priced as a unit.
 - b. A student in schools participating in “Offer vs. Serve” must choose the minimum number of menu items according to regulations for each menu planning system option. Refer to Administrator’s Reference Manual, sections 8, 9 and 12.
 - c. The paying student must pay the full price for the reimbursable lunch, even though the complete reimbursable lunch may not be selected.
 - d. The needy student, approved for reduced-price lunches, must pay the reduced price charged for the complete lunch, even though the complete lunch may not be selected.
 - e. The district may not charge more than \$.30 for breakfast and \$.40 for lunch for reduced price meals.
 - f. Those students approved for a free lunch may select a reimbursable lunch that does not contain all offerings, and the lunch would be eligible for reimbursement.
13. A la carte servings are defined as specific items such as salads, meats, vegetables and desserts that are priced separately. Such items, or combinations thereof, may not be counted as a reimbursable lunch, regardless of whether the combination of items meets the required standards. This is not to be construed to imply that a choice of entries cannot be made in making up a reimbursable lunch. For example, a reimbursable lunch may offer a choice between two meats entrees or two vegetables, etc., but still priced as a unit (see preceding paragraph 12).

14. Expenses for banquets and/or catering are not considered as part of the lunch program and must be reimbursed from other sources if paid from the food service cash account.
15. The breakfast served in participating schools will provide children with a good start toward meeting their daily nutritional needs. As specified in the School Breakfast regulations, a reimbursable breakfast can be determined depending on which of the four menu planning systems the school has selected. The systems are: Enhanced Food-Based Menus, Traditional Food-Based, Nutrient Standard, and Assisted Nutrient Standard. Refer to the Texas Department of Agriculture, Child Nutrition Program Administrator's Reference Manual, Sections 8 and 12 for specific requirements.
16. The Sixty-fifth Legislature passed House Bill 136, effective with the 1977-78 school year, mandating the School Breakfast Program in schools that have 10% or more students eligible for free and reduced price meals under the income poverty guidelines as established.
17. The benefits of the National School Lunch Program are for children only. The reimbursement and commodities received by schools are based upon the number of lunches, and breakfasts, served to students. Since reimbursement and commodities are not provided for meals served to adults, and in order for the student's programs not to be financially hampered by adult participation, adults are expected to pay, as a minimum, the following:
 - For lunch. The highest price charged to the paying students plus the total value of federal cash and commodity assistance for the paid meal; or add the rate of federal reimbursement for a free student lunch to the per meal value of USDA commodity assistance.
 - For breakfast. The highest price paid by students plus the rate of federal reimbursement for a paid student breakfast; or the rate of federal reimbursement for a free student breakfast.
 - For milk. The actual cost per one-half pint, plus distribution costs, if any.

The charge to adult visitors, at the discretion of the school, may be higher. If meals are included as a fringe benefit or offered as part of the salary arrangement for school personnel, the school is expected to provide enough money from other school funds to the food service cash account to pay the full actual cost of these adult meals. Meals served to cafeteria employees (managers, cooks, servers, etc.)

may be served at no charge and considered as fringe benefits attributable to Program costs. Therefore, the cost of such meals may be included in Program costs and, hence, may be paid from Program funds. Charging employees for meals is left to the discretion of school officials. For further assistance on this topic, see Section 15 of the *Child Nutrition Program Administrator's Reference Manual*.

18. Section 9 of the National School Lunch Act, as amended, and Section 4 of the Child Nutrition Act of 1966, as amended, require that schools participating in the National School Lunch Program and the School Breakfast Program and other schools utilizing commodities donated by the USDA shall serve free meals to any child who is a member of a household which has an annual income not above the applicable family-size and income level set forth in the income poverty guidelines prescribed by the Secretary of Agriculture, to be used by schools in the state during each fiscal year in determining which children are eligible for a free meal.

The districts are required to submit an announcement to the media of the district's intent to provide the NSLP and SBP to all enrolled students in the district. The announcement should include the free and reduced price income guidelines. The district agrees to make eligibility determinations on the basis of a statement executed by an adult member of the family. The schools are prohibited from making any physical segregation of or other discrimination against any child eligible for a free or reduced price meal, and no overt identification of any such child may be made.

- a. "Free meal" means a meal for which neither the child nor any member of his family pays or is required to work in the school or in the school's food service.
- b. "Reduced price meal" means a meal which meets all of the following criteria: (1) the price shall be less than the full price of the meal; (2) the price shall not exceed \$.40 for a lunch and \$.30 for a breakfast; and (3) neither the child nor any member of his family shall be required to supply an equivalent value in work for the school or the school's food service.
- c. "Income" means income before deductions from income taxes, employee's social security taxes, insurance premiums, bonds, etc. It includes the following:
 - (1) Monetary compensation for services, including wages, salary, commission, or fees
 - (2) Net income from non-farm self-employment

- (3) Net income from farm self-employment
 - (4) Social security
 - (5) Dividends or interest on savings or bonds, income from estates or trust, or net rental income
 - (6) Public assistance or welfare payment
 - (7) Unemployment compensations
 - (8) Government civilian employee or military retirement or pensions or veterans' payments
 - (9) Private pensions or annuities
 - (10) Alimony or child support payments
 - (11) Regular contributions from persons not living in the household
 - (12) Net royalties
 - (13) Other cash income, which includes amounts received or withdrawn from any source (i.e., savings, investments, trusts) which would be available to pay the price of a child's meal
- d. TDA provides a [prototype application](#) to all districts on the Square Meals website. The prototype application is clear and simple in design and the information requested thereon is limited to that required to demonstrate that the family does, or does not, meet the criteria in the eligibility standards for free or reduced price meals. The prototype application contains provisions to request meals for foster children, and certification that the information furnished in the application is true and correct. The application must be signed by an adult member of the family. A family may submit an application at any time during the school year. If financial situation or family size changes during the school year, the family may file an application to become eligible for free meals at the time such changes occur. The application must show approval or disapproval and the reason if disapproved.
- e. Schools shall take all actions that are necessary to insure compliance with the following nondiscrimination practices for students eligible to receive free or reduced price meals:

1. The names of the students shall not be published, posted, or announced in any manner;
 2. There shall be no overt identification of any of the students by the use of special tokens or tickets or by any other means;
 3. The students shall not be required to work for their meals;
 4. The students shall not be required to use a separate dining area, go through a separate serving line, enter the dining area through a separate entrance, or consume their meals at a different time; or
 5. When more than one lunch or breakfast or type of milk is offered, the students shall have the same choice of meals or milk that is available to those children who pay the full price for their meals.
- f. Any collection system should have a built-in accounting system to record the numbers of full-price, reduced-price, and free meals served daily. Keeping these counts is a regulatory requirement.
- g. Coding methods could be any of the following:
- (1) Number coding. Free tickets may all have a four-digit number, reduced price tickets have a five-digit number, and full price tickets a six-digit number.
 - (2) Number coding by series. Number 1 through 1999 may be free tickets, numbers 2000 through 3999 for reduced price, and numbers 4000 through 5999 for full price tickets.
 - (3) Names. Tickets may have the student's name on them and can later be compared to a checklist.
 - (4) Coding by variation. Tickets may have the date stamped on them in different spots, like top third for free tickets, middle third for reduced price, and the bottom for full price.
 - (5) Coded by bar line for scanning.
 - (6) Coded number used on a key pad.

19. Schools participating in the School Breakfast Program are eligible to claim Severe Need breakfast reimbursement only if all the following criteria are met.
 - a. The school is currently participating in or desiring to initiate a breakfast program.
 - b. Forty percent or more of lunches served to students under the National School Lunch Program at the school in the second preceding school year were served free or at a reduced price.

After School Snack Program Guidelines

Sections 107 and 108 of Public Law 105-336, the Child Nutrition Reauthorization Act of 1998 enhance nutrition benefits for all students with a special emphasis on older students by authorizing reimbursement for snacks served to students through age 18, (and to individuals, regardless of age, who are determined by the State agency to be mentally or physically disabled), who participate in programs organized to provide after school care. The intent of these provisions is to assist schools to operate organized programs of care which include education or enrichment activities known to help reduce or prevent students' involvement in juvenile crime or other high risk behavior.

Eligible Programs

To be eligible to qualify for reimbursement under the NSLP, after school care programs must meet the following criteria. First, they must be run by a school that is eligible to operate the NSLP. Secondly, the purpose of these programs must be to provide care in after school settings. This does not mean that the programs must offer formal child care as recognized by a licensing authority. However, to qualify under this provision, these programs must be organized to provide students with regularly scheduled activities in a setting that is structured and supervised. By regularly scheduled it is not intended that the program must occur daily. Moreover, while eligible programs would not need to establish formal enrollment procedures, they must have a means of determining that students are present on a given day, such as a roster or sign-in sheet.

Third, eligible programs must include education or enrichment activities in organized, structured and supervised environments. It must be stressed that any extracurricular activities such as the school choir, debate team, drama society, and others can qualify to

participate under this provision only if their basic purpose is to provide after school care as defined above.

It must be emphasized that under no circumstances can organized athletic programs engaged in interscholastic sports be approved as after school care programs under this provision. However, while athletic teams participating in interscholastic sports programs may not be approved, programs which include supervised athletic activity along with education or enrichment activities may participate. The key would be that they are open to all and do not limit membership for reasons other than space or security considerations.

Eligible Sites

Any school that is eligible to operate the NSLP may be reimbursed for snacks served to eligible students in eligible after school care programs.

The after school program must be operated by the school and not some other organization, although the school does not have to use the school's personnel or regular school facilities. However, the school must retain final administrative and management responsibility for the program, including the program site. Furthermore, the school district must be the party that enters into the agreement with the State agency and must assume full responsibility for meeting all program requirements. The school may then, if it wishes, arrange with another organization to perform the day-to-day operations. For example, the PTA could operate the program under an arrangement with the school.

Reimbursement

Under this provision, schools may claim reimbursement for one snack, per child, per day. Children are eligible to participate through age 18, and if a student's nineteenth birthday occurs during the school year, reimbursement may be claimed for snacks served to that student during the remainder of the school year. Reimbursement may also be claimed for individuals, regardless of age, who are determined by the State agency to be mentally or physically disabled.

Schools may receive a reimbursement for after school snacks if the program is designed with an educational or enrichment purpose. Schools in "area eligible" areas (at least 50 percent of the children enrolled in school are certified for free or reduced-price school meals or the school is in the attendance area of another eligible site) may serve after school snacks to all students through age 18 and be reimbursed at the free rate. Schools in areas not "area eligible" (schools that do not meet the 50 percent criterion) may also serve after school snacks to students through age 18 and will receive reimbursement at the free,

reduced-price or paid rate, depending on the eligibility status of the child receiving the snack.

Schools must have free and reduced-price applications to document eligibility for all meals served free or at a reduced price. (Under no circumstances may a school charge children for snacks claimed at the free reimbursement rate.) The amount charged for reduced-price snacks may not exceed 15 cents.

Times of Operation

This change in the law applies only to programs that provide care for students after their school day has ended. Under no circumstances may snacks be reimbursed in programs operated before or during the child's school day. Schools are not eligible to receive reimbursement under this provision for snacks served on weekends or holidays, including vacation periods.

However, students' eligibility is based on when their scheduled school day ends and not on whether or not the school continues in session. For example, if a kindergarten program ends at noon but the students remain in school under a care program as described on the previous pages, snacks served to these students may be reimbursed under this provision. The same would be true for older students enrolled in schools that have split sessions. If students enrolled in the early session remain on campus to participate in an approved after school care program, they may receive reimbursable snacks even though the school continues to operate a later academic session.

Contents of Meals

Snacks served under this provision must meet the meal pattern for snacks (see Section 10 of the [ARM](#) for snack program information). Portions for students ages 13 through 18 shall be no less than the portions stipulated for students ages 6 through 12. It is recommended that schools offer larger portions for older students (ages 13-18) based on their greater food energy requirements.

Additional Requirements

Schools wishing to participate under this provision must provide sufficient information to enable the State agency to determine whether or not the program is eligible and, if so, whether or not it qualifies for free reimbursement for all meals based on area eligibility. To accomplish this, the district will need to amend the Application-Agreement and

Schedule A through CNPIMS. On Schedule A, indicate the schools that will participate in the program and update enrollment and free and reduce-priced eligibility data using data from the last day of operation for the most recent October. The CNPIMS system will automatically calculate the percentage for free and reduced and identify area eligible schools. It is emphasized that all relevant provisions in the agreement apply to the after school care activities, including the requirements to comply with program regulations. Finally, the State agency must review these operations as part of its general oversight of the NSLP monitored during regularly scheduled CRE reviews.

Record Keeping

At a minimum, school districts participating under this provision must maintain the following records:

- If all snacks are claimed free, documentation that the site is located in an area served by a school in which at least 50 percent of the enrolled students are certified eligible for free or reduced-price meals.
- For all other sites, documentation of free and reduced-price eligibility for all students for whom free and reduce-priced snacks are claimed. (Applications on file.)
- Meal counts (total number for sites qualifying for free reimbursement for all students; meal counts by type for other sites).
- Documentation of individual students' attendance on daily basis (roster or attendance record); however, meal counts cannot be taken from attendance records.
- Documentation of compliance with meal pattern requirements (production records).
- On-site reviews must be conducted twice a year for each site. The first site visit must be completed during the first four weeks of operation. The second can be done any time during the school year.

After School Snack Program

Snack Supplement	Ages 1-2	Ages 3-5	Ages 6-12	Ages 13-18
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Snack Supplement	Ages 1-2	Ages 3-5	Ages 6-12	Ages 13-18
<i>Select two different components from the four listed</i>				
Milk, fluid	1/2 cup	1/2 cup	1 cup	(see below) (1)
Meat or meat alternate (5)	1/2 oz.	1/2 oz.	1 oz.	
Juice or fruit or vegetable (6)	1/2 cup	1/2 cup	3/4 cup	
Bread and/or cereal: Enriched or whole grain bread or	1/2 slice	1/2 slice	1 slice	
Cereal: Cold dry or	1/4 cup or 1/3 oz. (2)	1/3 cup or 1/2 oz. (3)	3/4 cup or 1 oz. (4)	
Hot cooked	1/4 cup	1/4 cup	1/2 cup	

(1) Portions for students ages 13 through 18 shall be no less than the portions stipulated for students ages 6 through 12. It is recommended that schools offer larger portions for older students (ages 13-18) based on their greater food energy requirements.

(2) 1/4 cup (volume) or 1/3 ounce (weight), whichever is less.

(3) 1/3 cup (volume) or 1/2 ounce (weight), whichever is less.

(4) 3/4 cup (volume) or 1 ounce (weight), whichever is less.

(5) Yogurt may be used as meat/meat alternate. Schools may serve 4 ounces (weight) or 1/2 volume of plain, or sweetened and flavored yogurt to fulfill the equivalent of 1 ounce of the meat/meat alternate component. For younger children, 2 ounces (weight) or 1/4 cup (volume) may fulfill the equivalent of 1/2 ounce of the meat/meat alternate requirement.

(6) Juice may not be served when milk is served as the only other component.

Caution: Children under five years of age are at highest risk of choking. USDA recommends that nuts and/or seeds be served to them ground or finely chopped in a prepared food or not at all.

Appendix 8.H. - Other State Requirements

Governmental federal assistance programs, with certain exceptions, are subject to the provisions of “Uniform Administrative Requirements for Grants and Cooperative Agreements for Grants and Cooperative Agreements to State and local Governments” (Common Rule). The Common Rule does not apply to grants and subgrants to state and local institutions of higher education or state and local hospitals; block grants authorized by the Omnibus Budget Reconciliation Act of 1981; entitlement grants and other grants or payment programs specified in the Common Rule. These exceptions are specified in the Common Rule under the applicability provisions of Subpart A.

Three Common Rule administrative requirements, financial reporting, cost principles, and cash management principles, are covered elsewhere in this part of the Compliance Supplement. The auditor should also consider those common agency administrative requirements listed below from Subpart C of the Common Rule.

A. Pecuniary Interest:

1. Compliance requirements - School districts shall have written policies which shall govern the performance of school district employees and school board members in the award and administration of contracts supported by federal funds. No employee or board member shall participate in selection, award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved. Such a conflict would arise when:
 - a. The employee or board member;
 - b. Any member or their immediate family;
 - c. Their partner; or
 - d. 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.

The school district’s employees and board members shall neither solicit nor accept gratuities, favors or anything of monetary value from contractors, potential contractors, or parties to subagreements.

School districts may set minimum rules where the financial interest is not substantial or the gift is an unsolicited item of nominal intrinsic value.

2. Suggested Audit Procedures:

- a. Ascertain whether the school district has a formal policy concerning pecuniary interest.
- b. Send positive confirmation inquiries to the school board members.
- c. Make inquiry of school officials to determine whether any employees had a conflict of interest.
- d. For those expenditures selected for the test of transactions, examine supporting documentation for evidence of a conflict of interest.

B. Procurement Standards:

1. Compliance Requirement - School districts will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procedures conform to applicable Federal law and the standards identified in this section.
2. School districts 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.
3. School districts will ensure that its employees avoid business arrangements or situations resulting in a conflict of interest. (See A. Pecuniary Interest)
4. School districts 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.
5. To foster greater economy and efficiency, school districts are encouraged to enter into state and local intergovernmental agreements for procurement or use of common goods and services.

6. School districts 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.
7. School districts 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 to ensure that its essential function is provided at the overall lower cost.
8. School districts 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
9. School districts will maintain records sufficient 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, and the basis for the contract price.
10. School districts 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.
11. School districts 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 district of any contractual responsibilities under its contracts. Federal agencies will not substitute their judgment for that of the district unless the matter is primarily a federal concern. Violations of law will be referred to the local, state, or federal authority having proper jurisdiction.
12. School districts 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 awarding agency. A protester must exhaust all administrative remedies with the school district before pursuing a protest with the federal agency or TEA. Reviews of protests by the federal agency or TEA will be limited to:
 - a. Violations of state or federal law or regulations, and the standards of this section.

- b. Violations of the school district's protest procedures for failure to review a complaint or protest.

Protests received by the federal agency or TEA other than those specified above will be referred to the school district.

13. Suggested Audit Procedures:

- a. Include procurement policies and procedures in the study and evaluation of the district's internal control structure.
- b. Report in the annual audit report all material weaknesses and significant deficiencies.

C. Contract Pricing:

1. Compliance requirement - The cost plus a percentage of cost and percentage of construction cost method of contracting shall not be used. School districts 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 costs incurred or cost estimates included in negotiated prices are consistent with Federal cost principles.
2. Suggested Audit Procedures:
 - a. Identify the programs involving construction activities.
 - b. Review selected construction contracts and determine whether they contain provisions for a contract pricing method other than the cost plus a percentage of cost or the percentage of cost method.

D. Contract Provisions:

1. Compliance Requirements - In addition to provisions defining a sound and complete procurement contract, school districts shall include the following contract provisions or conditions in all procurement contracts and subcontracts:
 - a. Contracts more than the simplified acquisition threshold 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.

- b. 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.
- c. All contracts awarded in excess of \$10,000 by school districts and their contractors or subgrantees 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).
- d. All contracts and subgrants for construction or repair shall include a 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 subgrantee 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. School districts shall report all suspected or reported violations to TEA.
- e. When required by the federal grant program legislation, all construction contracts in excess of \$2,000 awarded by school districts or subgrantees shall include a provision for compliance with the Davis-Bacon Act (40 USC 276a to 276a-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 established by the Secretary of Labor. In addition, contractors shall be required to pay wages not less often than once a week. School districts shall report all suspected or reported violations to TEA.
- f. All contracts awarded by school districts and subgrantees 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 workday of eight hours and a standard workweek of 40 hours. Work in excess of the eight hours per day or 40 hours per week shall be

compensated at a rate of not less than 1 1/2 times the 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 working conditions which are unsanitary, hazardous, or dangerous to his health and safety as determined under construction, safety, and health standards promulgated by the Secretary of Labor.

