Financial Accountability System Resource Guide, Update 16

Module 1: Financial Accounting and Reporting

Texas Education Agency
2019

Table of Contents

Notes on Using This Module

The purpose of this module is to specify the financial accounting and reporting requirements that the following local education agencies (LEAs) must meet:

- school district
- regional education service center
- county education district
- open-enrollment charter school operated by a governmental entity
- open-enrollment charter school operated by an institution of higher education, as defined by the Texas Education Code (TEC), §61.003

The term "**school district"** or **"district"** is used throughout the module to refer to any of these LEAs**.**

The term **Public Education Information Management System (PEIMS)** is used throughout the module to refer to PEIMS EDIT+ **and the Texas Student Data System PEIMS (TSDS PEIMS).**

For financial accounting information, **specific to charter schools** operated by a nonprofit organization or by a private or state institution of higher education, see **Module 2: Charter Schools.**

The Financial Accountability System Resource Guide (FASRG) is codified in Title 19 of the Texas Administrative Code (TAC) Chapter 109, Subchapter C (19 TAC §109.41)

This page intentionally left blank.

1.1 Financial Accounting Requirements

This section describes some of the broader requirements your district must meet in its financial accounting.

1.1.1 Financial Accounting and Reporting System

Your school district must implement and use a standardized financial accounting and reporting system, as described in this module. The system must present fairly and with full disclosure the district's funds, financial activities, and results of financial operations in a manner that conforms to generally accepted accounting principles and allows the district to determine and show compliance with financial-related legal and contractual provisions.[1]

The school district's accounting system must be organized and operated on a fund basis. The separate funds are established by the school district for the specific activities and objectives in accordance with statutes, laws, and regulations, or for specific purposes. A fund is defined in the Governmental Accounting Standards Board (GASB) Codification Section 1300 as:

> "A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Expendable assets are assigned to various governmental funds according to the purpose for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the difference between governmental fund assets and deferred outflows of resources, and liabilities and deferred inflows of resources is referred to as "Fund Balance."[2]

A self-balancing set of accounts means that debits and credits are used when recording transactions and events in the accounting system for each of the funds. Your district's records must be organized on a multiple fund basis with each of the funds complete and containing independent accounting entries. The absolute minimum number of funds appropriate for your district's operations must be established based on purposes and legal requirements of the activities of your district.

Your district's financial accounting and reporting system must use the accounting codes and accounting code structure specified in 1.4.2.1 Account Code Structure Minimum Requirements and Appendix A: Accounting Code Structure and Codes.

[1] GASB Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, Section 1100, paragraph 101

[2] GASB Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments

1.1.2 Statutory and Regulatory Requirements and Generally Accepted Accounting Principles

Your district's financial accounting and reporting system must comply with:

- all applicable statutory and regulatory requirements and
- generally accepted accounting principles (GAAP).

1.1.2.1 Statutory and Regulatory Requirements

The TEC and other state statutes and regulations contain the legal requirements for public school finance, accounting, budgeting, and reporting.

The following are some of the broader statutory and regulatory requirements related to financial accounting and reporting.

State Statutory Requirements

The TEC, Chapter 44, Subchapter A, establishes state statutory requirements related to school district fiscal management and financial accounting and reporting in general. These requirements include, but are not limited to, the following:

- §44.0011 establishes the fiscal year for school districts.
- §44.002 requires a district to prepare a budget for each fiscal year.
- §44.003 requires a district to keep budgetary and related records and to file required financial records.
- §44.004 establishes budget adoption requirements.
- §44.005 requires that a district's budget be filed with the Texas Education Agency (TEA).
- §44.006 prohibits a district from spending public funds before a budget is adopted and allows for amending the budget.
- §44.007 requires a district to adopt a standardized accounting system, record financial information, and report that information to the TEA.
- §44.008 requires a district to have an audit of its fiscal accounts performed annually and to file a copy of its annual audit report with the TEA.

State Regulatory Requirements

In 19 Texas Administrative Code (TAC) Chapter 109, Subchapters A–CC, corresponding state regulatory requirements are set out, including, but not limited to the following:

- §109.1 requires school districts to use a standardized system of budgeting, accounting, and financial reporting.
- §109.23 requires a district's annual audit to comply with *FASRG* requirements and establishes the audit report due date.

- §109.41 adopts the *FASRG* as part of the TAC and establishes its rules as the official state financial accounting rules for school districts.