- g. The school district's contracts must include notice of awarding agency requirements and regulations pertaining to reporting, notice of awarding agency requirements and regulations pertaining to patent rights with respect to any discovery or invention which arises or is developed in the course of or under such contract, and awarding agency requirements and regulations pertaining to copyrights and rights in data.
- h. All contracts shall include a provision to the effect that the school district, 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.

School districts shall require contractors to maintain all required records for five years after school districts make final payments and all other pending matters are closed.

- i. 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 included on the EPA list of violating facilities. The provision shall require reporting of violations to the Texas Education Agency and to the USEPA Assistant Administrator for Enforcement (EN-329).
- j. 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).

2. Suggested Audit Procedures:

- a. For those expenditures selected for the test of transactions, examine contracts to determine whether the required contract provisions are contained therein.

- b. Where applicable obtain copies of contractors payroll records to determine compliance with the Davis-Bacon and Contract Work Hours Acts.

E. Competitive Procurement:

1. Compliance Requirements - 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:
 - a. Placing unreasonable requirements on firms in order for them to qualify to do business.
 - b. Requiring unnecessary experience and excessive bonding.
 - c. Noncompetitive pricing practices between firms or between affiliated companies.
 - d. Noncompetitive awards to consultants that are on retainer contracts.
 - e. Organizational conflicts of interest.
 - f. 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.
 - g. Any arbitrary action in the procurement process.
2. School districts will have written selection procedures for procurement transactions. These procedures will ensure that all solicitations:
 - a. 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 offerers shall be clearly stated.

- b. Identify all requirements which the offerers must fulfill and all other factors to be used in evaluating bids or proposals.
3. School districts will 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, school districts will not preclude potential bidders from qualifying during the solicitation period.
4. Suggested Audit Procedures:
 - a. Scan ledgers and examine source documentation to obtain reasonable assurance that purchases of \$10,000 or more were in compliance with Chapter 44, [Texas Education Code](#), Chapter 271, Subchapter B, [Local Government Code](#) and the above-mentioned federal regulations.
 - b. Review bid specifications for an adequate number of procurements under competitive bidding to determine whether the transactions were conducted in a manner providing full and open competition.

F. Contracting With Small and Minority Firms, Women’s Business Enterprises and Labor Surplus Area Firms:

1. Compliance Requirements - The school district will take all necessary affirmative steps to assure that minority firms, women's business enterprises, and labor surplus area firms are used when possible including:
 - a. Placing qualified small and minority businesses and women’s business enterprises on solicitation lists.
 - b. Assuring that small and minority businesses, and women’s business enterprises are solicited whenever they are potential sources.

- c. 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.
 - d. Establishing delivery schedules, where the requirement permits, which encourage participation by small and minority business, and women's business enterprises.
 - e. Using the services and assistance of the Small Business Administration, and the Minority Business Development Agency of the Department of Commerce.
 - f. Requiring the prime contractor, if subcontracts are to be let, to take the affirmative steps listed in paragraphs a. through e. of this section.
2. Suggested Audit Procedures:

Request the school district submit for review any correspondence and other source documentation establishing that the district took affirmative steps to assure that minority firms, women's business enterprises, and labor surplus area firms were used by the school district whenever possible.

Appendix 9 - Catalog of Federal Domestic Assistance Identification Numbers

The Catalog of Federal Domestic Assistance (CFDA) is a government-wide compendium of Federal programs, projects, services, and activities which provide assistance or benefits to the American public. It contains financial and nonfinancial assistance programs administered by departments and establishments of the Federal government. The Catalog of Federal Domestic Assistance can also be found on the internet at <http://www.cfda.gov>. Identification numbers commonly used by Texas school districts are cross-referenced in the Account Codes section with Special Revenue Fund codes and Revenue Codes. These codes are to be used as illustrated in the sample annual financial and compliance report in Appendix 10.

Appendix 10 - Sample Annual Financial and Compliance Report

Beginning with the fiscal year 2002 (June 30, 2002 or August 31, 2002 depending upon the fiscal year end date) TEA requires all school districts to submit their annual financial and compliance report in both paper format and electronic format.

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.

Due Date – not later than 150th day after the end of the fiscal year

November 27 for June 30 fiscal year

January 28 for August 31 fiscal year

Paper format –

Mail to:

Texas Education Agency
Financial Audits Division
1701 North Congress Avenue
Austin TX 78701

Hand-deliver to:

same address, Room 5-113

Electronic format – 2 parts

Part 1 – GASB audit data

Instructions for this portion of the submittal are specified in [GASB Audit Data Feed](#).

Part 2 – PDF file

Instructions on this requirement can be found in the [Electronic AFR Submission document](#), (in Adobe Acrobat® pdf format).

For additional information on related filing requirements, refer to Section 7.3.6 in the Data Collection and Reporting module.

The links for the standard format for the Annual Financial and Compliance Report:
([Excel](#)) ([pdf](#))

See the following page for the standard format for the Certificate of Board filed with the Annual Financial and Compliance Report.

CERTIFICATE OF BOARD

Anywhere Independent School District
Name of School District

Anywhere
County

255-901
Co. - Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) _____ approved _____ disapproved for the year ended August 31, 20AA, at a meeting of the Board of Trustees of such school district on the __ day of _____, 20AA.

Signature of Board Secretary

Signature of Board President

If the Board of Trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):
(attach list as necessary)

Appendix 11 – Guidelines for Internal Service Funds

Introduction

Internal service funds may facilitate better managerial decisions. This is the result of pulling all the financial accounting information for a given service into a single accounting “bucket.” Having more complete financial information about how resources are being used for specific services promotes better financial management and lower costs. In addition, efficiencies may be improved in the delivery of those services. Some of the specific advantages include:

- The ability to accumulate the total cost of each activity;
- Providing for ease in costing and pricing services;
- Allowing for the accumulation of resources for equipment replacement;
- Transferring some governmental fund type overhead costs to ISFs for redistribution to the benefiting programs; and
- More effectively claiming overhead cost reimbursement from grant programs by providing a clear audit trail

Without an ISF, certain resources utilized for such services as printing, construction, transportation, and maintenance, are obscured because they may be scattered across the accounting ledger. Therefore, benefits provided by specified services and respective costs to different campuses for these services may be hard to identify. For example, insurance is in an accounting code in the current system, but certain insurance costs that are applicable to athletic programs, or printing operations may not be readily available.

Some of the specific disadvantages identified by pilot participants included:

- Requirement of a different accounting basis. Personnel must adjust to two methods of accounting.

- Duplication of record keeping and reporting.
- Cost of additional accounting software.
- Additional campus administrative effort.
- Limited history of use by other school districts.

Establishment

When: The most appropriate time to establish a new ISF is during the annual budget process for use at the beginning of the next fiscal year. School districts will usually decide to use the ISF classification for activities that are new to the district, or for current activities that are being reported in the General Fund when a decision is made to transfer it to an ISF. The governing board of the school district should be informed of the change to Internal Service Funds since accounting and financial reporting may differ substantially from previous reporting periods.

Why: There are many reasons districts might decide to establish ISFs:

- Many districts simply desire more complete financial information.
- Greater scrutiny is needed as school districts are being held more accountable for raising tax rates. More and more, taxpayers are questioning how districts use their education dollars. As property tax rates are limited by caps, districts must find a way to hold the line on costs.
- Even though districts provide many services that have a private sector counterpart, most current accounting systems do not capture all the costs of these discrete services in separate accounting categories. Although privatization is not the goal of utilizing internal service funds, without something to compare to districts may have difficulty knowing if they are operating at optimum efficiency.
- Implementation of internal service funds facilitates collection of the information necessary to make decisions concerning the operations of these services. It helps districts obtain the kind of information needed to ensure that excess resources are not inadvertently diverted to non-instructional activities and may help the public to understand that resources are being used efficiently.
- Internal service funds help strengthen financial internal controls.

Number of Funds

Individual ISFs should be used to account for individual services. Only the minimum number of funds consistent with legal and operating requirements should be established.

Services to Include

While support services are the most common activities for which internal service funds are used, some financial activities such as self-insurance are likewise appropriate activities for ISFs. The key question to be asked when deciding to use such a fund is “What information is needed in order for decisions to be made in relation to the given activities under consideration?” Three primary objectives give excellent examples of when an ISF may be useful:

- If accounting resources to replace existing equipment is a concern, an internal service fund may provide the solution through “funded” depreciation charges
- If the primary concern is to compute the fair share of costs among participating units of the district or in cooperative arrangements with other districts or State or Federal agencies, an ISF provides an excellent account structure for capturing direct and indirect costs and allowable allocations of common costs.
- If the district wishes to determine the controllable cost of a program in order to decide whether to contract out or provide internally, again an ISF can be set up with the appropriate account structure.

Services for which internal service fund accounting is suitable include many services typically provided by private sector counterparts, such as printing, construction, transportation, information systems, personnel, accounting, telephones, and telecommunications is the primary factor in determining user charges, an Internal Service Fund might be appropriate.

Initial Financing

Depending on the nature and purpose of the new Internal Service Fund, working cash funds usually are required to begin operation. In addition, if the activity was previously accounted for in the General Fund or other fund(s), a transfer of capital assets to the new fund might be required. If working cash is required, either the General Fund or a cooperative venture between many funds provides these resources. If the cash transfer is to be repaid, it is treated as an interfund loan; if it is not to be repaid, it should be treated as a transfer in the General Fund and as contributed capital in the Internal Service Fund. Assets transferred would be recorded as contributed capital at their fair market value at the time of the transfer.

Managerial Decisions

Districts have many things to think about before considering the implementation of ISFs. How compelling are the forces to reduce non-instructional costs? How large is the district? What percentage of the non-instruction budget does the service comprise? How capable is the district's accounting staff? If the answers to the previous questions are such that districts believe ISFs might be a useful tool, the decision tree, Exhibit 4, could help with the final decision. It is necessary to devote a certain amount of time in the beginning stages of implementing ISFs, but the benefits could prove valuable.

Should my district implement Internal Service Funds?

The procedures for using the following decision tree are as follows:

Districts should first determine a cost benefit ratio that they believe represents a significant portion of the non-instruction budget or a priority for cost control initiation. This will vary between districts. If the service being provided comprises more than that amount, you would answer yes and follow the arrow to the next question. Otherwise, you would answer no and follow that path.

If you answered yes, the next question to consider is whether the cost information is organized or structured so that costs are in a single accounting "bucket" (fund). If the answer to this is yes, you would then need to determine whether the costs can be readily allocated to a particular campus, program or activity. If they can, you probably have adequate cost information. However, you may want to consider how appropriately priced your internal services are.

If you answered no, you should ask whether a benefit would be derived if costs could be allocated to a particular campus, program or activity. If there would, you should consider implementation of internal service funds. If you see no benefit to the ability to allocate, you should consider whether the manager of the service might benefit from having additional detailed cost information. If so, again, you should consider implementing internal service funds. If you see no benefit from either of these abilities, continue with current district accounting practice. However, you may want to consider how appropriately priced your services are and consider outsourcing the function or joining with other districts to have the service provided cooperatively.

Decision Making Tree

Accounting

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. Internal Service Funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit on a cost-reimbursement basis.

Internal Service Funds utilize the accrual basis of accounting meaning revenues are recognized when earned and expenses are recognized when incurred. These funds are generally established in order to determine the cost of a specific service. Although no encumbrance type budget is required for internal service funds, some type of budget is highly recommended. Departments for which internal service fund accounting is used no longer receive an allocation from the general fund or grant revenues, but rather “earn” their revenues by providing (selling) their services to the other divisions of the district. Therefore, they need a business management structure for controlling costs. Funds are allocated to the other departments and/or campuses, which in turn purchase their needed services from the ISF.

Although the purpose of Internal Service Funds is not to accumulate assets, both current and capital assets play a primary role in the services the funds provide.

Assets

Cash and Investments: Internal Service Funds use cash similar to an Enterprise Fund and usually the costs of operating an Internal Service Fund are incurred before the cash for services is received. Usually there is not cash available for investments, but when the funds are not required for loans they can be invested. Cash and investments must be disclosed within the reporting entity's cash and investment note disclosure. Refer to the cash flow reporting section in Financial Resource Guide section 1.7.6.2 for further guidance.

Inventory: Inventories in the Internal Service Fund should be valued at the lower of cost or market value. The cost of inventory can be determined by first-in, first-out (FIFO); last-in, first out (LIFO); weighted-average; and specific identification.

Receivables: In Internal Service Funds, the receivable category usually includes two primary classifications, intergovernmental receivables and due from other funds. The account most applicable to Internal Service Funds is the "due from other funds" account which should represent amounts receivable for goods sold or services rendered.

Internal Service Funds usually do their billings no less than monthly. Receivables should be checked at least annually to verify their collectability and an analysis should be done to verify the feasibility of maintaining the particular activity within the Internal Service Fund or move it back to the General Fund.

Capital Assets: In most internal service funds, capital assets are used in revenue-generating activities. These assets are purchased with cash or cash in conjunction with a trade-in, acquired through a lease agreement or transferred from the general capital asset accounts. The most common form of acquisition is the direct purchase. The amount of capital assets capitalized should include all reasonable and necessary cost incurred to ready the asset for its intended function. These costs can include delivery, closing costs, title and legal fees, etc.

Illustration:

Assume that a school district has purchased a vehicle at a cost of \$15,500, a \$250 destination charge and a \$50 title and license charge for a total cost of \$15,800. This

vehicle is used in a print shop accounted for in an Internal Service Fund. Entries to record the purchase of vehicle #001 are:

Purchase of Vehicles		
Account	Debit	Credit
750-00-1531-00-000-Y-00-0-00	\$15,800	
Cash and Temporary Investments		
750-00-1110-00-000-Y-00-0-00		\$15,800

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. Usually at least one of the following conditions must be satisfied for a capital lease:

- 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. 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 lease payments.

The following illustration reflects an example of accounting for a capital lease.

The Local Independent School District enters into an agreement to lease equipment. This agreement has a provision where title to the equipment will pass from the lessor to the school district at the end of eleven years.

- Payments of \$10,000 are due on September 1 of each year, beginning with September 1, 1996.

- The fair value of the equipment on September 1, 1996, is \$60,000, with an estimated life of twenty years with no salvage value.
- An implicit interest rate of 15% is used by the lessor in computing the lease payments (rounded from \$60,188 to \$60,000 for simplicity purposes in determining the value over the eleven year lease-purchase period).

Lease Amortization Schedule:

<u>Payment Date</u>	<u>Annual Lease Obligation</u>	<u>Interest on Unpaid Obligation</u>	<u>Reduction of Lease Obligation</u>	<u>Balance of Lease</u>
				\$60,000
9/1/96	\$10,000		\$10,000	50,000
9/1/97	10,000	\$7,500	2,500	47,500
9/1/98	10,000	7,125	2,875	44,625

The method of accounting for the above lease amortization schedule for a Proprietary Fund Type (**a Print Shop Internal Service Fund**) is:

1. Record the acquisition and the capital lease payable in the appropriate proprietary fund.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Equipment Under Capital Leases		
752-00-1559-00-000-Y-00-0-00	\$60,000	
Capital Leases Payable - Long-Term		
752-00-2531-000-Y-00-0-00		\$60,000

2. Record first year's payment.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Capital Leases Payable - Long-Term		
752-00-2531-00-000-Y-00-0-00	\$10,000	
Cash and Temporary Investments		
752-00-1110-00-000-Y-00-0-00		\$10,000

3. Record the first year's interest and depreciation expense.

Account	Debit	Credit
Expenses - Capital Lease Interest		
752-71-6522-00-999-Y-99-0-00	\$7,500	
Expenses - Depreciation		
752-81-6449-00-999-Y-99-0-00	\$3,000	
Accrued Interest Payable		
752-00-2430-00-000-Y-00-0-00		\$7,500
Accumulated Depreciation - Other Equipment		
752-00-1579-00-000-Y-00-0-00		\$3,000

4. Record second year's payment.

Account	Debit	Credit
Accrued Interest Payable		
752-00-2430-00-000-Y-00-0-00	\$7,500	
Capital Leases Payable - Long-Term		
752-00-2531-00-000-Y-00-0-00	\$2,500	
Cash and Temporary Investments		
752-00-1110-00-000-Y-00-0-00		\$10,000

Lease Disclosure Requirements: For capital leases, GASB Codification Section L20 (NCGAS 5, Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments) 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 recorded 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 5-year increments thereafter
- Assets recorded under capital leases and the related depreciation should be separately identified in the General Capital Asset Fund

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Depreciation: 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

Districts should use the depreciation method they deem appropriate for a given set of circumstances.

Periodic depreciation using the straight-line method is determined by taking actual cost, subtracting estimated salvage value, and dividing by the number of years or months 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 vehicle #001 costing \$15,800 is expected to be used for five years, and at the end of five years the salvage value is estimated to be \$500. Annual depreciation is \$3,060, which is determined by taking the actual cost of \$15,800, subtracting the estimated salvage value of \$500, and then dividing by the estimated life of 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. However, this does not mean uniformly applied to all depreciable assets.

Illustration:

It is estimated that the vehicle will have a useful life of five years and will have a salvage value of \$500. For simplicity of accounting, assume further that the vehicle was delivered at the beginning of the fiscal year. The straight-line method is used to determine depreciation expense.

Account	Debit	Credit
Depreciation Expense		
751-41-6449-00-999-Y-99-0-00	\$3,060	

Account	Debit	Credit
Accumulated Depreciation - Vehicles		
751-00-1574-00-000-Y-00-0-00		\$3,060

Disposal: Assume that the school district sells vehicle #001 for \$250 after it has been completely depreciated. Note that the \$250 non-operating expense - loss on sale of real and personal property equity is equal to the \$500 salvage value determined at the time that the vehicle was purchased less the \$250 sale price. The following entries are made:

F. Record sale of vehicle #001.

Account	Debit	Credit
Cash and Temporary Investments		
751-00-1110-00-000-Y-00-0-00	\$250	
Accumulated Depreciation - Vehicles		
751-00-1574-00-000-Y-00-0-00	\$15,300	
Loss on Sale of Real and Personal Property		
751-41-8951-00-999-Y-99-0-00	\$250	
Vehicles		
751-00-1543-00-000-Y-00-0-00		\$15,800

Assume that the same situation exists regarding the above vehicle #001, except that the school district sells the vehicle for \$2,000 after the close of the third year, but prior to its total depreciation. The following entries are made:

G. Record sale of vehicle #001.

Account	Debit	Credit
Cash and Temporary Investments		
751-00-1110-00-000-Y-00-0-00	\$2,000	
Accumulated Depreciation - Vehicles		
751-00-1574-00-000-Y-00-0-00	\$9,180	
Loss on Sale of Real and Personal Property		
751-00-8951-00-000-Y-00-0-00	\$4,620	
Vehicles		
751-00-1543-00-000-Y-00-0-00		\$15,800

Liabilities

GAAP for Internal Service Funds require all obligations related to the funds' activities to be displayed as fund liabilities. The liabilities should either be classified as short-term, long-term, or divided between short-term and long-term when a balance sheet is presented. In internal service funds long-term debt is rare except for the existence of capital leases and liabilities under self-insurance.

Equity

Internal Service Fund equity is usually presented in three categories: invested in capital assets, net of related debt; restricted; and unrestricted.

Contributed Capital: Contributed capital is created when a transfer is received from other funds. These contributions usually occur when the fund initially is established and capital assets are transferred from the General Capital Asset Fund. Capital contributions should not be displayed as a separate component of net assets.

In theory, an Internal Service Fund should have revenues equal to expenses and no net assets. In reality, both surpluses and deficits exist. GASB codification C50.129-130 notes that when an Internal Service Fund is used to account for risk-financing activities, deficits do not need to be charged back to the other funds in any one year, as long as adjustments are made over a reasonable period of time. Any deficit fund balance of the internal service fund should be disclosed in the notes to the financial statements. If the charge by the internal service fund to the other funds is greater than the amount charged, the excess should be reported as an interfund transfer. If the charge doesn't recover the full cost over a reasonable period of time, any deficit fund balance should be charged back to the other funds and reported as an expenditure/expense of those funds.

Revenues

Revenues are earned as an Internal Service Fund provides services to another department such as an academic unit or an administrative unit. These revenues are recognized in the period in which they are earned.

Deferred revenue usually is not reported in an Internal Service Fund since receivables are not reported until the service is provided.

Expenses

Expenses in the Internal Service Fund are recognized in the period in which they are incurred. For services done by an Internal Service Fund, the expense is reported when the service has been performed and the amount of the liability can be estimated. Inventories of consumable materials and supplies are acknowledged as expenses when they are used in providing the services. Usually, the cost of supplies and materials used are reported as expenses when the inventory is taken from the inventory stock.

Illustration:

Assume that an Education Service Center (ESC) operates a print shop which provides printing services to all the departments/offices in the ESC. The print shop operations are accounted for in an Internal Service Fund. During the year, charges to departments/offices are based on a rate structure which considered cost per unit sufficient to maintain a break-even reimbursement basis for the ESC. The following departments/offices had charges for the month of December:

<u>Function</u>	<u>Department</u>	<u>Amount</u>
12	Media Services	\$ 450
13	Curriculum Assistance	625
53	Computer Services	100
34	Bus Driver Training	75
11	Instruction-Migrant Education (federally funded)	175
		<u>\$1,425</u>

A. Record print charges to other funds in the Print Shop Internal Service Fund assuming charges are not immediately settled in cash.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Due from General Fund		
752-00-1261-00-000-Y-00-0-00	\$1,250	

Account	Debit	Credit
Due from Special Revenue Fund		
752-00-1262-00-000-Y-00-0-00	175	
Revenues - Interfund service provided and used Interfund Transactions		
752-00-5754-00-000-Y-00-0-00		\$1425

B. Record amount charged for printing services to the General Fund and Special Revenue Funds by the Print Shop Internal Service Fund. As noted above, assume the charges are not immediately settled in cash.

Account	Debit	Credit
Expenditures - General Supplies		
199-12-6399-00-000-Y-99-0-00	\$450	
199-13-6399-00-000-Y-99-0-00	\$625	
199-53-6399-00-000-Y-99-0-00	\$100	
Assets-Inventory		
752-00-1310-00-000-Y-00-0-00		\$1175

Account	Debit	Credit
Due from General Fund		
752-00-1261-00-000-Y-00-0-00	\$1175	
Due to Internal Service Fund		\$1175
199-00-2176-00-000-Y-00-0-00		
Expenditures - General Supplies		
199-34-6399-00-000-Y-99-0-00	\$75	
Assets-Inventory		
752-00-1310-00-000-Y-00-0-00		\$75
Due from General Fund		
752-00-1261-00-000-Y-00-0-00	\$75	
Due to Internal Service Fund		
199-00-2176-00-000-Y-00-0-00		\$75
Expenditures - General Supplies		
212-11-6399-00-000-Y-24-0-00	\$175	
Assets-Inventory		

Account	Debit	Credit
752-00-1310-00-000-Y-00-0-00		\$175
Due from General Fund		
752-00-1261-00-000-Y-00-0-00	\$175	
Due to Internal Service Fund		
199-00-2176-00-000-Y-00-0-00		\$175

Transfers

Districts often make transfers between fund types and Internal Service Funds. Some of the main reason transfers are made are:

- The transfer of existing governmental fund type activities to a new Internal Service Fund;
- The abolishment of a current Internal Service Fund with the remaining assets, liabilities and equities being transferred to a governmental fund type and or the account groups;
- An annual subsidy from a governmental fund to an Internal Service Fund.

When a new Internal Service Fund is established, the transfer is considered an operating transfer.

Illustration:

Assume that a school district desires to establish an Internal Service Fund for the purpose of operating a motor pool for all types of district owned vehicles. Traditionally, costs of vehicles have been borne by the General Fund. As a result, vehicles costing \$500,000 are recorded in the General Capital Assets Fund (GCAF) and bus warrants for \$100,000 are recorded in the General Long-Term Debt Fund (GLTDF). The school district established an Internal Service Fund for the motor pool by making the following transfers, including a transfer of \$50,000 in cash:

A. Transfer cash from the General Fund to the Motor Pool Internal Service Fund.

Account	Debit	Credit
Transfers Out		
199-00-8911-00-999-Y-99-0-00	\$50,000	
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00		\$50,000

B. Transfer cost of vehicles from General Capital Assets to Motor Pool Internal Service Fund.

Account	Debit	Credit
Investment in Capital Assets, Net of Related Debt		
901-00-3200-00-000-Y-00-0-00	\$500,000	
Vehicles		
901-00-1543-00-000-Y-00-0-00		\$500,000

C. Transfer bus warrants from GLTDF to the Motor Pool Internal Service Fund.

Account	Debit	Credit
Loans Payable - Long Term		
902-00-2520-00-000-Y-00-0-00	\$100,000	
Invested in Capital Assets, Net of Related Debt		
902-00-3200-00-000-Y-00-0-00		\$100,000

D. Record transferred assets, liabilities and equity from the General Fund, General Capital Asset Fund and GLTDF to the Motor Pool Internal Service Fund, and to establish accumulated depreciation for vehicles.

Account	Debit	Credit
Cash and Temporary Investments		
751-00-1110-00-000-Y-00-0-00	\$50,000	
Vehicles		
751-00-1543-00-000-Y-00-0-00	\$500,000	
Transfers In		
751-00-7999-00-000-Y-00-0-00		\$50,000
Accumulated Depreciation - Vehicles		

Account	Debit	Credit
751-00-1572-00-000-Y-00-0-00		\$25,000
Loans Payable - Long Term		
751-00-2520-00-000-Y-00-0-00		\$100,000
Contributed Capital		
751-00-3200-00-000-Y-00-0-00		\$375,000

At the close of the accounting period, it is determined that the Motor Pool Internal Service Fund has sufficient assets to return the \$50,000 cash transfer to the General Fund. The following entries are made to record this transfer:

A. Record transfer to the general fund.

Account	Debit	Credit
transfers Out		
751-00-8911-00-999-Y-99-0-00	\$50,000	
Cash and Temporary Investments		
751-00-1110-00-000-Y-00-0-00		\$50,000

B. Record transfer from the Motor Pool Internal Service Fund to the General Fund.

Account	Debit	Credit
Cash and Temporary Investments		
199-00-1110-00-000-Y-00-0-00	\$50,000	
transfers In		
199-00-7999-00-000-Y-00-0-00		\$50,000

Note: The infusion or return of capital should not be confused with recurring subsidies.

Financial Reporting of Internal Service Funds

The required basic financial statements for these funds include 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. Although not required, it is recommended that a budget report be completed as part of an overall system of good internal control.

Districts should consider eliminating ineffective or unnecessary internal service funds and performing the accounting for the activities in these funds as a Special Revenue fund or in a separate department in the General fund. Note that if this one-time option is used, the internal service funds will actually be eliminated in the general ledger and the activities accounted for in the General fund department. Once the initial elimination is made on the books, the internal service funds will not exist, except as a department of the General fund. (See Step 3 for both case studies in Appendix 11 for elimination journal entries.)

If the district does not eliminate internal service funds then the internal activity and internal balances in fund financials should be eliminated when preparing the government-wide statements of net assets and activities. This will eliminate the doubling-up effect of amounts in the government-wide financial statements.

In the statement of activities, eliminate the “doubling-up” effect of internal service fund activity. If the internal service fund has net income, there would be a pro rata reduction in the charges made to the participating functions. A net loss would cause a pro rata increase in the amounts charged to the participating functions. (See Appendix 7 for journal entries.)

Appendix 11. A. - Cost Analysis Guide

OVERVIEW OF THE PROCESS AND COSTING METHODOLOGY:

Phase 1 - Identify Commercial Activities and Schedule for Review:

The first step is to identify current school district functions that are commercial activities and therefore subject to a review process to determine if an Internal Service Fund would be appropriate. After the determination of which functions could be reviewed, the school district should schedule the identified functions for cost reviews.

Phase 2 - Management Study:

After a schedule for cost reviews has been set, the school district should perform a management study of each function. The study should contain, at a minimum, a description of the function, an analysis of the quality and quantity of the work performed by the school district in relation to the stated function, and a description of any school district efficiency initiatives that the school district could implement to perform the function more efficiently.

Phase 3 - Determine In-House Costs:

Based upon the management study, the school district should estimate its total cost to perform each function. Total cost should include full allocation of common costs, but these should be presented in a manner that readily identifies costs already committed, capacity costs to be committed, and marginal costs for the services.

Phase 4 - Cost Comparison Review:

The school district should conduct a cost comparison review. The review should include the following steps: 1) estimating the cost to purchase the service from the private sector; 2) determining if comparable quality and quantity could be provided through purchase; 3) determining the total district cost based upon the in-house cost estimate; and 4) comparing the estimated purchase cost to the estimated in-house cost. If a function of comparable quality and quantity can be purchased at a significant

saving, the school district should either consider ways to reduce their cost or decide to purchase from the private sector.

Cost Determination Process: The cost to perform a service or function based upon a certain objective should be analyzed. The first step in this cost analysis is the definition of the service to be provided. Then the school district must determine who does the job and what direct and indirect costs contribute to the performance of the function. Direct costs are those costs, which are 100% attributable to the function being analyzed. Indirect costs are those costs which are not readily identifiable to a function but support the function.

When all costs, direct and indirect, are summed, the result will be the total cost of the function - what it will really cost the district to provide the function based upon the management study. From the total cost, avoidable cost is extracted - how much of the total cost would be eliminated by the school district if an alternative method of service delivery were chosen. The key to effective cost analysis is identifying which cost is appropriate for the desired objective. When the objective is to determine what costs, if any could be saved by a different method of providing a service, then the avoidable cost would be used for comparison purposes.

The school districts should calculate the costs of a function down to the avoidable cost level, because the objective of the cost analysis is to determine if the district is performing a function at a cost competitive with the private sector.

The analysis of prior year expenditures and the current operating budget will be the starting point for determination of the cost to perform a function. However, operating budgets and school district accounting records are based upon expenditures. Expenditures relate to the acquisition of goods and services. For a cost analysis, it is the use of resources - expenses - that is desired. Therefore, it is necessary to convert some expenditures to expenses when determining the total cost. Examples of this conversion might be to reverse the amount for capital expenditures from the operating budget and convert this to an amount for depreciation or to reverse a portion of supplies expenditures for one year, which will benefit the following year.

The converted budget will then be adjusted as required to reflect any changes determined in the management study. Any anticipated cost increases as well as inflation will be considered in determining the total cost.

Forms And Instructions: Before the preparation of the in-house cost estimate, the school district should consider the following items.

1. Districts are expected to use reasonable and accepted accounting practices in accumulating and developing costs.
2. The cost analysis should be based upon the school district's determination of the most efficient method of performing the function identified. This may require modification of any historical or budget information utilized in the analysis, which are based upon an existing method of operation. The revised method of operation should be clearly defined in sufficient detail to allow for the adjustment of school district's records.
3. The cost estimate should include all costs within the school district, plus those fringe benefits paid by others on behalf of the district, if applicable.
4. The in-house estimate must provide a record of information to support the entries for each line of the cost analysis. To the maximum extent possible, the cost analysis must support all calculations without further explanation.
5. The forms 'Summary In-House Cost Analysis' and 'Detailed In-House Cost Analysis' are included in Appendix C for guidance. Using the format outlined, the district should complete worksheets for each function.
6. In preparing the in-house estimate, all known or anticipated increases in cost should be considered. An inflation factor should be applied to the estimates where appropriate. Data for this purpose is available at <http://stats.bls.gov/>

Calculation of Total School District Cost: The total cost estimate should include all school district costs, both direct and indirect, as allocated to the function. Every section that contributes to the performance of the function in a direct or indirect manner should be included in the estimate of total cost, regardless of whether or not the cost would be saved if the function were contracted.

1. **Determination of Direct Costs** - Direct costs should be 100% attributable to the function as defined. As budgets are sometimes organized in a different manner than an accounting system might record costs, the school district should exercise care in reviewing each function in the entire budget for direct costs of the function, regardless of where they are budgeted. This guide discusses the major cost components; however, the discussion is not all-inclusive and the school district should be careful to capture all applicable costs. A list of examples of direct cost components is included in Appendix D.
 - a. **Personnel Costs** - Personnel wages will include direct personnel costs for accomplishing the function as outlined in the management study performed by the school district. The cost estimate should include the position title of the personnel used to perform the function and the percentage of the person's time attributable to the function.

- b. Fringe Benefits- - Fringe benefits to be considered for employees include retirement programs, supplemental health insurance payments, and leave time. The school district will use a percentage of salaries to determine the amount of fringe benefit cost to be included in the analysis.

Care should be exercised to ensure the results are reasonable for the function being analyzed.

- (1) Retirement and Health Programs - The district's retirement and health insurance program costs may include the following; Employee retirement system contributions, District paid portion of employee's social security, District portion of social security and District contribution to employee's medical insurance.
- (2) Leave Time - If the school district calculates an employee's available hours net of vacation, holiday and sick time, then no additional amount should be included in the cost estimate for these fringe benefits. This method provides for the cost of these benefits through the salary costs.

If total hours are used in determining the number of personnel needed for the function, the school district should include a percentage of salary costs for vacation, holiday and sick leave.

- c. Materials and Supplies - This category includes all materials and supplies used to perform the function as outlined in the management study.
- d. Other Direct Costs - Other direct costs that are 100% attributable to the function should be considered such as facility and equipment depreciation, parking, training and utilities. Many costs may be allocated on a defined unit of measure based upon consumption. Some of these other direct costs are discussed in more detail below.
 - (1) Depreciation - Under the concept of the conversion of expenditures to expenses, equipment costs must be allocated over the period of benefit to reflect consumption of resources. Therefore, the expenditures for capital outlays should be excluded from the cost estimate and an amount for annual depreciation included. Depreciation should be calculated by dividing the depreciable basis of the asset by the estimated useful life of the asset. Depreciable basis will be defined as acquisition cost plus transportation and installation costs. This calculation should be applied only to those capital assets used solely in performing the function.

- (2) Rent - The rental or lease cost of equipment or facilities used in performing the function should be included in other direct costs.
 - (3) Maintenance and Repair - The direct costs incurred to keep facilities and equipment in working condition should be considered.
 - (4) Utilities - This category would include fuel, electricity, telephones, water, and sewer costs directly incurred in performing the function.
 - (5) Other costs - Other specifically attributable direct costs might include training costs, travel expenses, uniforms and housing allowances, parking and purchased services.
2. Determination of Indirect Costs - Indirect costs will consist of two types - school district administrative overhead and unit overhead. School district administrative overhead is all other support costs, which contribute to the function indirectly. Examples of this type of cost are personnel department, accounting, data processing, maintenance, and purchasing. Unit overhead is any administrative cost incurred by the unit directly responsible for the function, such as supervisor's costs, principal's cost, etc.

To calculate indirect costs attributable to a particular function, each successive level of indirect cost is allocated to the next lower level until all costs have been allocated.

There are several standard techniques used in cost accounting to allocate such costs and this guide recommends the use of the step down method discussed below.

In the step down method, indirect costs are allocated to functions in a step fashion. The order of allocation is the critical determination in this method, which starts with the function receiving the least amount of service from other functions down to the function receiving the most services from other functions. This method ignores some of the reciprocal relationships which may exist between support functions. However, the increased simplicity and understanding over a complex system of equations tends to mitigate this concept flaw.

As with any allocation, results should always be reviewed for reasonableness.

- a. Calculation of School District Overhead - Budgets do not always conform to functional guidelines; therefore, the school district operating budget must first be categorized into those functions which are actually of general benefit to the school district as a whole rather than to one or two campuses. School district overhead is then further examined for any items of one-time benefit, which should be excluded in an allocation, such as relocation expenses or major capital acquisitions.

This adjusted overhead amount should be allocated to the various functions using the step down method. The allocation might be based upon the relationship of the function budget to the total budget. Whatever allocation method is used, the school district must review the results for reasonableness and consistency.

- b. Calculation of Unit/Campus Overhead - The school district should follow the same process described for school district overhead in determining divisional overhead.

Calculation Of Avoidable School District Costs: Once total cost has been determined, the school district will extract the appropriate costs to calculate the avoidable cost. It is important to remember that avoidable cost is the net cost, which could be eliminated by the school district if an alternate method of service delivery were chosen. The components of avoidable cost will depend upon how the school district defines the function being costed - what parts of the function are to be considered and what parts would not change.

Questions to consider might be:

- Does the school district want to provide for a back up crew to fulfill the function?
- Will current equipment be used regardless of the course of action or will it be sold?
- At what level does the school district feel the function operates at its most efficient level - statewide, regional, or individual facility?
- ***Who will supply the labor, materials or supervision?***

For purposes of determining avoidable cost, personnel costs will be included as avoidable only if more than 50% of an individual employee's time would be saved. Documentation should include all assumptions used and the basis for allocation.

1. Indirect Avoidable Cost - Unit overhead costs will usually be the only indirect costs included in the avoidable cost estimate. Unless a very large function was being analyzed, the school district would not find at least 50% of a person's time that could be saved at the school district overhead level.
2. Direct Avoidable Cost - Based upon the definition of the function in the management study, the school district will determine which direct costs would be

saved if the district did not perform the function. For example, if backup maintenance workers are retained regardless of who performs the building maintenance, these costs are direct, but unavoidable costs.

Appendix 11. B. - Examples of Services Applicable for Cost Analysis

- Grounds and vehicle maintenance services
- Printing services
- Self-funded health and dental coverage
- Transportation services
- Police services
- Management Information Systems

Appendix 11. C. - Summary In-House Cost Analysis

SCHOOL DISTRICT _____

FUNCTION _____

TWO YEAR PERIOD ENDING _____

PREPARED BY _____ DATE _____

REVIEWED BY _____ DATE _____

	TOTAL COST		AVOIDABLE COST	
	Period 1	Period 2	Period 1	Period 2
DIRECT COSTS				
Personnel Wages	_____	_____	_____	_____
Fringe Benefits	_____	_____	_____	_____
Materials & Supplies	_____	_____	_____	_____
Other Direct Costs	_____	_____	_____	_____
TOTAL DIRECT COSTS	_____	_____	_____	_____
INDIRECT COSTS				
Division Administrative Overhead	_____	_____	_____	_____
District Administrative Overhead	_____	_____	_____	_____
TOTAL INDIRECT COST	_____	_____	_____	_____
TOTAL COSTS	_____	_____	_____	_____

	CURRENT OPERATING	ADJUSTMENTS		REVISED TOTAL
	<u>BUDGET</u>	<u>MADE</u>		<u>COST</u>
		<u>CONVERT#</u>	<u>MODIFY*</u>	<u>PERIOD 1</u>
DIRECT COSTS				
Personnel Wages				
1.				
2.				
3.				
4.				
Fringe Benefits				
1.				
2.				
3.				
Materials & Supplies				
1.				
2.				
3.				
Other Direct Costs				
1.				
2.				
3.				
4.				
	_____	_____	_____	_____
TOTAL DIRECT COSTS				
	_____	_____	_____	_____
INDIRECT COSTS				
Div.Adm. Overhead				
District Adm. Overhead				
	_____	_____	_____	_____
TOTAL INDIRECT COSTS				
	_____	_____	_____	_____
TOTAL COSTS				
	_____	_____	_____	_____

Convert from expenditures to expenses

* Modify operations as a result of management study

AVOIDABLE COST	ADJUSTMENTS	REVISED TOTAL COST	REVISED AVOIDABLE COST
<u>PERIOD 1</u>		<u>PERIOD 2</u>	<u>PERIOD 2</u>
_____	_____	_____	_____
_____	_____	_____	_____
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Appendix 11. D. - Examples Of Direct Cost Components

PERSONNEL COSTS

Salaries and Wages

Longevity Pay

Hazardous Duty Pay

FRINGE BENEFITS

Employee retirement contribution

Health insurance supplement

District paid portion of employee's social security contribution

District portion of social security contribution

Vacation pay

Holiday pay

Sick pay

MATERIALS AND SUPPLIES

Raw materials

Repair parts

Office supplies

Consumable materials

OTHER DIRECT COSTS

Equipment Costs Depreciation Rent

Maintenance and repair

Housing

Parking

Clothing/uniforms

Utilities

Travel

Training

Note: This listing of some cost components is for example purposes only and should not be considered all-inclusive.