Federal Regulatory Requirements

Title 2 Code of Federal Regulations (CFR) Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Rewards

- Subpart A—Acronyms and Definitions[3]
- Subpart B—General Provisions[4]
- Subpart C—Pre-Federal Award Requirements and Contents of Federal Awards[5]
- Subpart D—Post Federal Award Requirements[6]
- Subpart E—Cost Principles[7]
- Subpart F—Audit Requirements[8]
- Appendix I to Part 200—Full Text of Notice of Funding Opportunity[9]
- Appendix II to Part 200—Contract Provisions for Non-Federal Entity Contracts Under Federal Awards[10]
- Appendix V to Part 200—State and Local Government-wide Central Cost Allocation Plans[11]
- Appendix VII to Part 200— States and Local Government and Indian Tribe Indirect Cost Proposals[12]
- Appendix XI to Part 200—Compliance Supplement is a set of federal regulatory requirements related to audits of school districts. (This regulation was formerly known as OMB Circular A-133 Compliance Supplement.)

For more information on federal regulatory requirements, see Appendix D: Other Federal and State Requirements, in the Financial Accounting and Reporting Appendices.

1.1.2.2 GAAP

GAAP that school districts must adhere to are established primarily by the GASB, which is the standard-setting authority for GAAP for state and local governments.

---

[3] 2 CFR §200, Subpart A—Acronyms and Definitions
[4] 2 CFR §200, Subpart B—General Provisions
[5] 2 CFR §200, Subpart C—Pre-Federal Award Requirements and Contents of Federal Awards
[6] 2 CFR §200, Subpart D—Post Federal Award Requirements
[7] 2 CFR §200, Subpart E—Cost Principles
[8] 2 CFR §200, Subpart F—Audit Requirements
[9] Appendix I to Part 200 – Full Text of Notice of Funding Opportunity
[10] Appendix II to Part 200 – Contract Provisions for Non-Federal Entity Contracts Under Federal Awards
[11] Appendix V to Part 200 – State/Local Governmentwide Central Service Cost Allocation Plans
[12] Appendix VII to Part 200 – States and Local Government and Indian Tribe Indirect Cost Proposals

GASB establishes GAAP through its statements of governmental accounting standards and codification of those standards, as well as through interpretations and technical bulletins. You can find the hierarchy of GAAP, GASB statements, interpretations, and bulletins on the GASB website.

1.1.2.3 Records Retention

Both federal and state governments have requirements for retaining financial records. This accounting guide does not address retention requirements for student records and attendance.

Federal Requirements

For federal awards, the Office of Management and Budget (OMB) guidance requires that financial documents be retained for at least three years after the submission date of the final expenditure report.[13]

Title 2 §200.335 also states that "electronic, open, machine readable information is preferable to paper, as long as there are appropriate and reasonable internal controls in place to safeguard against any inappropriate alteration of records."[14]

State Requirements

The Texas State Library and Archives Commission require a four-year (fiscal year end + three years) retention period for financial records of school districts.[15] Additional details on the retention period for financial records of school districts are located on the Texas State Library and Archives Commission website.

Note: If your district uses password protection on electronic documents such as spreadsheets and databases, the TEA requires your district to provide passwords or unlocked copies of those documents when submitted to the TEA or its auditors.

1.1.3 Budget Requirements

Your district must prepare an annual budget by June 19, if the district's fiscal year starts July 1, or August 20, if the district's fiscal year starts September 1. The budget for a fiscal year must be adopted by the local school board before expenditures are made and, if applicable, before the tax rate for the year is set.[16]

In general, your district must include at least the following funds in its budget:

---

[13] OMB Uniform Guidance: Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 200.333 Retention Requirements for Records

[14] OMB Uniform Guidance: Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 200.335 Methods for Collection, Transmission, and Storage of Information

[15] Local Schedule SD: Retention Schedule for Records of Public School Districts, Part 15: Financial Records

[16] TEC, §44.002, Preparation of Budget

- **general fund**—must be included each year
- **food service fund**—must be budgeted for and submitted to the PEIMS regardless of which type of fund is used to account for school nutrition programs
- **debt service fund**—must be budgeted expenditures recorded with function code 71, Debt Service.

Your district's budget must be itemized in detail according to the classification and purpose of expenditure using the accounting code structure specified in 1.4.2.1 Account Code Structure Minimum Requirements and Appendix A: Accounting Code Structure and Codes. In addition, your district's adopted budget must be on a 12-month basis.

Your district's budget must be adopted before expenditures can be made, and this adoption must be prior to setting of the tax rate for the budget year.[17] You must file the adopted budget, as necessarily amended, with the TEA through PEIMS.