Appendix 11. E. - Example Financial Statements

Refer to Appendix 10 in the FAR Module for example financial statements

Bibliography for Guidelines for Internal Service Funds

Alwin, Lawrence F., CPA, Competitive Cost Review – Cost Analysis Guide, State Auditor's Office, Austin, Texas, 1987.

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Appendix 12 - Glossary

Excerpted from the Governmental Accounting, Auditing, and Financial Reporting; Government Finance Officers Association, 180 N. Michigan Ave., Suite 800, Chicago, IL 60601.

The following explanations of terms are presented to aid in understanding the narrative discussions and illustrations included in this text and the terminology generally used in governmental accounting, auditing, financial reporting and budgeting. Because this glossary is reprinted from the Government Finance Association's Governmental Accounting and Financial Reporting, the terms and explanations have not been modified to reflect specific Texas school district issues, etc. Synonyms for specific terms also may be presented in this appendix. In such instances, the abbreviation "syn." is used before the term.

ACCOUNTABILITY. Being obliged to explain one's actions, to justify what one does. Accountability requires governments to answer to the citizenry—to justify the raising of public resources and the purposes for which they are used. Governmental accountability is based on the belief that the citizenry has a "right to know," a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives. [SGAC1]

ACCOUNTING PRINCIPLES BOARD (APB). Authoritative private-sector standard-setting body that preceded the FASB. The APB issued guidance in the form of *Opinions*.

ACCOUNTING STANDARDS EXECUTIVE COMMITTEE (AcSEC). An AICPA committee that is authorized to issue *Practice Bulletins*. A *Practice Bulletin* specifically targeted to state and local governments and cleared by the GASB would enjoy "level 2" status on the hierarchy of authoritative sources of GAAP established by SAS No. 69, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report*.

ACCRUAL BASIS OF ACCOUNTING. A method of accounting that recognizes the financial effect of transactions, events, and interfund activities when they occur, regardless of the timing of related cash flows.

ACQUISITION COSTS. Term used in connection with public-entity risk pools. Costs that vary with and are primarily related to the acquisition of new and renewal contracts. Commissions and other costs (e.g., salaries of certain employees involved in the underwriting and policy issue functions, and inspection fees) that are primarily related to contracts issued or renewed during the period in which the costs are incurred are considered to be acquisition costs [SGAS 10]

ACTIVITY. A specific and distinguishable service performed by one or more organizational components of a government to accomplish a function for which the government is responsible (e.g., *police* is an activity within the *public safety* function).

ACTUARIAL ACCRUED LIABILITY. Term used in connection with defined benefit pension plans and other postemployment benefit plans. That portion, as determined by a particular actuarial cost method, of the actuarial present value of benefits promised to employees that will not be provided for by future normal costs. [SGAS 25 and SGAS 43]

ACTUARIAL ASSUMPTIONS. Term used in connection with defined benefit pension plans and other postemployment benefit plans. Assumptions as to the occurrence of future events affecting pension costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and government-provided pension benefits; rates of investment earnings and asset appreciation or depreciation; procedures

used to determine the actuarial value of assets; characteristics of future entrants for open group actuarial cost methods; and other relevant items. [SGAS 25 and SGAS 43]

ACTUARIAL COST METHOD. Term used in connection with defined benefit pension plans and other postemployment benefit plans. A procedure for determining the actuarial present value of pension plan benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a normal cost and an actuarial accrued liability. [SGAS 25 and SGAS 43].

ACTUARIAL SECTION. One of five sections of a comprehensive annual financial report of a public employee retirement system.

ACTUARIAL VALUE OF ASSETS. Term used in connection with defined benefit pension plans and other postemployment benefit plans. The value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an actuarial valuation. The actuarial value of assets, which may represent an average value over time, normally differs from the amount reported in the financial statements, which is a point-in-time measure (i.e., as of the date of the statement of net assets). [SGAS 25 and SGAS 43]

ADDITIONS. Term used to describe increases in the net assets of fiduciary funds.

ADVANCE REFUNDING. A transaction in which new debt is issued to provide monies to pay interest on old, outstanding debt as it becomes due, and to pay the principal on the old debt either as it matures 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. Most advance refundings result in defeasance of debt. [SGAS 7]

ADVERSE OPINION. Term used in connection with auditing. Conclusion in the independent auditor's report that financial statements are not fairly presented.

AGENCY FUNDS. One of four types of fiduciary funds. Agency funds are 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. [SGAS 34]

AGENT MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION/OTHER POSTEMPLOYMENT BENEFITS PLAN. An aggregation of single-employer plans, with pooled administrative and investment functions. Separate accounts are maintained for each employer so that the employer's contributions provide benefits only for the employees of that employer. A separate actuarial valuation is performed for each individual employer's plan to determine the employer's periodic contribution rate and other information for the individual plan, based on the benefit formula selected by the employer and the individual plan's proportionate share of the pooled assets. The results of the individual valuations are aggregated at the administrative level. [SGAS 27 and SGAS 45]

ALLOCATED CLAIMS ADJUSTMENT EXPENSES. Term used in connection with risk financing activities. Expenses associated directly with specific claims paid or in the process of settlement, such as legal and adjusters' fees. [SGAS 10]

ALLOTMENT. Portion of an annual or biennial budget appropriation allocated to an interim period.

ANALYTICAL REVIEW. Term used in connection with auditing. The process of attempting to determine the reasonableness of financial data by comparing their behavior with other financial and nonfinancial data.

ANNUAL COVERED PAYROLL. Term used in connection with defined benefit pension and other postemployment benefit plans. All elements included in annual compensation paid to active employees on which contributions to a plan are based. [SGAS 27]

ANNUAL REQUIRED CONTRIBUTION (ARC). Term used in connection with defined benefit pension and other postemployment benefit plans. The

employer's required contribution for the year, calculated in accordance with certain parameters. [SGAS 27]

APPROPRIATED BUDGET. The expenditure authority created by the appropriation bills or ordinances that are signed into law and related estimated revenues. The appropriated budget would include all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes. [NCGA Interpretation 10]

ARBITRAGE. Classically, the simultaneous purchase and sale of the same or an equivalent security in order to profit from price discrepancies. In government finance, the most common occurrence of arbitrage involves the investment of the proceeds from the sale of tax-exempt securities in a taxable money market instrument that yields a higher rate, resulting in interest revenue in excess of interest costs.

ASSESSED VALUATION. A valuation set upon real estate or other property by a government as a basis for levying taxes.

ASSET ALLOCATION. Term used in connection with pension and other postemployment benefit plans. The process of determining which types of investments are to be included and the percentages that they are to comprise in an overall investment portfolio.

ATTAINED AGE ACTUARIAL COST METHOD. Term used in connection with defined benefit pension plans. A method under which the excess of the actuarial present value of projected benefits over the actuarial accrued liability in respect to each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between the valuation date and assumed exit. The portion of this actuarial present value that is allocated to a valuation year is called the normal cost. The actuarial accrued liability is determined using the unit credit actuarial cost method. [SGAS 25]

AUDIT COMMITTEE. A group of individuals, selected by the governing body, having specific responsibility for addressing all issues related to the independent audit of the financial statements.

AUDIT GUIDES. Series of AICPA publications that enjoy potential "level 2" status on the hierarchy of authoritative sources of GAAP (some publications in the series are titled Audit and Accounting Guides). In the public sector, the most important such publication is *State and Local Governments*.

AUDIT SCOPE. In the content of a financial statement audit, the coverage provided by the independent auditor's opinion on the financial statements. For example, required supplementary information normally is not included within the scope of a financial statement audit (i.e., the independent auditor does not offer an opinion on its fair presentation).

AUDITOR ROTATION. Policy that a government periodically replace the independent auditor of its financial statements.

AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE OVER FINANCIAL REPORTING. Report issued in conjunction with a financial audit performed in accordance with GAGAS. In this report, the independent auditor reports on internal control weaknesses and instances of noncompliance discovered in connection with the financial audit, but does not offer an opinion on internal controls or compliance.

AUDIT GUIDES. A series of AICPA publications that enjoy "level 2" status on the hierarchy of authoritative sources of GAAP established by SAS No. 69, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report*, when they are specific to state and local government and cleared by the GASB.

AVAILABILITY CRITERION. Principle of the modified accrual basis of accounting according to which revenues may only be recognized when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. [NCGA Statement 1]

AVAILABILITY PERIOD. A specified period immediately following the close of the fiscal year by the end of which cash must be collected for related revenue to be recognized in accordance with the availability criterion of modified accrual accounting.

BANK HOLDING COMPANY. A company that controls one or more banks and may own subsidiaries with operations closely related to banking. When branch banking was severely limited, bank holding company statutes allowed banking systems to develop by permitting common ownership of several banks. Generally, the Bank Holding Company Act provides that a holding company has control over a bank if it owns, controls, or holds 25 percent or more of the voting stock of the bank. [TB 97-1]

BANK INVESTMENT CONTRACTS. A separate account at a financial institution that functions like a guaranteed investment contract.

BANKERS' ACCEPTANCES. Short-term, noninterest-bearing notes sold at a discount and redeemed by the accepting banks at maturity for face value. Bankers' acceptances generally are created based on a letter of credit issued in a foreign trade transaction. [SGAS 31]

BANKING POOLS. One of four different types of public-entity risk pool. An arrangement by which monies are made available for pool members in the event of loss on a loan basis. [SGAS 10]

BASIC FINANCIAL STATEMENTS. The minimum combination of financial statements and note disclosures required for fair presentation in conformity with GAAP.

BASIS DIFFERENCES. Differences that arise through the employment of a basis of accounting for budgetary purposes that differs from the basis of accounting prescribed by GAAP for a given fund type. [NCGA Interpretation 10]

BASIS OF ACCOUNTING. The timing of recognition, that is, when the effects of transactions or events should be recognized for financial reporting purposes. For example, the effects of transactions or events can be recognized on an accrual basis (that is, when the transactions or events take place), or on a cash basis (that is, when cash is received or paid). Basis of accounting is an essential part of measurement focus because of a particular timing of recognition is necessary to accomplish a particular measurement focus. [SGAS 11]

BETTERMENT. An addition made to, or change made in, a capital asset, other than maintenance, to prolong its life or to increase its efficiency or capacity. The cost of the addition or change is added to the book value of the asset. The term *improvement* is preferred.

BLENDING. The method of reporting the financial data of a component unit that presents the component unit's balances and transactions in a manner similar to the presentation of the balances and transactions of the primary government. [SGAS 14]

BLUE BOOK. A term commonly used to designate the Government Finance Officers Association's publication *Governmental Accounting, Auditing, and Financial Reporting*.

BOND ANTICIPATION NOTE. Short-term interest-bearing note issued by a government in anticipation of bond proceeds to be received at a later date. The note is retired from proceeds of the bonds to which it is related.

BOOK-ENTRY SYSTEM. A system that eliminates the need for physically transferring bearer-form paper or registering securities by using a central depository facility. [SGAS 3]

BUDGETARY BASIS OF ACCOUNTING. The method used to determine when revenues and expenditures are recognized for budgetary purposes.

BUDGETARY ACCOUNTS. Special accounts used to achieve budgetary integration, but not reported in the general-purpose external financial statements. By convention, ALL CAPS commonly are used to designate budgetary accounts. The most common budgetary accounts are ESTIMATED REVENUES, APPROPRIATIONS, BUDGETARY FUND BALANCE, and ENCUMBRANCES.

BUDGETARY GUIDELINES. Recommendations on budgeting issued by the National Advisory Council on State and Local Budgeting (NACSLB). The NACSLB's budgetary guidelines are chiefly of interest to accountants because of the emphasis they place on performance measurement in the context of the budgetary process.

BUDGETARY INTEGRATION. The management control technique by which the annual operating budget is recorded in the general ledger through the use of budgetary accounts. Budgetary integration is intended to facilitate control over revenues and expenditures during the year.

BUDGETARY JOURNAL ENTRIES. Journal entries involving budgetary accounts. Budgetary journal entries arise in connection with budgetary integration.

BUDGETARY REPORTING. The requirement to present budget-to-actual comparisons in connection with general purpose external financial reporting. Budgetary reporting is required in connection with the basic financial statements for both the general fund and individual major special revenue funds with legally adopted annual budgets. Budgetary reporting also is required within the comprehensive annual financial report to demonstrate compliance at the legal level of control for all governmental funds with legally adopted annual budgets.

BUSINESS-TYPE ACTIVITIES. One of two classes of activities reported in the government-wide financial statements. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. These activities are usually reported in enterprise funds. [SGAS 34]

CALL OPTION. A contract giving the buyer (owner) the right, but not the obligation, to purchase from (call option) the seller (writer) of the contract a fixed number of items (such as shares of equity securities) at a fixed or determinable “strike” price on a given date or at any time on or before a given date. [SGAS 31]

CAPITAL AND RELATED FINANCING ACTIVITIES. Term used in connection with cash flows reporting. Capital and related financing activities include (a) acquiring and disposing of capital assets used in providing services or producing goods, (b) borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed, including interest, and (c) paying for capital assets obtained from vendors on credit. [SGAS 9]

CAPITAL ASSETS. Land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. [SGAS 34]

CAPITAL PROJECTS FUND. Fund type used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds.) [NCGA Statement 1]

CAPITALIZATION CONTRIBUTION. Term used in connection with public-entity risk pools. A contribution to meet initial or ongoing capital minimums established by statute, regulation, or the pooling agreement itself. Capitalization contributions generally take the form of cash. [IGAS 4]

CAPITALIZATION THRESHOLD. The dollar value at which a government elects to capitalize tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Generally, capitalization thresholds are applied to individual items rather than groups of items unless the result would be to exclude items that would clearly be material to the financial statements in the aggregate.

CAPPING. Term used in connection with municipal solid-waste landfills (MSWLF). The cost of final cover expected to be applied near or after the date that the MSWLF stops accepting solid waste. [SGAS 18]

CASH. The term, as used in connection with cash flows reporting, includes not only currency on hand, but also demand deposits with banks or other financial institutions. *Cash* also includes deposits in other kinds of accounts or cash management pools that have the general characteristics of demand deposit accounts in that the governmental enterprise may deposit additional cash at any time and also effectively may withdraw cash at any time without prior notice or penalty. [SGAS 9]

CASH BASIS OF ACCOUNTING. Basis of accounting that recognizes transactions or events when related cash amounts are received or disbursed.

CASH EQUIVALENT. Term used in connection with cash flows reporting. Short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near their maturity that

they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. For this purpose “original maturity” means the maturity as of the date the investment is acquired. [SGAS 9]

CEDED PREMIUMS/CLAIMS COSTS. Terms used in connection with public-entity risk pools. Ceded premiums are those transferred to another enterprise in connection with a reinsurance arrangement. Ceded claims costs are those transferred to another enterprise through reinsurance.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING PROGRAM. Program sponsored by the Government Finance Officers Association to encourage and assist state and local governments to prepare high-quality comprehensive annual financial reports. The program has been in continuous operation since 1946. The program originally was known as the Certificate of Conformance Program.

CHARACTER CLASSIFICATION. Expenditure classification according to the periods expenditures are presumed to benefit. The four character groupings are (a) *current* operating expenditures, presumed to benefit the current fiscal period; (b) *debt service*, presumed to benefit prior fiscal periods as well as current and future periods; (c) *capital outlays*, presumed to benefit the current and future fiscal periods, and (d) *intergovernmental*, when one government transfers resources to another. [NCGA Statement 1]

CLAIMS-MADE POLICY. Term used in connection with public-entity risk pools. A type of policy that covers losses from claims asserted (reported or filed) against the policyholder during the policy period, regardless of whether the liability-imposing events occurred during the current or any previous period in which the policyholder was insured under the claims-made contract or other specified period before the policy period (the policy retroactive date). [SGAS 10]

CLAIMS-SERVICING POOL. One of four different types of public entity risk pools. An arrangement by which a pool manages separate accounts for each pool member from which the losses of that member are paid. Also referred to as “account pool.” [SGAS 10]

CLASSIFIED PRESENTATION. The separate presentation on the statement of position of the current and long-term portions of assets and liabilities to permit the calculation of working capital. A classified presentation is required for the proprietary fund statement of net assets.

CLOSED AMORTIZATION PERIOD. Term used in connection with the unfunded actuarial accrued liability associated with defined benefit pension and other postemployment benefit plans. A specific number of years that is counted from one date and, therefore, declines to zero with the passage of time. For example, if the amortization period is initially 30 years on a closed basis, 29 years remain after the first year, 28 years after the second year, and so forth. [SGAS 25 and SGAS 43]

CLOSED-END MUTUAL FUND. An SEC-registered investment company that issues a limited number of shares to investors that are then traded as an equity security on a stock exchange. [SGAS 31]

COLLATERAL. Term used in connection with deposits with financial institutions. Security pledged by a financial institution to a governmental entity for its deposit. [SGAS 3]

COLLATERAL POOL. A single financial institution collateral pool is a group of securities pledged by a single financial institution against all the public deposits it holds. A multiple financial institution collateral pool is a group of securities pledged by various financial institutions to provide common collateral for their deposits of public funds. In such a collateral pool, the assets of the pool and the power to make additional assessments against the members of the pool, if necessary, insure there will be no loss of public funds because of the default of a member. [SGAS 3]

COMBINING FINANCIAL STATEMENTS. Financial statements that report separate columns for individual funds or component units. Combining financial statements normally are required in a comprehensive annual financial report to support each column in the basic financial statements that aggregates information from more than one fund or component unit.

COMMERCIAL PAPER. An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

COMMITTEE ON ACCOUNTING PROCEDURE (CAP). Authoritative private-sector standard-setting body that preceded the Accounting Principles Board and the FASB. The CAP issued guidance in the form of *Accounting Research Bulletins*.

COMMODITIES PROGRAMS. The distribution of surplus agricultural products as a form of assistance.

COMPARABILITY. The principle according to which differences between financial reports should be due to substantive differences in the underlying transactions or the governmental structure rather than due to selection of different alternatives in accounting procedures or practices. [SGAC 1]

COMPARATIVE DATA. Information from prior fiscal periods provided to enhance the analysis of financial data in the current fiscal period.

COMPARATIVE FINANCIAL STATEMENTS. Financial statements providing all of the information required by GAAP for two or more fiscal periods.

COMPLIANCE SUPPLEMENT. Term used in connection with Single Audits. A publication of the U.S. Office of Management and Budget outlining compliance requirements for federal awards programs. The publication is designed to assist independent auditors performing Single Audits.

COMPONENT UNIT. A legally separate organization for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. [SGAS 14]

COMPOSITE DEPRECIATION METHODS. Depreciation methods applied to groups of assets rather than to individual assets.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR). Financial report that contains, at a minimum, three sections: 1) introductory, 2) financial, and 3) statistical, and whose financial section provides information on each individual fund and component unit.

COMPREHENSIVE FRAMEWORK OF INTERNAL CONTROLS. A structure of internal control that provides for (a) a favorable control environment, (b) the continuing assessment of risk, (c) the design, implementation, and maintenance of effective control-related policies and procedures, (d) the effective communication of information, and (e) the ongoing monitoring of the effectiveness of control-related policies and procedures as well as the resolution of potential problems identified by controls.

CONDENSED FINANCIAL STATEMENTS. Abbreviated financial statements sometimes required by GAAP to be presented within the notes to the financial statements in connection with component units, external investment pools, and segments. In addition, GAAP prescribe the presentation of condensed financial information for the prior fiscal year as part of management's discussion and analysis.

CONDUIT DEBT. Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued. [IGAS 2]

CONNECTION FEES. Fees charged to join or to extend an existing utility system. Often referred to as *tap fees* or *system development fees*.

CONSISTENCY. The principle according to which once an accounting principle or reporting method is adopted, it will be used for all similar transactions and events. The concept of consistency in financial reporting extends to many areas such as valuation methods, basis of accounting, and determination of the financial reporting entity. [SGAC 1]

CONTROL CYCLE. Term used in connection with the evaluation of internal control. A series of logically connected transactions/processes and associated control-related policies and procedures.

CONTROL DEFICIENCY. When the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

COSO. Organization that published *Internal Control: an Integrated Framework* (i.e., the Committee of Sponsoring Organizations of the Treadway Commission on Fraudulent Financial Reporting).

COST-REIMBURSEMENT BASIS. Term used in connection with internal service funds. The setting of charges so that costs are systematically recovered on a break-even basis over time.

COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION/OTHER POST EMPLOYMENT BENEFIT PLAN. A single plan with pooling (cost-sharing) arrangements for the participating employers. All risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the employers. A single actuarial valuation covers all plan members and the same contribution rate(s) applies for each employer. [SGAS 25 and SGAS 43]

COUNTERPARTY. Term used in connection with custodial credit risk. Another party to a transaction. In the case of deposits and investments made by governmental entities, a counterparty could be the issuer of security, a financial institution holding a deposit, a broker-dealer selling securities, or a third party holding securities or collateral. [SGAS 3]

COVERAGE RATIO. Ratio of pledged revenues to related debt service payments. [SGAS 44]

COVERED GROUP. Term used in connection with pension and other post-employment benefit plans to describe plan members included in an actuarial valuation. [SGAS 45]

CREDIT RISK. Risk that an issuer or other counterparty to an investment will not fulfill its obligations. [SGAS 40]

CROSSOVER REFUNDING. A type of advance refunding in which the escrow established with the proceeds of the refunding bonds only begins to secure repayment of the refunded debt at some designated future time, known as the “crossover date”.

CURRENT COSTS. Term used in connection with municipal solid-waste landfills. The amount that would be paid if all equipment, facilities, and services included in the estimate of closure and postclosure care costs were acquired during the current period. [SGAS 18]

CURRENT FINANCIAL RESOURCES MEASUREMENT FOCUS. Measurement focus according to which the aim of a set of financial statements is to report the near-term (current) inflows, outflows, and balances of expendable (spendable) financial resources. The current financial resources measurement focus is unique to accounting and financial reporting for state and local governments and used solely for reporting the financial position and results of operations of governmental funds.

CURRENT REFUNDING. A refunding transaction in which the proceeds of the refunding debt are applied immediately to redeem the debt to be refunded. This situation differs from an advance refunding, where the proceeds of the refunding bonds are placed in escrow pending the call date or maturity of the debt to be refunded.

CUSTODIAL CREDIT RISK. The risk that a government will not be able (a) to recover deposits if the depository financial institution fails or (b) to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails. [Q&A]

DEBT SERVICE FUND. Governmental fund type used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. [NCGA Statement 1]

DEDUCTION. Term used in connection with fiduciary funds. Decrease in the net assets of a fiduciary fund.

DEFEASANCE. In financial reporting, the netting of outstanding liabilities and related assets on the statement of position. Defeased debt is no longer reported as a liability on the face of the statement of position; only the new debt, if any, is reported as a liability. Most refundings result in the defeasance of the

refunded debt. Defeasance also is sometimes encountered in conjunction with annuity contracts purchased in connection with lottery prizes and settlements of claims and judgments.

DEFERRED REVENUE. Resource inflows that do not yet meet the criteria for revenue recognition. Unearned amounts are always reported as deferred revenue. In governmental funds, earned amounts also are reported as deferred revenue until they are available to liquidate liabilities of the current period.

DEFINED BENEFIT OTHER POSTEMPLOYMENT BENEFIT PLAN. Plan having terms that specify the amount of benefits to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums). [SGAS 43]

DEFINED BENEFIT PENSION PLAN. A pension plan having terms that specify the amount of pension benefits to be provided at a future date or after a certain period of time; the amount specified usually is a function of one or more factors such as age, years of service, and compensation. [SGAS 25]

DEFINED CONTRIBUTION PENSION/OTHER POSTEMPLOYMENT BENEFIT PLAN. A pension or OPEB plan having terms that (a) provide an individual account for each plan member and (b) specify how contributions to an active plan member's account are to be determined, rather than the income or other benefits the member or his or her beneficiaries are to receive at or after separation from employment. Those benefits will depend only on the amounts contributed to the member's account, earnings on investments of those contributions, and forfeitures of contributions made for other members that may be allocated to the member's account. [SGAS 25 and SGAS 43]

DEFLATED DEPRECIATED REPLACEMENT COST. Method of measuring a capital asset impairment resulting from a change in the manner or duration of use of the asset. The method compares the book value of the asset with what would have been the book value of a different asset acquired at the same time for use in current circumstances (e.g., the book value of a school building constructed ten years ago, but now used as warehouse space, versus what would have been the value of equivalent warehouse space constructed ten years ago). [SGAS 42]

DEMAND BONDS. Long-term debt issuances with demand ("put") provisions that require the issuer to repurchase the bonds upon notice from the bondholder at a price equal to the principal plus accrued interest. To assure its ability to redeem the bonds, issuers of demand bonds frequently enter into short-term standby liquidity agreements and long-term "take out" agreements. [IGAS 1]

DERIVATIVE. Financial instrument 1) whose value derives from the application of some variable ("underlying") to a contractually determined amount ("notional amount") or from the association of an underlying with a payment provision, 2) that involves little or no initial net investment, and 3) that allows for net settlement. [TB 2003-1]

DERIVED TAX REVENUES. Nonexchange revenues that result from assessments imposed on exchange transactions (for example, income taxes, sales taxes, and other assessments on earnings or consumption). [SGAS 33]

DESIGNATED UNRESERVED FUND BALANCE. Management's intended use of available expendable financial resources in governmental funds reflecting actual plans approved by the government's senior management. Expressed another way, designations reflect a government's self-imposed limitations on the use of otherwise available expendable financial resources in governmental funds.

DEVELOPER FEES. Fees charged to developers to cover, in whole or in part, the anticipated cost of improvements that will be necessary as a result of development (e.g., parks, sidewalks).

DIRECT COSTING. Term used in connection with the valuation of capital assets. Use of source data (e.g., invoices) to establish the historical cost of a capital asset.

DIRECT DEBT. Debt that is to be repaid by the reporting government itself rather than by an overlapping or underlying government. [SGAS 44]

DIRECT EXPENSE. Expense that is specifically associated with a service, program, or department and, thus, is clearly identifiable to a particular function. [SGAS 34]

DIRECT RATE. Amount or percentage applied to a unit of a specific revenue base by the government preparing statistical information (e.g., a property tax rate of \$1 per \$1,000 of assessed property value; a sales tax rate of 5 percent of a retail sale; a water charge of a certain amount per 100 gallons of water used). [SGAS 44]

DISALLOWED COSTS. Claims for grantor resources that have been rejected by the grantor. Disallowed costs are to be distinguished from *questioned costs*, which are potential disallowed costs that have not yet been rejected by the grantor.

DISCRETE PRESENTATION. Method of reporting financial data of component units in a column or columns separate from the financial data of the primary government. [SGAS 14]

DISCUSSION MEMORANDUM. A due-process document issued by the GASB soliciting comments from interested parties on various aspects of a technical issue that is the subject of research by the board.

DUE PROCESS. The procedures followed by the GASB to ensure that the views of all interested parties are solicited and considered prior to issuing an authoritative pronouncement. At a minimum, due process requires that all statements and interpretations be preceded by an exposure draft.

DURATION. In the context of investment disclosure, a measure of a debt investment's exposure to fair value changes arising from changing interest rates based upon the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. [SGAS 40]

EARLY RECOGNITION OPTION. Term used in connection with debt service funds. The option to recognize an expenditure in the current period in a debt service fund for principal and interest payments due early in the subsequent period. This option is available only in situations involving the nondiscretionary transfer of resources to a debt service fund in the current period for payments due shortly after the end of the fiscal year (i.e., usually within one to several days, and never more than one month later).

ECONOMIC RESOURCES MEASUREMENT FOCUS. Measurement focus under which the aim of a set of financial statements is to report all inflows, outflows, and balances affecting or reflecting an entity's net assets. The economic resources measurement focus is used for proprietary and fiduciary funds, as well as for government-wide financial reporting. It also is used by business enterprises and non profit organizations in the private sector.

EFFECTIVENESS. Term used in connection with the evaluation of internal controls and performance measurement. The degree to which an entity, program, or procedure is successful at achieving its goals and objectives.

EFFICIENCY. Term used in connection with the evaluation of internal controls and performance measurement. The degree to which an entity, program, or procedure is successful at achieving its goals and objectives with the least use of scarce resources. Efficiency necessarily presupposes effectiveness.

ELIGIBILITY REQUIREMENTS. Term used in connection with government-mandated and voluntary nonexchange transactions. Conditions established by the provider of resources stipulating matters such as the qualifying characteristics of recipients, time requirements, allowable costs, and other contingencies. [SGAS 33]

EMBEDDED OPTION. Provision or term in a financial instrument that allows one party to change the timing or amount of one or more cash flows associated with that instrument (e.g., prepayment options on asset-backed securities). [SGAS 40]

EMERGING ISSUES TASK FORCE. Group established under the auspices of an authoritative standard-setting body and authorized to publish consensus positions on technical issues not specifically addressed by that body. The GASB has not established an emerging issues task force, although it is empowered to do so.

EMPLOYER CONTRIBUTIONS. Term used in the context of pension and other postemployment benefits to describe contributions actually made by the employer in relation to the annual required contribution (ARC) of the employer. (Only amounts paid to trustees and outside parties qualify.) [SGAS 43]

ENCUMBRANCES. Commitments related to unperformed (executory) contracts for goods or services. For financial reporting purposes, encumbrance accounting is restricted to governmental funds. [NCGA Statement 1]

ENTERPRISE FUND. Proprietary fund type used to report an activity for which a fee is charged to external users for goods or services. [SGAS 34]

ENTITY DIFFERENCES. A difference between the budgetary basis of accounting and GAAP arising because 1) the appropriated budget includes organizations, programs, activities, or functions that are not within the financial reporting entity as defined by GAAP, or 2) the appropriated budget excludes organizations program, activities, or functions that are part of the financial reporting entity. [NCGA Interpretation 10]

ENTRY AGE ACTUARIAL COST METHOD. Term used in connection with defined benefit pension plans. A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability. [SGAS 25]

EQUIVALENT SINGLE AMORTIZATION PERIOD. Term used in the context of pension and other postemployment benefit plans. The weighted average of all amortization periods used when components of the total unfunded actuarial accrued liability are separately amortized and the average is calculated. [SGAS 25 and SGAS 43]

ESCHEAT. The reversion of property to a governmental entity in the absence of legal claimants or heirs. The laws of many governmental entities provide that a rightful owner or heir can reclaim escheat property in perpetuity, provided the claimant can establish his or her right to the property. [SGAS 21]

ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY. Fair value of taxable real or personal property or a surrogate measure of fair value if actual fair value information is not available. In practice, fair value is often referred to as market value. The estimated actual value of taxable property may be determined in a variety of manners, such as through a system that tracks changes in market values by monitoring property sales or by dividing the assessed value of property by an assumed assessment percentage. [SGAS 44]

ETHICS RULE 202. Ethics rule established by the AICPA that places upon auditors the burden of proof for justifying any material departures from the guidance found on levels 2, 3, or 4 of the GAAP hierarchy.

ETHICS RULE 203. Ethics rule established by the AICPA that makes it an ethical violation for an auditor to state that financial statements are “fairly presented in conformity with GAAP” if those statements materially violate standards issued by the FASB, the GASB, or the Federal Accounting Standards Advisory Board. A special exception applies when unusual circumstances would make the application of an authoritative standard misleading.

EXCHANGE TRANSACTIONS. Transaction in which each party receives and gives up essentially equal values. [SGAS 33]

EXCHANGE-LIKE TRANSACTION. Transactions in which there is an identifiable exchange between the reporting government and another party, but the values exchanged may not be quite equal or the direct benefits of the exchange may not be exclusively for the parties to the exchange. Examples include certain fees for regulatory or professional licenses and permits, certain tap fees, certain developer contributions, certain grants and donations, and other transactions that, regardless of the label applied to them, are based on an exchange of similar but not equal values. [SGAS 33]

EXPENDITURE-DRIVEN GRANTS. Government-mandated or voluntary nonexchange transactions in which expenditure is the prime factor for determining eligibility. Also referred to as *reimbursement grants*.

EXPENDITURE. Decreases in net financial resources under the current financial resources measurement focus not properly classified as *other financing uses*.

EXPLICIT MEASURABLE EQUITY INTEREST. Term used in connection with joint ventures. Asset resulting from a stipulation in the joint venture agreement that the participants have a present or future claim to the net resources of the joint venture and setting forth the method to determine the participants' shares of the joint venture's net resources. [SGAS 14]

EXPOSURE DRAFT. A due-process document issued by the GASB soliciting comments from interested parties on a proposed authoritative pronouncement.

EXTERNAL AUDITORS. Independent auditors typically engaged to conduct the audit of a government's financial statements.

FAIR VALUE. Term used in connection with the valuation of investments. The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. [SGAS 31]

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD (FASAB). Authoritative standard-setting body responsible for establishing GAAP for the federal government.

FIDUCIARY FUNDS. Funds used to report assets held in a trustee or agency capacity for others and which 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. [SGAS 34]

FINAL AMENDED BUDGET. Term used in connection with budgetary reporting. 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. [SGAS 34]

FINANCIAL ACCOUNTABILITY. Term used in connection with the definition of the financial reporting entity. The level of accountability that exists if a primary government appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the primary government. [SGAS 14]

FINANCIAL ACCOUNTING FOUNDATION (FAF). Non profit organization responsible for overseeing the operations of both the GASB and the FASB.

FINANCIAL ACCOUNTING STANDARDS ADVISORY COUNCIL (FASAC). Advisory group that assists the FASB. The FASAC includes representatives of all of the FASB's major constituents.

FINANCIAL ACCOUNTING STANDARDS BOARD (FASB). The authoritative accounting and financial reporting standard-setting body for business enterprises and non profit organizations. The FASB is the direct successor of the Committee on Accounting Procedure and the Accounting Principles Board. The GASB and its predecessors have elected to apply a number of the FASB's standards, as well as those of its predecessors, to state and local governments.

FINANCIAL AUDITS. Audits designed to provide independent assurance of the fair presentation of financial information.

FINANCIAL REPORTING ENTITY. A primary government, organizations for which the primary government is financially accountable, and 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 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, a joint venture, a jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements. [SGAS 4]

FINANCIAL RESOURCES. Resources that are or will become available for spending. Financial resources include cash and resources ordinarily expected to be converted to cash (e.g., receivables, investments).

Financial resources also may include inventories and prepaids (because they obviate the need to expend current available financial resources).

FINANCIAL SECTION. One of the three basic sections of a comprehensive annual financial report. The financial section is used to present the independent auditor's report on the financial statements, management's discussion and analysis, the basic financial statements (including the notes to the financial statements), required supplementary information, combining statements, individual fund statements and schedules, and supplementary information, as needed.

FINDING. Term used in connection with public-sector auditing. Published communication of an internal control weaknesses or instance of noncompliance in connection with an audit conducted in accordance with GAGAS.

FISCAL ACCOUNTABILITY. The responsibility of governments to justify that their actions in the current period have complied with public decisions concerning the raising and spending of public monies in the short term (usually one budgetary cycle or one year). This term is used in contrast to *operational accountability*. [SGAS 34]

FISCAL DEPENDENCE. Term used in connection with the definition of the financial reporting entity. Situation requiring the inclusion of a legally separate entity as a component unit within the financial reporting entity because the governing board of the primary government may *arbitrarily* override the financial decisions of the legally separate entity regarding (a) its budget, (b) the levying of taxes or the setting of rates or charges, or (c) the issuance of bonded debt.

FISCAL FUNDING CLAUSE. Term used in connection with capital leases. A clause in a lease agreement that generally provides that the lease is cancelable if the legislature or other funding authority does not appropriate the funds necessary for the government unit to fulfill its obligations under the lease agreement. [NCGA Statement 5]

FIVE PERCENT CRITERION. Second of two tests used to determine whether a given governmental fund or enterprise fund must be reported as a major fund in the basic financial statements. This test is applied to the combined total assets, liabilities, revenues or expenses/expenditures of all governmental and enterprise funds for which the 10 percent criterion has been met.

FIXED BUDGETS. Term used in contrast with *flexible budgets*. Budgets that embody estimates of specific (fixed) dollar amounts. [NCGA Statement 1]

FIXED COUPON REPURCHASE-REVERSE REPURCHASE AGREEMENT. A repurchase agreement or a reverse repurchase agreement where the parties agree that the securities returned will have the same stated interest rate as, and maturities similar to, the securities transferred. [SGAS 3]

FLEXIBLE BUDGETS. Term used in contrast with *fixed budgets*. Budgets that embody dollar estimates that vary according to demand for the goods or services provided. [NCGA Statement 1]

FOOD STAMPS. A federal award program that is intended to improve the diets of members of low-income households by increasing their ability to purchase food. [SGAS 24]

FOREIGN CURRENCY RISK. Risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. [SGAS 40]

FORMULA GRANTS. Government-mandated or voluntary nonexchange transactions involving the provision of resources based upon established criteria (e.g., number of full-time equivalent students) other than the incurrence of qualifying expenditures.

FUNCTION. A group of related activities aimed at accomplishing a major service or regulatory program for which a government is responsible (e.g., *public safety*).

FUND. 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, that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations [NCGA Statement 1]

FUNDAMENTAL ANALYSIS. A method of estimating the fair value of a security when it is thinly traded or when quoted market prices are not available. Fundamental analysis considers assets, liabilities, operating statement performance, management, and economic environment of the issuer in estimating a fair value. [SGAS 31, Q&A]

FUND BALANCE. The difference between assets and liabilities reported in a governmental fund.

FUND CLASSIFICATIONS. One of the three categories (governmental, proprietary, and fiduciary) used to classify fund types.

FUND FINANCIAL STATEMENTS. Basic financial statements presented on the basis of funds. Term used in contrast with *government-wide financial statements*.

FUND TYPE. One of 11 classifications into which all individual funds can be categorized. Governmental fund types include the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. Proprietary fund types include enterprise funds and internal service funds. Fiduciary fund types include pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

FUNDED MANDATE. Also known as a government-mandated nonexchange transaction. A situation where a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose (for example, federal programs that state or local governments are mandated to perform). [SGAS 33]

FUNDED RATIO. The actuarial value of assets expressed as a percentage of the actuarial accrued liability. [SGAS 25 and SGAS 43]

GAAFR. The acronym for *Governmental Accounting, Auditing, and Financial Reporting*, a publication of the Government Finance Officers Association. Also known as the *Blue Book*, various editions of this book have been published since the mid 1930s.

GAAP HIERARCHY. Identification and ranking of the sources of GAAP set forth in SAS No. 69, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report* and SAS No. 91, *Federal GAAP Hierarchy*.