In addition, your district must post the adopted budget on the district's website, and the adopted budget, including amendments, must remain in a prominent place on the website for three years from the date the budget was originally adopted.[18]

Your district must file its original and final amended budget with the TEA electronically as part of its annual financial and compliance report (AFR). The TEA considers the budget filed when your district submits an AFR showing a comparison of budget and actual amounts. For more information on filing the AFR, see 1.5 Required Reports and Data Submission.

For information about requirements for independent auditors of school districts, charter schools, and other educational entities, see TEA rules.[19]

1.1.4 Audit Requirements

An independent auditor must audit your district's fiscal accounts annually. The district must file the auditor's report with the TEA electronically as part of its AFR. For more information, see 1.5 Required Reports and Data Submission.

1.1.5 District Fiscal Year

Your school district may establish a fiscal year that begins on either **July 1** or **September 1** of each year. A fiscal year that begins on July 1 ends on June 30 of the following calendar year. A fiscal year that begins on September 1 ends on August 31 of the following calendar year.

[17] TEC, §44.006, Effect of Adopted Budget and Amendments
[18] TEC, §44.0051, Posting of Adopted Budget
[19] 19 TAC §109.23, School District Independent Audits and Agreed-Upon Procedures

Your district may change the fiscal year start date to July 1 by filing a Notification of Intent to Change the Fiscal Year Start Date with the TEA no later than June 30 of the preceding year.[20] If your district wishes to make a change after the June 30 deadline, your district must contact the division at the TEA in charge of fiscal year changes.

1.1.5.1 Changing to a June 30 Fiscal Year

In the first year of implementation, the financial accounting period will span 10 months in districts that change from a September 1 start date to a June 30 end date. Certain aspects of financial reporting will require adjustments in the first year of implementation because state and federal regulatory activities, as well as state funding calculations under the FSP, require your district to report financial data on a 12-month basis. Because of this, your district must base all financial data reported for the first year of implementation, except for the AFR, on a 12-month reporting period, as follows:

- Budget financial data reported through the PEIMS for the year of implementation must be on a **12-month** basis for the period beginning September 1 and ending August 31 (two months beyond the July 1 start date of the following fiscal year);
- Actual financial data reported through the PEIMS collection system must be on a **12-month** basis for the September 1–August 31 period (two months beyond the July 1 start date of the following fiscal year), including the actual financial accounting record type 032, and the shared services arrangement actual record type 033. The independent auditor must apply procedures to the district's processes involving the aggregation and reporting of actual financial data on a **12-month** basis, according to TEC, §44.008(b).[21] As a result of this special reporting requirement, the **12-month** data representing actual financial data will match the reporting period for **12-month** data reported for budget financial data;
- Financial data reported to the public for tax rate decision-making processes must be on a **12-month** basis for the period beginning September 1 and ending August 31 to support the calculation of a tax rate for the fiscal year for which the start date has been changed to July 1. This requirement is necessary to determine a tax rate sufficient to maintain the same level of maintenance and operations revenue and pay debt service for the fiscal year for which the start date has been changed to July 1 and ending June 30. For example, it is anticipated that the setting of a debt service tax rate for the 10-month period ending June 30 may require levy of an additional amount sufficient to pay the July and/or August payment(s) in the next fiscal year;
- Financial data prepared for the board of trustees for legal budget adoption purposes will be on a **10-month** basis for the fiscal year beginning September 1 and ending June 30, and must be supplemented with additional financial data prepared on a **12-month** basis for information purposes and to support data reported to the public for tax rate decision-making processes; and

---

[20] TEC, §44.0011, Fiscal Year

[21] TEC, §44.008(b), Annual Audit Report

- Financial data reported in the annual financial report will be prepared on a **10-month** basis in all financial statements and exhibits for the fiscal period beginning September 1 and ending June 30 and will include an additional schedule containing supplemental financial data reporting tax collections for the **12-month** period beginning September 1 and ending August 31.

For all fiscal year periods following the first year of implementation of a July 1 fiscal year start date, all financial data will be reported on a **12-month basis** spanning July 1 through June 30.