GENERAL ACCOUNTING OFFICE (GAO). Former name of the Government Accountability Office (see below).

GENERAL FUND. The general fund is one of five governmental fund types and typically serves as the chief operating fund of a government. The general fund is used to account for all financial resources except those required to be accounted for in another fund. [NCGA Statement 1]

GENERAL REVENUES. All revenues that are *not* required to be reported as program revenues in the government-wide statement of activities. All taxes, even those that are levied for a specific purpose, are general revenues and should be reported by type of tax—for example, sales tax, property tax, franchise tax, income tax. All other nontax revenues (including interest, grants, and contributions) that do not meet the criteria to be reported as program revenues should also be reported as general revenues. [SGAS 34]

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP). The conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements. The various sources of GAAP for state and local government are set forth by SAS No. 69, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report*.

GENERALLY ACCEPTED AUDITING STANDARDS (GAAS). The rules and procedures that govern the conduct of a financial audit. There are ten basic GAAS classed into three broad categories: general standards, standards of fieldwork, and standards of reporting. The Auditing Standards Board of the AICPA publishes SASs and related interpretations to comment and expand upon these basic standards.

GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (GAGAS). Standards for the conduct and reporting of both financial and performance audits in the public sector. The General Accounting Office promulgates GAGAS through its publication *Government Auditing Standards*, commonly known as the *Yellow Book*. The basic GAGAS standards are classed into three broad categories: general standards,

fieldwork standards, and reporting standards. The general standards of GAGAS apply to both financial audits and performance audits. GAGAS establish separate fieldwork and reporting standards for financial audits and performance audits. The fieldwork standards and reporting standards used for financial audits build upon the standards of fieldwork and the standards of reporting of GAAS.

GOVERNMENT ACCOUNTABILITY OFFICE (GOA). The investigative arm of the U.S. Congress charged with improving the performance and accountability of the federal government. In the context of accounting, auditing, and financial reporting for state and local governments, the GAO is best known for issuing *Government Auditing Standards*, commonly known as the “Yellow Book,” which sets generally accepted government auditing standards (GAGAS).

GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA). An association of public finance professionals founded in 1906 as the Municipal Finance Officers Association. The GFOA has played a major role in the development and promotion of GAAP for state and local government since its inception and has sponsored the Certificate of Achievement for Excellence in Financial Reporting Program since 1946. It also publishes *Governmental Accounting, Auditing, and Financial Reporting*, commonly known as the “Blue Book.”

GOVERNMENTAL ACCOUNTING STANDARDS ADVISORY COUNCIL (GASAC). An advisory body established to assist the GASB. The membership of the GASAC represents all major groups with an interest in accounting and financial reporting for state and local governments.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB). The ultimate authoritative accounting and financial reporting standard-setting body for state and local governments. The GASB was established in June 1984 to replace the NCGA.

GOVERNMENTAL ACCOUNTING, AUDITING, AND FINANCIAL REPORTING (GAAFR). A publication of the Government Finance Officers Association. Also known as the *Blue Book*, various editions have been published since the mid 1930s.

GOVERNMENTAL ACTIVITIES. Activities generally financed through taxes, intergovernmental revenues, and other nonexchange revenues. These activities are usually reported in governmental funds and internal service funds. [SGAS 34]

GOVERNMENTAL ENTITY. For accounting and financial reporting purposes, an entity subject to the hierarchy of GAAP applicable to state and local governmental units. The criteria used to distinguish governmental entities from nongovernmental entities are set forth in the AICPA’s *Audits of State and Local Governmental Units*.

GOVERNMENTAL EXTERNAL INVESTMENT POOL. An arrangement that commingles (pools) the monies of more than one legally separate entity and invests, on the participants’ behalf, in an investment portfolio (one or more of the participants not being part of the sponsor’s reporting entity). An external investment pool can be sponsored by an individual government, jointly by more than one government, or by a nongovernmental entity. An investment pool that is sponsored by an individual state or local government is an external investment pool only if it includes participation by a legally separate entity that is not part of the same reporting entity as the sponsoring government. If a government-sponsored pool includes only the primary government and its component units, it is an internal investment pool and not an external investment pool. [SGAS 31]

GOVERNMENTAL FINANCIAL REPORTING MODEL. The minimum combination of financial statements, note disclosures, and required supplementary information prescribed for state and local governments by the GASB.

GOVERNMENTAL FUNDS. Funds generally used to account for tax-supported activities. There are five different types of governmental funds: the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds.

GOVERNMENT-MANDATED NONEXCHANGE TRANSACTIONS. Transactions that occur when a government at one level provides resources to a government at another level and requires the recipient to use

the resources for a specific purpose (for example, federal programs that state or local governments are mandated to perform). [SGAS 33]

GOVERNMENT-WIDE FINANCIAL STATEMENTS. Financial statements that incorporate all of a government's governmental and business-type activities, as well as its nonfiduciary component units. There are two basic government-wide financial statements: the statement of net assets and the statement of activities.

GRANT ANTICIPATION NOTE. Short-term, interest-bearing note issued by a government in anticipation of a grant to be received at a later date. The note is retired from proceeds of the grant to which it is related.

GUARANTEED INVESTMENT CONTRACT. A group annuity contract designed to provide guarantees of principal and interest on funds deposited with an insurance company for a specified period.

HEALTHCARE COST TREND RATE. In connection with other postemployment benefit healthcare plans, the rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments. [SGAS 43]

IMPACT FEES. Fees charged to developers to cover, in whole or in part, the anticipated cost of improvements that will be necessary as a result of the development (e.g., parks, sidewalks).

IMPAIRMENT. Significant, unexpected decline in the service utility of a capital asset. [SGAS 42]

IMPLEMENTATION GUIDES. Guidance on the proper implementation of authoritative accounting and financial reporting standards issued by the staff of the GASB. Implementation guides use a question-and-answer format and enjoy "level 4" status on the hierarchy of GAAP for state and local governments established by the AICPA's SAS No. 69, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report*. The GASB annually issues a Comprehensive Implementation Guide that consolidates, updates, and expands upon the guidance offered in the individual publications,

IMPOSED NONEXCHANGE REVENUES. Revenues that result from assessments imposed on nongovernmental entities, including individuals, other than assessments on exchange transactions (for example, property taxes and fines). [SGAS 33]

IMPROVEMENT. An addition made to, or change made in, a capital asset, other than maintenance, to prolong its life or to increase its efficiency or capacity. The cost of the addition or change is added to the book value of the asset.

"IN-RELATION-TO" OPINION. An indication in the independent auditor's report that the auditor does *not* render an opinion on the fair presentation *per se* of certain information contained in the financial report (e.g., combining and individual fund financial statements), but does assert that the information in question is fairly presented *in relation to* the audited financial statements.

INCURRED BUT NOT REPORTED (IBNR) CLAIMS. Term used in connection with risk financing. Claims for insured events that have occurred but have not yet been reported to the governmental entity, public entity risk pool, insurer, or reinsurer as of the date of the financial statements. IBNR claims include (a) known loss events that are expected to be presented later as claims, (b) unknown loss events that are expected to become claims, and (c) expected future development on claims already reported. [SGAS 10]

INDEPENDENT AUDITOR. Auditors who are independent, both in fact and appearance, of the entities they audit. Both GAAS and GAGAS set specific criteria that must be met for an auditor to be considered to be independent.

INDEPENDENT AUDITOR'S REPORT. The official written communication of the results of an audit. In a financial audit, the independent auditor's report typically will offer (or disclaim) an opinion on whether a set of financial statements is fairly presented in conformity with GAAP (or some other comprehensive basis of accounting).

INDIRECT EXPENSES. Expenses that cannot be specifically associated with a given service, program, or department and thus, cannot be clearly associated with a particular functional category. [SGAS 34]

INDIVIDUAL INVESTMENT ACCOUNTS. An investment service provided by a governmental entity for other, legally separate entities that are not part of the same reporting entity. With individual investment accounts, specific investments are acquired for individual entities and the income from and changes in the value of those investments affect only the entity for which they were acquired. [SGAS 31]

INFRASTRUCTURE. Long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. [SGAS 34]

IN-SUBSTANCE DEFEASANCE OF DEBT. A situation that occurs when debt is considered defeased for accounting and financial reporting purposes, 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 statement of position; only the new debt, if any, is reported as a liability. [SGAS 7]

INSURED BENEFIT. A pension and other postemployment benefit financing arrangement whereby an employer accumulates funds with an insurance company, while employees are in active service, in return for which the insurance company unconditionally undertakes a legal obligation to pay the pension benefits of those employees or their beneficiaries, as defined in the employer's plan. From an employer perspective, an insured benefit resembles a defined contribution plan, while from an employee perspective it resembles a defined benefit plan. [SGAS 27 and SGAS 45]

INTEGRATED BUDGET. A situation in which the accounting system has been designed to automatically provide timely budgetary information concerning the uncommitted balance of appropriations and unrealized revenues.

INTEREST RATE RISK. Risk that changes in interest rates will adversely affect the fair value of an investment. [SGAS 40]

INTERFUND ACTIVITY. Activity between funds of the primary government, including blended component units. Interfund activities are divided into two broad categories: reciprocal and nonreciprocal. Reciprocal interfund activity comprises interfund loans and interfund services provided and used. Nonreciprocal interfund activity comprises interfund transfers and interfund reimbursements.

INTERFUND LOANS. Amounts provided between funds and blended component units of the primary government with a requirement for repayment. [SGAS 34]

INTERFUND REIMBURSEMENTS. Repayments from the funds or blended component units of the primary government responsible for particular expenditures or expenses to the funds or blended component units of the primary government that initially paid for them. [SGAS 34]

INTERFUND SERVICES PROVIDED AND USED. Sales and purchases of goods and services between funds and blended component units of the primary government for a price approximating their external exchange value. [SGAS 34]

INTERFUND TRANSFERS. Flows of assets (such as cash or goods) between funds and blended component units of the primary government without equivalent flows of assets in return and without a requirement for repayment. [SGAS 34].

INTERNAL AUDITING. An appraisal of the diverse operations and controls within a government entity to determine whether acceptable policies and procedures are followed, established standards are met, resources are used efficiently and economically, and the organization's objectives are being achieved. The term covers all forms of appraisal of activities undertaken by auditors working for and within an organization.

INTERNAL CONTROL FRAMEWORK. An integrated set of policies and procedures designed to assist management to achieve its goals and objectives. To be truly comprehensive, a government's internal control framework must (a) provide a favorable control environment, (b) provide for the continuing assessment of risk, (c) provide for the design, implementation, and maintenance of effective control-related policies and

procedures, (d) provide for the effective communication of information, and (e) provide for the ongoing monitoring of the effectiveness of control-related policies and procedures as well as the resolution of potential problems identified by controls.

INTERNAL FINANCIAL REPORTING. Financial reporting specifically designed to meet the needs of management.

INTERNAL SERVICE FUNDS. Proprietary fund type that 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. [SGAS 34]

INTRODUCTORY SECTION. The first of three essential components of any comprehensive annual financial report. The introductory section typically provides general information on a government's structure and personnel as well as information useful in assessing the government's economic condition. The key element of the introductory section is the letter of transmittal. The contents of the introductory section normally fall outside the scope of the independent audit of the financial statements.

INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT. One of three components of net assets that must be reported in both government-wide and proprietary fund financial statements. Related debt, for this purpose, includes the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of capital assets of the government.

INVESTING ACTIVITIES. Term used in connection with cash flows reporting. Investing activities include making and collecting loans (except program loans) and acquiring and disposing of debt or equity instruments. [SGAS 9]

INVESTMENT SECTION. One of the sections of a comprehensive annual financial report of an investment pool or public employee retirement system.

INVESTMENT TRUST FUNDS. Fiduciary fund type used to report governmental external investment pools in separately issued reports and the external portion of these same pools when reported by the sponsoring government. [SGAS 34]

INVITATION TO COMMENT. A due-process document that may be released by the GASB to solicit the views of interested parties on a topic under study by the board prior to the release of an exposure draft.

ISSUER. In the context of investment disclosure, the entity that has the authority to distribute a security or other investment. A bond issuer is the entity that is legally obligated to make principal and interest payments to bondholders. In the case of mutual funds, external investment pools, and other pooled investments, "issuer" refers to the entity invested in, not the investment company manager or pool sponsor. [SGAS 40].

JOINT VENTURE. A legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Generally, the purpose of a joint venture is to pool resources and share the costs, risks, and rewards of providing goods or services to the joint venture participants directly, or for the benefit of the public or specific service recipients. [SGAS 14]

JOINTLY GOVERNED ORGANIZATION. A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. [SGAS 14]

LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS. Costs incurred to provide for the protection of the environment that occur near or after the date that a municipal solid-waste landfill stops accepting solid waste and during the postclosure period. Closure and postclosure care costs include the cost of equipment and facilities (e.g., leachate collection systems and final cover) as well as the cost of services (e.g., postclosure maintenance and monitoring costs). [SGAS 18]

LAPSE PERIOD. A specified time at the beginning of a given budget period during which encumbrances outstanding at the end of the prior budget period may be liquidated using the prior year's budgetary authority.

Many governments avoid the use of a lapse period by automatically appropriating as part of each new budget an amount sufficient to cover encumbrances outstanding at the end of the prior budget period (a process known as “reappropriation”).

LEGAL DEBT MARGIN. The excess of the amount of debt legally authorized over the amount of debt outstanding.

LEGAL DEFEASANCE. A situation that occurs when debt is legally satisfied based on certain provisions in the debt instrument even though the debt is not actually paid. When debt is defeased, it is no longer reported as a liability on the face of the statement of position; only the new debt, if any, is reported as a liability. [SGAS 7]

LEGAL LEVEL OF BUDGETARY CONTROL. The level at which a government’s management may not reallocate resources without special approval from the legislative body.

LENT SECURITIES. The securities lent by the lender to the borrower in a securities lending transaction. Also referred to as *underlying securities*. [SGAS 28]

LEVEL (1-4) GUIDANCE. In the context of the hierarchy of GAAP for state and local governments, a reference to the relative authority of a given source of GAAP guidance.

LEVEL OF EFFORT REQUIREMENT. A requirement that a grant recipient not use grant resources to reduce its own participation in a given program or activity.

LIEN DATE. For property (ad valorem) taxes, the date when an enforceable legal claim to taxable property arises. Generally the lien date is specified in the relevant enabling legislation. Many governments use the term *lien date* even though a lien is not formally placed on the property at that date. Alternatively, the term *assessment date* is used to describe this same date. [SGAS 33]

LOAN PREMIUM OR FEE. Term used in connection with securities lending arrangements. Payments from the borrower to the lender as compensation for the use of the underlying securities when the securities lending arrangement is backed either by a letter of credit or by securities that cannot be pledged or sold absent a default. [SGAS 28]

MAJOR FUND. A governmental fund or enterprise fund reported as a separate column in the basic fund financial statements and subject to a separate opinion in the independent auditor’s report. The general fund is always a major fund. Otherwise, major funds are funds whose revenues, expenditures/expenses, assets, or liabilities (excluding extraordinary items) are at least 10 percent of corresponding totals for all governmental or enterprise funds and at least 5 percent of the aggregate amount for all governmental and enterprise funds for the same item. Any other government or enterprise fund may be reported as a major fund if the government’s officials believe that fund is particularly important to financial statement users. [SGAS 34]

MAJOR PROGRAM. Term used in the context of Single Audits. As part of the Single Audit, the independent auditor must gain an understanding of internal controls over compliance for each major federal award program and then test those controls. In addition, the independent auditor must render an opinion on whether the government complied with laws, regulations, and provisions of contracts or grant agreements that could have a direct and material effect on each major federal award program.

MANAGEMENT LETTER. A term used in connection with the independent audit of the financial statements. A formal communication by the auditor to management that focuses on internal control weaknesses discovered in the course of the audit of the financial statements. A management letter typically would be redundant in an audit conducted in accordance with GAGAS, which require that the independent auditor publish internal control weaknesses and instances of noncompliance in conjunction with a formal report on internal control and compliance. The management letter, as just described, should be distinguished from the management *representation* letter. The latter is a communication by management to the independent auditor in which management takes formal responsibility for the fair presentation of the financial statements and makes certain specific representations regarding their contents and circumstances.

MANAGEMENT’S DISCUSSION AND ANALYSIS. A component of required supplementary information used to introduce the basic financial statements and provide an analytical overview of the government’s financial activities. [SGAS 34]

MARKET-ACCESS RISK. In the context of disclosures for derivatives, the risk that arises when a government enters into a derivative in anticipation of entering the credit market at a later date, but may ultimately be prevented from doing so, thereby frustrating the purpose of the derivative.

MATCHING REQUIREMENT. A requirement that a grant recipient contribute resources to a program that equal or exceed a predetermined percentage of amounts provided by the grantor.

MATERIAL WEAKNESS. A significant deficiency (or combination of significant deficiencies) that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

MATERIALITY. In the context of financial reporting, the notion that an omission or misstatement of accounting information is of such significance as to make it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

MATRIX PRICING. A method of estimating the fair value of a security when it is thinly traded or when quoted market prices are not available. Matrix pricing estimates a security's fair value by considering coupon interest rates, maturity, credit rating, and market indexes as they relate to the security being valued and to similar issues for which quoted prices are available. [Q&A]

MEASUREMENT FOCUS. Types of balances (and related changes) reported in a given set of financial statements (i.e., economic resources, current financial resources, assets and liabilities resulting from cash transactions).

MODIFIED ACCRUAL BASIS OF ACCOUNTING. Basis of accounting used in conjunction with the current financial resources measurement focus that modifies the accrual basis of accounting in two important ways 1) revenues are not recognized until they are measurable and available, and 2) expenditures are recognized in the period in which governments in general normally liquidate the related liability rather than when that liability is first incurred (if earlier).

MODIFIED APPROACH. The election *not* to depreciate infrastructure assets that are part of a network or subsystem of a network that meet two requirements. First, the government manages the eligible infrastructure assets using an asset management system that has certain specified characteristics; second, the government documents that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government. [SGAS 34]

MONEY MARKET INVESTMENT. A short-term, highly liquid debt instrument, including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. Asset-backed securities, derivatives, and structured notes are not included in this term. [SGAS 31]

MULTI-PURPOSE GRANTS. Term used in connection with the identification of program revenues. Grants intended to finance activities reported in different functional categories in the government-wide statement of activities. Multipurpose grants that do not provide for specific identification of the programs and amounts should be reported as general revenues. [SGAS 34]

MUNICIPAL FINANCE OFFICERS ASSOCIATION. Original name of the Government Finance Officers Association of the United States and Canada.

MUNICIPAL SOLID-WASTE LANDFILL. A discrete area of land or an excavation that receives household waste, and that is not a land application unit, surface impoundment, injection well, or waste pile, as those terms are defined in regulations of the Environmental Protection Agency. It may also receive other types of Resource Conservation and Recovery Act Subtitle D wastes, such as commercial solid waste, nonhazardous sludge, and industrial solid waste. The term *municipal* indicates the primary type of solid waste received by the landfill, not its ownership. [SGAS 18].

NATIONAL ADVISORY COUNCIL ON STATE AND LOCAL BUDGETING (NACSLB). A working group created by eight public-sector organizations to establish a comprehensive framework for public-sector budgeting that could be used by state and local governments as an ideal against which to measure and

improve the quality of their own budget practices. The Government Finance Officers Association has formally recommended the NACSLB's guidelines to its members.

NATIONAL COMMITTEE ON GOVERNMENTAL ACCOUNTING. A committee of the Municipal Finance Officers Association that served as the authoritative accounting and financial reporting standard-setting body for local governments from 1946 until the establishment of the National Council on Governmental Accounting in the 1970s.

NATIONAL COUNCIL ON GOVERNMENTAL ACCOUNTING (NCGA). The immediate predecessor of the GASB as the authoritative accounting and financial reporting standard-setting body for state and local governments. The NCGA issued 7 statements and 11 interpretations prior to its dissolution in June 1984. These statements and interpretations remain effective unless superseded by a subsequent GASB pronouncement.

NATIONAL COMMITTEE ON MUNICIPAL ACCOUNTING (NCMA). A committee of the Municipal Finance Officers Association that served as the authoritative accounting and financial reporting standard-setting body for local governments prior to 1946. The NCMA was one of the predecessors of the GASB.

NEGOTIABLE CERTIFICATES OF DEPOSIT. Transferable certificates of deposit normally sold in \$1 million units that can be traded in a secondary market. Because they are transferable, negotiable certificates of deposit are subject to custodial credit risk. [Q & A]

NET COST. Term used in the context of the government-wide statement of activities. The difference between functional expenses and program revenues.

NET GENERAL OBLIGATION DEBT. General obligation debt reduced by the amount of any accumulated resources restricted to repaying the principal of such debt. [SGAS 44]

NET PENSION/OTHER POSTEMPLOYMENT BENEFIT OBLIGATION. Term used in connection with defined benefit pension and other postemployment benefit plans. The cumulative difference between annual pension cost and the employer's contributions to the plan, including the pension/other postemployment benefit liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to pension-related/other postemployment benefit-related debt. [SGAS 27 and SGAS 45]

NO-COMMITMENT SPECIAL ASSESSMENT DEBT. Special assessment debt secured solely by liens on assessed properties and resources provided from bond proceeds and is not backed by either the full faith and credit of the government or by any other type of general government commitment.

NONCAPITAL FINANCING ACTIVITIES. Term used in connection with cash flows reporting. Noncapital financing activities include borrowing money for purposes other than to acquire, construct, or improve capital assets and repaying those amounts borrowed, including interest. This category includes proceeds from all borrowings (such as revenue anticipation notes) not clearly attributable to acquisition, construction, or improvement of capital assets, regardless of the form of the borrowing. Also included are certain other interfund and intergovernmental receipts and payments. [SGAS 9]

NONEXCHANGE TRANSACTIONS. A transaction in which a government (including the federal government, as a provider) either gives value (benefit) to another party without directly receiving equal value in exchange or receives value (benefit) from another party without directly giving equal value in exchange. [SGAS 33]

NONFINANCIAL ASSETS. A term used in connection with the current financial resources measurement focus and the modified accrual basis of accounting. Assets that are expected to be used in the provision of goods or services rather than converted to cash. Financial statement preparers have the option of treating prepaid items and the inventories of supplies as either a financial asset (consumption method) or as a nonfinancial asset (purchases method).

NONOPERATING REVENUES AND EXPENSES. A term used in connection with the proprietary fund operating statement. Revenues and expenses not qualifying as operating items, which typically include interest revenue and expense, taxes, and grants that are not equivalent to contracts for services.

NONPARTICIPATING INTEREST-EARNING INVESTMENT CONTRACTS. Investment contracts whose value is not affected by market (interest rate) changes (e.g., nonnegotiable certificates of deposit with redemption terms that do not consider market rates). This definition excludes investment contracts that are negotiable or transferable, or whose redemption value considers market rates. [SGAS 31]

NONRECIPROCAL INTERFUND ACTIVITY. The internal counterpart to nonexchange transactions. This category includes both interfund transfers and interfund reimbursements. [SGAS 34]

NORMAL COSTING. Term used in connection with the valuation of capital assets. Estimate of historical cost based on current cost of reproduction new indexed by a reciprocal factor of the price increase of a specific item or classification from the appraisal date to the estimated date of acquisition. That is, the historical cost of an asset is estimated by taking the value of acquiring the asset new today and then discounting that amount by an appropriate inflation factor back to the date of acquisition.

NOTIONAL AMOUNT. In the context of a derivative, the number (e.g., current units, shares, bushels) to which an underlying is applied.

NUMBER OF FUNDS PRINCIPLE. The principle that 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. [NCGA Statement 1]

OBJECT. A term used in connection with the classification of expenditures. The article purchased or the service obtained, rather than the purpose for which the article or service was purchased or obtained (e.g., *personal services, contractual services, materials and supplies*).

OFFICE OF MANAGEMENT AND BUDGET (OMB). An agency of the federal government with regulatory oversight of Single Audits. In fulfillment of this responsibility the OMB has issued Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

ON-BEHALF PAYMENTS OF FRINGE BENEFITS AND SALARIES. Direct payments made by one entity (the paying entity or paying government) to a third-party recipient for the employees of another, legally separate entity (the employer entity or employer government). They include payments made by governmental entities on behalf of nongovernmental entities and payments made by nongovernmental entities on behalf of governmental entities, and may be made for volunteers as well as for paid employees of the employer entity. [SGAS 24]

OPEN AMORTIZATION PERIOD. Term used in connection with defined benefit pension and other postemployment benefit plans. An open amortization period (open basis) is one that begins again or is recalculated at each actuarial valuation date. Within a maximum number of years specified by law or policy (for example, 30 years), the period may increase, decrease, or remain stable. [SGAS 25 and SGAS 43]

OPEN-END MUTUAL FUND. An open-end mutual fund is one that continuously offers its shares for sale to the public, compared with a closed-end company, which may issue only a limited number of shares. Mutual funds generally do not issue share certificates; instead, they send out periodic statements showing deposits, withdrawals, and dividends credited to the investor's account. [SGAS 3]

OPERATING ACTIVITIES. Term used in connection with cash flows reporting. Operating activities generally result from providing services and producing and delivering goods, and include all transactions and other events that are not defined as capital and related financing, noncapital financing, or investing activities. [SGAS 9]

OPERATING REVENUES AND EXPENSES. Cost of goods sold and services provided to customers and the revenue thus generated.

OPERATIONAL ACCOUNTABILITY. Governments' responsibility to report the extent to which they have met their operating objectives efficiently and effectively, using all resources available for that purpose, and whether they can continue to meet their objectives for the foreseeable future. [SGAS 34]

OPTION-ADJUSTED SPREAD MODELS. A method of estimating the fair value of an option when it is thinly traded or when quoted market prices are not available. Such models measure the spread provided from a security that is an option or includes an option. Using a benchmarked yield curve, separate cash flows are

discounted according to their maturity. The result is a spread when compared to yields for risk-free investments. [Q&A]

OPTION CONTRACT. A contract giving the buyer (owner) the right, but not the obligation, to purchase from (call option) or sell to (put option) the seller (writer) of the contract a fixed number of items (such as shares of equity securities) at a fixed or determinable “strike” price on a given date or at any time on or before a given date. [SGAS 31]

OPTION-PRICING MODELS. A method of estimating the fair value of an option when it is thinly traded or when quoted market prices are not available. Under one such model (i.e., the Black-Scholes model) consideration is given to a security’s return, the-risk free interest rate, the time remaining until the option expires, and the relationship of the underlying security’s price to the strike price of the option. [SGAS 31, Q&A]

ORIGINAL BUDGET. 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. The original budget should also include actual appropriation amounts automatically carried over from prior years by law. For example, a legal provision may require the automatic rolling forward of appropriations to cover prior-year encumbrances. [SGAS 34]

OTHER FINANCING SOURCE. An increase in current financial resources that is reported separately from revenues to avoid distorting revenue trends. The use of the *other financing sources* category is limited to items so classified by GAAP.

OTHER FINANCING USE. A decrease in current financial resources that is reported separately from expenditures to avoid distorting expenditure trends. The use of the *other financing uses* category is limited to items so classified by GAAP.

OTHER POSTEMPLOYMENT BENEFITS (OPEB). Postemployment benefits other than pension benefits. OPEB include postemployment health care benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination offers and benefits. [SGAS 43]

OUTCOME MEASURES. Term used in connection with service efforts and accomplishments reporting. Indicators that measure accomplishments or results that occur (at least partially) because of services provided. Results also include measures of public perceptions of outcomes. [SGAC 2]

OUTPUT MEASURES. Term used in connection with service efforts and accomplishments reporting. Indicators that measure the quantity of services provided. Output measures include both measures of the *quantity of service provided* and measures of the *quantity of a service provided that meets a certain quality requirement*. [SGAC 2]

OVERLAPPING DEBT. In the context of the statistical section, the outstanding long-term debt instruments of governments that overlap geographically, at least in part, with the government preparing the statistical section information. That is, debt of another government that at least some of the reporting government’s taxpayers will also have to pay in whole or in part. Lower levels of government are not required to treat debt of the state as overlapping debt, even though it technically meets this definition. Furthermore, states, regional governments, and counties are exempted from the requirement to present overlapping debt, although counties are still encouraged to do so. [SGAS 44]

OVERLAPPING GOVERNMENTS. In the context of the statistical section, all local governments located wholly or in part within the geographic boundaries of the reporting government.

OVERLAPPING RATE. In the context of the statistical section, an amount or percentage applied to a unit of a specific revenue base by governments that overlap geographically, at least in part, with the government preparing the statistical section information. [SGAS 44]

OWN-SOURCE REVENUES. In the context of the statistical section, revenues that are generated by a government itself (e.g., tax revenues; water and sewer charges; investment income) rather than provided from some outside source (e.g., intergovernmental aid and shared revenues). [SGAS 44]

PARTICIPATING INTEREST-EARNING INVESTMENT CONTRACTS. Interest-earning investment contracts whose value is affected by market (interest rate) changes (e.g., contracts that are negotiable or transferable, or whose redemption value considers market rates). [SGAS 31]

PASSENGER FACILITIES CHARGES (PFCs). A fixed fee authorized by the Federal Aviation Administration that airports may impose on each departing passenger for use in eligible construction projects or for related debt service. This charge is collected by whoever sells the ticket and then remitted to the airport.

PASS-THROUGH GRANTS. Grants and other financial assistance received by a governmental entity to transfer to, or spend on behalf of, a secondary recipient. [SGAS 24]

PAYMENT IN LIEU OF TAXES (PILOT). A payment that a property owner not subject to taxation makes to a government to compensate it for services that the property owner receives that normally are financed through property taxes.

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS. A fiduciary fund type 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 postemployment benefit plans, or other employee benefit plans. [SGAS 34]

PENSION BENEFITS. Retirement income and all other benefits (e.g., disability benefits, death benefits, life insurance) except healthcare benefits, that are provided through a defined benefit pension plan to plan members and beneficiaries after termination of employment or after retirement. Post-employment healthcare benefits are considered other postemployment benefits, regardless of how they are provided. [SGAS 43]

PENSION COST. Accrual measure of the periodic cost of an employer's participation in a defined benefit pension plan. [SGAS 27]

PENSION OBLIGATION BONDS. Bonds issued by employers to finance one or more elements of their pension obligation to employees. Pension obligation bonds may be used, for example 1) to reduce or eliminate the employer's net pension obligation, 2) to pay the employer's annual required contribution for the year, or 3) to reduce or eliminate the plan's unfunded actuarial accrued liability.

PENSION PLAN. An arrangement for the provision of pension benefits in which all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of the plan. [SGAS 25]

PENSION-RELATED DEBT. All long-term liabilities of an employer to a pension plan, the payment of which is not included in the annual required contributions of a sole or agent employer or the actuarially determined required contributions of a cost-sharing employer. Payments generally are made in accordance with installment contracts that usually include interest. Examples include contractually deferred contributions and amounts assessed to an employer upon joining a multiple-employer plan. [SGAS 27]

PENSION TREND DATA. Actuarially based data over time concerning the funding progress of a defined benefit pension plan and employers' actual and annual required contributions to the plan.

PERFORMANCE AUDITING. Auditing designed to evaluate the effectiveness or efficiency of an organization, program, or activity.

PERFORMANCE MEASUREMENT. Commonly used term for service efforts and accomplishments reporting.

PERMANENT ACCOUNTS. Accounts that appear on the statement of position (i.e., assets, liabilities, and equity/net assets).

PERMANENT FUNDS. Governmental fund type 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. [SGAS 34]

PERSPECTIVE DIFFERENCES. Differences between the budgetary basis of accounting and GAAP that result when the structure of financial information used for GAAP financial reporting differs from the structure of financial information used for budgetary purposes. [NCGA Interpretation 10]

POLICYHOLDER DIVIDENDS. Term used in connection with public-entity risk pools. Payments made or credits extended to the insured by the insurer, usually at the end of a policy year, which result in reducing the net insurance cost to the policyholder. These dividends may be paid in cash to the insured or applied by the insured to reduce premiums due for the next policy year. [SGAS 10]

POPULAR ANNUAL FINANCIAL REPORTING. Supplementary financial reporting designed to meet the special needs of interested parties who are either unable or unwilling to use the more detailed financial information provided in traditional comprehensive annual financial reports.

POPULAR ANNUAL FINANCIAL REPORTING AWARD. An awards program sponsored by the Government Finance Officers Association with the objective of encouraging and assisting governments to prepare and publish high quality popular annual financial reports.

POSTEMPLOYMENT. Period following termination of employment, including the time between termination and retirement. [SGAS 43]

POSTEMPLOYMENT HEALTHCARE BENEFITS. Medical, dental, vision, and other health-related benefits provided to terminated employees, retired employees, dependents, and beneficiaries. [SGAS 43]

PRELIMINARY PROJECT STAGE. Term used in connection with computer software developed or obtained for internal use. Costs incurred prior to the development stage of computer software (e.g., the conceptual formulation of alternatives, the evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives).

PRELIMINARY VIEWS. A due-process document issued by the GASB soliciting comments from interested parties on a proposed authoritative pronouncement prior to the issuance of an exposure draft.

PREMIUM DEFICIENCY. Term used in connection with public-entity risk pools. A situation that occurs if the sum of expected claims costs (including incurred but not reported claims) and all expected claim adjustment expenses, expected dividends to policy holders or pool participants, and unamortized acquisition costs exceeds related unearned premiums. [SGAS 30]

PRIMARY GOVERNMENT. Term used in connection with defining the financial reporting entity. A state government or general purpose local government. Also, a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. The primary government is the focus of the financial reporting entities. [SGAS 14]

PRIMARY USERS OF GENERAL-PURPOSE EXTERNAL FINANCIAL REPORTS. Those groups of financial statement users whose needs guide the development of GAAP. For state and local governments, the primary users of general-purpose external financial reports are (a) those to whom government is primarily accountable (the citizenry), (b) those who directly represent the citizens (legislative and oversight bodies), and (c) those who lend or who participate in the lending process (investors and creditors). [SGAC 1]

PRIVATE-PURPOSE TRUST FUNDS. A fiduciary trust fund type used to report all trust arrangements, other than those properly reported in pension trust funds or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments. [SGAS 34]

PROGRAM. Group activities, operations or organizational units directed to attaining specific purposes or objectives.

PROGRAM LOAN. Term used in connection with cash flows reporting. A loan made and collected as part of a governmental program that provides a *direct* benefit to *individual* constituents. [SGAS 9, Q&A]

PROGRAM REVENUE. Term used in connection with the government-wide statement of activities. Revenues that derive directly from the program itself or from parties outside the reporting government's taxpayers or citizenry, as a whole; they reduce the net cost of the function to be financed from the government's general revenues. [SGAS 34]

PROPRIETARY FUNDS. Funds that focus on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. There are two different types of proprietary funds: enterprise funds and internal service funds.

PUBLIC EMPLOYEE RETIREMENT SYSTEM (PERS). A state or local governmental entity entrusted with administering one or more pension plans; it also may administer other benefit plans, including postemployment healthcare plans and deferred compensation plans. A public employee retirement system also may be an employer that provides or participates in a pension plan or other types of employee benefit plans for employees of the system. [SGAS 25]

PUBLIC-ENTITY RISK POOL. A cooperative group 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 may be a stand-alone entity or included as part of a larger governmental entity that acts as the pool's sponsor. [SGAS 10]

PURE CASH CONDUIT. Term used in connection with pass-through grants. A grantor that merely transmits grantor-supplied moneys without having administrative or direct financial involvement in the program. [SGAS 24]

PURPOSE RESTRICTIONS. Term used in connection with government-mandated and voluntary nonexchange transactions. Legal limitations that specify the purpose or purposes for which resources are required to be used (as distinguished from eligibility requirements). [SGAS 33]

PUT OPTION. An option contract giving the buyer (owner) the right, but not the obligation, to sell to the writer of the contract a fixed number of items (such as shares of equity securities) at a fixed or determinable "strike" price on a given date or at any time on or before a given date. [SGAS 31]

QUALIFIED OPINION. Term used in connection with financial auditing. A modification of the independent auditor's report on the fair presentation of the financial statements indicating that there exists one or more specific exceptions to the auditor's general assertion that the financial statements are fairly presented.

QUESTIONED COST. Term used in connection with Single Audits. A determination by the independent auditor that an expenditure under a federal grant does not meet all of the grantor's requirements and therefore may be subject to refund to the grantor.

REALIZED GAINS AND LOSSES. Difference between the carrying value of an asset and its price at the time of sale if the asset had been reported at other than fair value. (The term *unrealized gains and losses* is used to describe the difference between carrying value and fair value prior to sale).

REAPPROPRIATION. The inclusion of a balance from the prior year's budget as part of the budget of the subsequent fiscal year. Reappropriation is common for encumbrances outstanding at the end of a fiscal year that a government intends to honor in the subsequent fiscal year.

REASONABLE ASSURANCE. A term used in connection with financial auditing. The principle that the goal of the independent audit of the financial statements is to ensure that financial statements are free from *material* misstatement. The principle of reasonable assurance rests upon the assumption that it is not cost beneficial to attempt to ensure that financial statements are free of *immaterial* misstatements.

REBATABLE ARBITRAGE. A term used in connection with the reinvestment of the proceeds of tax-exempt debt. A requirement to remit to the federal government interest revenue in excess of interest costs when the proceeds from the sale of tax-exempt securities are reinvested in a taxable money market instrument with a materially higher yield.

RECIPROCAL INTERFUND ACTIVITY. The interfund counterpart to exchange and exchange-like transactions. This category includes both interfund loans and interfund services provided and used. [SGAS 34]

REFUNDING. The issuance of new debt whose proceeds are used to repay previously issued debt. The proceeds may be used immediately for this purpose (a current refunding), or they may be placed with an

escrow agent and invested until they are used to pay principal and interest on the old debt at a future time (an advance refunding). [SGAS 23]

REGULATED ENTERPRISES. Enterprises for which (a) rates for regulated services or products are either established by, or subject to approval by an independent, third-party regulator (or the governing board itself if it is empowered by statute or contract to establish rates that bind customers), (b) the regulated rates are designed to recover the specific enterprise's costs of providing regulated services or products, and (c) it is reasonable to assume that the regulated activity can set and collect charges sufficient to recover its costs. Regulated enterprises have the *option* of adopting certain specialized guidance issued by the FASB. In practice, the term "regulated enterprise" normally is applied only to enterprises that elect this option.

REIMBURSEMENT GRANT. A grant for which a potential recipient must first incur qualifying expenditures to be eligible. Reimbursement grants are also referred to as *expenditure-driven grants*.

REINSURANCE. A transaction in which an assuming enterprise (reinsurer), for a consideration (premium), assumes all or part of a risk undertaken originally by another insurer (ceding enterprise). However, the legal rights of the insured are not affected by the reinsurance transaction, and the ceding enterprise issuing the original insurance contract remains liable to the insured for payment of policy benefits. [SGAS 10]

RELATED ORGANIZATION. Term used in connection with defining the financial reporting entity. An organization for which a primary government is accountable because that government appoints a voting majority of the board, but is not *financially* accountable. [SGAS 14]

RELATED PARTY TRANSACTION. A transaction that an informed observer might reasonably believe reflects considerations other than economic self interest based upon the relationship that exists between the parties to the transaction. The term often is used in contrast to an *arm's-length transaction*.

RELATIVE ORDER OF LIQUIDITY. An order for presenting assets and liabilities on the statement of net assets based upon how readily they may be converted to cash or will require the use of cash. [SGAS 34]

RELEVANCE. The principle that there should be a close logical relationship between the financial information provided and the purpose for which it is needed. Information is relevant if it is capable of making a difference in a user's assessment of a problem, condition, or event. [SGAC 1]

RELIABILITY. The principle that financial information should be verifiable, free from bias, and faithfully represent what it purports to represent. [SGAC1]

REPORTABLE CONDITION. Term used in connection with financial auditing prior to the issuance of SAS 112, *Communicating Internal Control Related Matters Identified in an Audit*, effective for periods ending on or after December 15, 2006. A significant deficiency in internal controls discovered in the course of the financial statement audit that must be communicated by the independent auditor to the entity's audit committee or its equivalent.

REPORTING DATE. Date of the financial statements; the last day of the fiscal year.

REPORTING PACKAGE. Term used in connection with Single Audits. A package that the independent auditor must communicate to the Federal Audit Clearing House that includes (a) the government's financial statements, (b) the government's supplementary schedule of expenditures of federal awards, (c) the auditor's reports, (d) a summary schedule of prior audit findings, and (e) a corrective action plan. The reporting package must be accompanied by a special data collection form that summarizes the information contained in the reporting package.

REPURCHASE AGREEMENT. A transaction in which the governmental entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the governmental entity and promises to repay the cash plus interest in exchange for the return of the same securities. [SGAS 3]

REQUIRED SUPPLEMENTARY INFORMATION. Statements, schedules, statistical data, or other information that the GASB has determined to be necessary to supplement, although not required to be a part of, the basic statements of a governmental entity. [SGAS 43]

RESERVED FUND BALANCE. The portion of a governmental fund's net assets that is not available for appropriation.

RESET DATE. Time that a bond's variable coupon is repriced to reflect changes in a benchmark index. [SGAS 40]

RESTORATION COST APPROACH. Method for measuring the impairment of a capital asset as a result of physical damage that uses estimated restoration costs to establish a ratio (restoration cost/replacement cost or deflated restoration cost/original cost) for determining the portion of the book value of the asset that should be written off.

RESTRICTED ASSETS. Assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enable legislation. [SGAS 34]

RESTRICTED NET ASSETS. A component of net assets calculated by reducing the carrying value of restricted assets by the amounts repayable from those assets, excluding capital-related debt.

RETROSPECTIVELY (EXPERIENCE) RATED POLICY. Term used in connection with public-entity risk pools. An insurance policy for which the final amount of the premium is determined by adjusting the initial premium based on actual experience during the period of coverage (sometimes subject to maximum and minimum limits). A retrospectively rated policy is designed to encourage safety by the insured and to compensate the insurer if larger-than-expected losses are incurred. [SGAS 10]

REVENUE AND CLAIMS DEVELOPMENT TREND DATA. Required supplementary information mandated by the GASB for public-entity risk pools.

REVENUE ANTICIPATION NOTE. Short-term, interest-bearing note issued by a government in anticipation of revenues to be received at a later date. The note is retired from the revenues to which it is related.

REVERSE REPURCHASE AGREEMENT. An agreement in which a broker-dealer or financial institution (buyer-lender) transfers cash to a governmental entity (seller-borrower); the entity transfers securities to the broker-dealer or financial institution and promises to repay the cash plus interest in exchange for the same securities or for different securities. [SGAS 3]

RISK-SHARING POOLS. One of four different types of public-entity risk pools. An arrangement by which governments pool risks and funds and share in the cost of losses. [SGAS 10]

ROLL-OVER RISK. In the context of disclosures for derivatives, the risk that arises when a derivative associated with a government's variable-rate debt does not extend all the way to the maturity date of the associated debt, thereby creating a gap in the protection otherwise afforded by the derivative.

SALARY-RELATED PAYMENTS. Term used in connection with compensated absences. Payments by an employer that are directly and incrementally associated with payments made for compensated absences on termination. Such salary-related payments include the employer's share of Social Security and Medicare taxes and also might include, for example, the employer's contributions to pension plans. [SGAS 16]

SCHEDULE OF EMPLOYER CONTRIBUTIONS. Term used in connection with defined benefit pension and other postemployment benefit plans. Trend data on employers' annual required contribution to a plan and actual contributions.

SCHEDULE OF FUNDING PROGRESS. Term used in connection with defined benefit pension and other postemployment benefit plans. Trend data on the relationship between the actuarial value of plan assets and the related actuarial accrued liability.

SEC 2A7-LIKE POOLS. An external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 (17 Code of Federal Regulations §270.2a-7). Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than market value to report net assets to compute share prices if certain conditions are met. Those conditions include restrictions on the types of investments held, restrictions on the term-to-maturity of individual

investments and the dollar-weighted average of the portfolio, requirements for portfolio diversification, requirements for divestiture considerations in the event of security downgrades and defaults, and required actions if the market value of the portfolio deviates from amortized cost by a specified amount. [SGAS 31]

SECURITIES LENDING TRANSACTIONS. Transactions in which governmental entities transfer their securities to broker-dealers and other entities for collateral—which may be cash, securities, or letters of credit—and simultaneously agree to return the collateral for the same securities in the future. [SGAS 28]

SEGMENT. An identifiable activity (or grouping of activities) reported as or within an enterprise fund or an other stand-alone entity that has one or more bonds or other debt instruments outstanding, with a revenue stream pledged in support of that debt. In addition, the activity's revenues, expenses, gains and losses, assets, and liabilities are required to be accounted for separately.

SEGMENTED TIME DISTRIBUTION. In the context of investment disclosure, segmented time distribution groups investment cash flows into sequential time periods in tabular form. [SGAS 40]

SEGREGATION OF INCOMPATIBLE DUTIES. Term used in connection with the evaluation of internal control. The principle that no single employee should be placed in a position that allows that employee both to commit and conceal an irregularity in the ordinary course of the employee's duties.

SERVICE EFFORTS AND ACCOMPLISHMENTS REPORTING. Term used by the GASB to describe the presentation of performance measures in connection with general purpose external financial reporting.

SERVICE UNITS APPROACH. Method of measuring capital asset impairments resulting from either 1) changes in environmental factors (e.g., laws, regulations), 2) technological developments and obsolescence, or 3) a change in the manner or expected duration of use of the asset. The method is based on a comparison of service units before and after an impairment occurs.

SIGNIFICANT DEFICIENCY. A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. [SAS 112]

SIMULATION MODELS. Models that estimate changes in an investment's or a portfolio's fair value, given hypothetical changes in interest rates. Various models or techniques are used, such as "shock tests" or value-at-risk. [SGAS 40]

SINGLE AUDIT. An audit performed in accordance with the Single Audit Act of 1984 (as amended) and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Single Audit Act allows or requires governments (depending on the amount of federal assistance received) to have one audit performed to meet the needs of all federal grantor agencies.

SINGLE AUDIT ACT OF 1984. Federal legislation that provides for state and local government recipients of federal financial awards to have one audit performed to meet the needs of all federal grantor agencies. The Single Audit Act was amended in 1996.

SINGLE-PROGRAM GOVERNMENTS. Term used in connection with financial reporting. A government that budgets, manages, and accounts for its activities as a single program. Single-program governments that use only governmental funds have the option to combine their fund financial statements and their government-wide financial statements into a single, combining presentation.

SOLVENCY TEST. Term used in connection with pension plan financial reporting. Comparison of a pension plan's present assets to the aggregate accrued liabilities classified into the following categories: (a) liability for active member contributions on deposit, (b) liability for future benefits to present retired lives, and (c) liability for service already rendered by active members. In preparing this schedule, valuation assets are arbitrarily allocated first to the liability for active member contributions on deposit, second to the liability for future benefits to present retired lives, and third to the liability for service already rendered by active members, regardless of the method used for asset allocation.

SPECIAL ASSESSMENT. A compulsory levy made against certain properties to defray all or part of the cost of a specific capital improvement or service deemed to benefit primarily those properties.

SPECIAL FUNDING SITUATIONS. Term used in connection with pensions. A situation in which a governmental entity is legally responsible for contributions to pension or other postemployment benefit plans that cover the employees of another governmental entity or entities. For example, a state government may be legally responsible for the annual “employer” contributions to a pension plan that covers employees of school districts within the state. [SGAS 27 and SGAS 45]

SPECIAL ITEMS. Significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. [SGAS 34]

SPECIAL REVENUE FUND. A governmental fund type used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes. [NCGA Statement 1]

SPECIAL TERMINATION BENEFITS. Benefits offered by an employer for a short period of time as an inducement to employees to hasten the termination of services. For example, to reduce payroll and related costs, an employer might offer enhanced pension benefits or OPEB to employees as an inducement to take early termination, for employees who accept the offer within a sixty-day window of opportunity. [SGAS 43]

SPECIFIC IDENTIFICATION. In the context of the interest rate risk disclosure for investments, the listing of each investment, its amount, its maturity date, and any call options. [SGAS 40]

SPONSOR. In the context of pension and other postemployment benefits, the entity that established the plan. [SGAS 43]

STAND-ALONE PLAN FINANCIAL REPORT. In the context of pension and other postemployment benefits, a report that contains the financial statements of a plan and is issued by the plan or by the public employee retirement system that administers the plan. The term *stand-alone* is used to distinguish such a financial report from plan financial statements that are included in the financial report of the plan sponsor or employer. [SGAS 43]

STANDARD COSTING. Method of estimating the historical cost of a capital asset by establishing the average cost of obtaining the same or a similar asset at the time of acquisition.

STATISTICAL SECTION. The third of three essential components of any comprehensive annual financial report. The statistical section 1) provides information on financial trends, 2) provides information on revenue capacity, 3) provides information on debt capacity, 4) provides demographic and economic information, and 5) provides operating information.

STOCK RIGHTS. Rights given to existing stockholders to purchase newly issued shares in proportion to their holdings at a specific date. [SGAS 31]

STOCK WARRANTS. Certificates entitling the holder to acquire shares of stock at a certain price within a stated period. Warrants often are made part of the issuance of bonds or preferred or common stock. [SGAS 31]

STREET OR NOMINEE NAME. Securities that are issued in or endorsed to the name of a securities depository, broker-dealer, or other financial services company, on behalf of the true beneficial owners of the securities. [Q&A]

STRIKE PRICE. A fixed or determinable price on a given date or at any time on or before a given date at which the buyer (owner) may purchase from (call option) or sell to (put option) the seller (writer) of an option contract a fixed number of items (such as shares of equity securities). [SGAS 31]

STRUCTURED SETTLEMENT. Term used in connection with risk financing. A means of satisfying a claim liability, consisting of an initial cash payment to meet specific present financial needs combined with a stream of future payments designed to meet future financial needs, generally funded by annuity contracts. [SGAS 10]

SUBJECT. A subdivision within an expenditure object classification (e.g., *regular employees* is a possible subobject classification within the *personal services—salaries and wages* expenditure object classification).

SUBSTANTIVE PLAN. Terms of an OPEB plan as understood by the employer(s) and plan members. [SGAS 43]

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (SSAP). The first of the notes to the financial statements or a separate section immediately preceding the notes to the financial statements. The basic contents should include a discussion of 1) any selection of an accounting treatment when GAAP permit more than one approach, 2) accounting practices unique to state and local governments, and 3) unusual or innovative applications of GAAP.

SUPPLEMENTARY INFORMATION. Financial information presented together with basic financial statements that is not included within the scope of the audit of those statements. When the presentation of certain supplementary information is mandated by the GASB it is referred to as *required supplementary information*.

SUSCEPTIBLE TO ACCRUAL. Term used in connection with the application of the modified accrual basis of accounting. Revenues that are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. [NCGA Statement 1]

SWAP (PRINCIPAL/INTEREST). Contract in which the parties agree to make future payments to each other designed to achieve a net effect equivalent to each assuming the debt service burden of the other.

SYSTEM DEVELOPMENT FEES. Fees charged to join or to extend an existing utility system. Also referred to as *tap fees* or *connection fees*.

TAKE-OUT AGREEMENT. Term used in connection with demand bonds. An arrangement with a financial institution to convert demand bonds to an installment loan payable over a specified period, sometimes as long as 10 years or more. A take-out agreement is used to provide long-term financing in the event the remarketing agency is unable to resell demand bonds within a specified period (usually three to six months) subsequent to the exercise of the “demand” feature by bondholders. [IGAS 1]

TAP FEES. Fees charged to join or to extend an existing utility system. Also referred to as *system development fees* or *connection fees*.

TAX ANTICIPATION NOTE. Short-term, interest-bearing note issued by a government in anticipation of tax revenues to be received at a later date. The note is retired from the tax revenues to which it is related.

TAX-INCREMENT FINANCING. Financing secured by the anticipated incremental increase in tax revenues, resulting from the redevelopment of an area.

TECHNICAL AGENDA. Term used in connection with the operation of the GASB. A list of research projects formally undertaken by the GASB as part of its development of authoritative standards of accounting and financial reporting.

TECHNICAL BULLETIN. A document issued by the staff of the GASB to provide guidance for applying GASB statements and interpretations and resolving accounting issues not directly addressed by them. [TB 84-1]

TEMPORARY ACCOUNTS. Accounts that close to net assets at the end of an accounting period (e.g., revenues and expenses).

TEN PERCENT CRITERION. The first of two tests used to determine whether a given governmental fund or enterprise fund must be reported as a major fund in the basic financial statements. For governmental funds, this test is applied to the total assets, liabilities, revenues, and expenditures of all governmental funds. For enterprise funds, this test is applied to the total assets, liabilities, revenues, and expenses of all enterprise funds. The test need be met for only one of these four items.

TERMINATION PAYMENTS METHOD. A method of calculating the liability for earned sick leave for which it is probable that the benefits will result in termination payments. Under this method, the amount of

the liability is estimated based on a governmental entity's past experience of making termination payments for sick leave, adjusted for the effect of changes in its termination policy and other factors. [SGAS 16]

TERMINATION RISK. In the context of disclosures for derivatives, the risk that an unscheduled termination of a derivative could have an adverse effect on the government's asset or liability strategy or could lead to potentially significant unscheduled payments.

TIMELINESS. The principle that financial statements must be issued soon enough after the reported events to affect decisions. [SGAC 1]

TIMING DIFFERENCES. Differences between the budgetary basis of accounting and GAAP that occur when the period used for budgeting differs from the period used for GAAP reporting (e.g., a special revenue fund that uses a grant-year budget rather than a fiscal-year budget).

TOTAL DIRECT RATE. In the context of the statistical section, the weighted average of all individual direct rates applied by the government preparing the statistical section information. [SGAS 44]

TRI-PARTY ARRANGEMENT. Term used in connection with repurchase agreements. An arrangement in which the custodian serves as agent both of the buyer-lender and of the seller-borrower by agreeing, in the event of default by one, to protect the interests of the other. The custodian holds the securities underlying the agreement in the names of both repurchase agreement parties (the buyer-lender as pledgee and seller-borrower as owner). [Q&A]

TYPE A PROGRAM. Term used in connection with the determination of major programs for purposes of Single Audits. Type A programs are defined on the basis of the relationship between program expenditures and total federal awards expended.

TYPE B PROGRAM. Term used in connection with the determination of major programs for purposes of Single Audits. A Type B program is any program with insufficient program expenditures to qualify as a Type A program.

UNALLOCATED CLAIM ADJUSTMENT EXPENSES. Term used in connection with risk financing. Costs that cannot be associated with specific claims but are related to claims paid or in the process of settlement, such as salaries and other internal costs of the pool's claims department. [SGAS 10]

UNALLOCATED DEPRECIATION. Term used in connection with the government-wide statement of activities. Depreciation not properly reported as a direct expense of a functional category.

UNCOMMITTED BALANCE OF APPROPRIATIONS. The portion of an appropriation remaining after the deduction of expenditures and encumbrances.

UNDERLYING. In the context of a derivative, a variable that is applied to a notional amount (e.g., a specified interest rate, price index, foreign exchange rate, commodity price), or is associated with a payment provision.

UNDERSTANDABILITY. The principle that information in financial reports should be expressed as simply as possible. [SGAC 1]

UNDESIGNATED UNRESERVED FUND BALANCE. Available expendable financial resources in a governmental fund that are not the object of tentative management plans (i.e., designations).

UNDIVIDED INTEREST. An arrangement (also known as a *joint operation*) that resembles a joint venture but no entity or organization is created by the participants. An undivided interest is an ownership arrangement in which two or more parties own property in which title is held individually to the extent of each party's interest. Implied in that definition is that each participant is also liable for specific, identifiable obligations (if any) of the operation. Because an undivided interest is not a legal entity, borrowing to finance its operations often is done individually by each participant. An additional consequence of the absence of a formal organizational structure is that there is no entity with assets, liabilities, expenditures/expenses, and revenues—and thus, equity—to allocate to participants. [SGAS 14]

UNEARNED REVENUE. Specific type of deferred revenue that does not involve the application of the availability criterion, and therefore applies equally to both accrual and modified accrual financial statements.

UNFUNDED ACTUARIAL ACCRUED LIABILITY. The excess of the actuarial accrued liability over the actuarial value of assets. This value may be negative, in which case it may be expressed as a *negative unfunded actuarial accrued liability, the excess of the actuarial value of assets over the actuarial accrued liability, or the funding excess*. [SGAS 43]

UNQUALIFIED OPINION. An opinion rendered without reservation by the independent auditor that financial statements are fairly presented.

UNREALIZED GAINS AND LOSSES. Term used in connection with the valuation of investments. Difference between the carrying value of an asset and its fair value prior to sale.

UNREALIZED REVENUES. Term used in connection with budgeting. The difference between estimated revenues and actual revenues.

UNRESTRICTED NET ASSETS. That portion of net assets that is neither restricted nor invested in capital assets (net of related debt).

VARIABLE RATE INVESTMENT. In the context of investment disclosure, an investment with terms that provide for the adjustment of its interest rate on set dates (such as the last day of a month or calendar quarter) and that, upon each adjustment until the final maturity of the instrument or the period remaining until the principal amount can be recovered through demand, can reasonably be expected to have a fair value that will be unaffected by interest rate changes. [SGAS 40]

VESTING METHOD. A method of calculating the liability for earned sick leave for which it is probable that the benefits will result in termination payments. Under this method, the amount of the liability is estimated based on the sick leave accumulated at the date of the statement of position for those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. In calculating the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees or classes or groups of employees will become eligible to receive termination payments. [SGAS 16]

VOLUNTARY NONEXCHANGE TRANSACTIONS. Transactions that result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (for example, certain grants and private donations). [SGAS 33]

VOTING MAJORITY. Term used in connection with defining the financial reporting entity. A situation in which the number of the primary government's appointees to a component unit's board is sufficient to control decisions of the component unit. [SGAS 14, Q&A]

VULNERABILITY ASSESSMENT. Term used in connection with evaluations of internal controls. The risk-based systematic prioritization of internal control evaluations.

WEIGHTED AVERAGE MATURITY. In the context of investment disclosure, a weighted average maturity measure that expresses investment time horizons—the time when investments become due and payable—in years or months, weighted to reflect the dollar size of individual investments within an investment type. [SGAS 40]

WIDELY RECOGNIZED AND PREVALENT PRACTICE. Term used in connection with the hierarchy of GAAP for state and local governments established by SAS No. 69, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report*. The principle that accounting and financial reporting practice should itself serve as a source of GAAP in the absence of high level guidance.

YELLOW BOOK. Term used in connection with public-sector auditing. A non-technical term commonly used to describe the Government Accountability Office's publication *Government Auditing Standards*, the source of GAGAS.

YIELD MAINTENANCE REPURCHASE—REVERSE REPURCHASE AGREEMENT. A repurchase agreement or a reverse repurchase agreement where the parties agree that the securities returned will provide the seller-borrower with a yield as specified in the agreement. [SGAS 3]

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