1.1.5.2 Changing Back to an August 31 Fiscal Year End

In the first year of implementation, the financial accounting period will span **14 months** for districts that change back from a July 1 start date to a September 1 start date. Certain aspects of financial reporting will require adjustments in the first year of implementation because state and federal regulatory activities, as well as state funding calculations under the FSP, require your district to report financial data on a **12-month** basis. Because of this, your district must base all financial data reported for the first year of implementation, except for the AFR, on a 12-month reporting period, as follows:

- Budget financial data reported through PEIMS for the year of implementation must be on a **12-month** basis for the period beginning September 1 and ending August 31 (two months beyond the July 1 start date of the preceding fiscal year);
- Actual financial data reported through the PEIMS collection system must be on a **12-month** basis for the period beginning September 1 and ending August 31 (two months beyond the July 1 start date of the preceding fiscal year), including the actual financial accounting record type 032 and the shared services arrangement actual record type 033. The independent auditor must apply procedures to the district's processes involving the aggregation and reporting of actual financial data on a **12-month** basis according to TEC, §44.008(b)[22].
  As a result of this special reporting requirement, the **12-month** data representing actual financial data will match the reporting period for **12-month** data reported for budget financial data;
- Financial data reported to the public for tax rate decision-making processes must be on a **12-month** basis for the period beginning September 1 and ending August 31 to support the calculation of a tax rate for the fiscal year. This is required to determine a tax rate sufficient to maintain the same level of maintenance and operations revenue and pay debt service for the fiscal year. For example, the setting of a debt service tax rate for the 14-month period ending August 31 may require levy of an additional amount sufficient to pay the July and/or August payment(s) in the next fiscal year.

[22] TEC, §44.008(b), Annual Audit Report

- Financial data prepared for the board of trustees for legal budget adoption purposes will be on a **14-month** basis for the fiscal year beginning July 1 and ending August 31, and must be supplemented with additional financial data prepared on a **12-month** basis for information purposes and to support data reported to the public for tax rate decision-making processes; and
- Financial data reported in the annual financial report (audit report) will be prepared on a **14-month** basis in all financial statements and exhibits for the fiscal period beginning July 1 and ending August 31 and will include an additional schedule containing supplemental financial data reporting tax collections for the **12-month** period beginning September 1 and ending August 31.

For all fiscal year periods following the first year of implementation of a September 1 fiscal year start date, all financial data will be reported on a **12-month** basis spanning September 1 through August 31.

For detailed instructions on how to change your district's fiscal year start date, see the TEA Fiscal Year Start Date web page, which provides the form to notify the TEA that your district will change its fiscal year start date.

1.1.6 District Depository Contract

In selecting the depository bank for your district's funds and entering into a contract with that bank, your district must adhere to the requirements in TEC, §§ 45.201–45.209, and 19 TAC §§ 109.51–109.52.

For detailed information about these requirements, see the TEA Depository Contracts for School Districts web page.

1.1.7 Investment of Public Funds

Public funds investment for school districts is governed by:

- the Public Funds Investment Act (PFIA) (Texas Government Code [TGC], Chapter 2256), which specifies investment policy and allowable investments for school districts; and
- GASB Statement 3: Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements, paragraphs 65 and 66, which require disclosures of legal and contractual provisions that govern the district's deposits and investments.
- GASB Statement 79: Certain External Investment Pools and Pool Participants

Types of Investments

The PFIA authorizes the following investments in the sections noted:

- obligations of, or guaranteed by governmental entities (§2256.009)
- certificates of deposit and share certificates (§2256.010)
- repurchase agreements (§2256.011)

- securities lending programs (§2256.0115)
- banker's acceptances (§2256.012)
- commercial paper (§2256.013)
- mutual funds (§2256.014)
- guaranteed investment contracts (§2256.015)
- investment pools (§2256.016)

For more information, see the following:

- TexPool Investment Policy: Texas Local Government Investment Pool
- Banks to Bonds: A Practical Path to Sound School District Investing

1.1.8 Requirements Related to Ethical Considerations

Ethical considerations include issues related to nepotism and conflict of interest.

1.1.8.1 Nepotism

Nepotism involves providing favoritism, such as granting employment, to a person based on his or her kinship with a public official, such as a member of a school board or an officer of a school district.

Requirements Related to Nepotism

By law, a public official (for example, a member of a school board or an officer of the school district) is prohibited from appointing or approving the appointment of any related person to a position that is paid for with public funds. The prohibition applies to any person related to the public official:

- within the first, second, or third degree by consanguinity (blood relation) or
- within the first or second degree by affinity (marriage).[23]

A person related to a school public official may serve in a position if the person has served continuously and was originally appointed:

- 30 days before the public official was appointed,
- six months before the public official was elected in an election other than the general election, or
- one year before the public official was elected in a general election.[24]

However, the related public official may not participate in a discussion or a vote for the following purposes if that discussion or vote applies only to the person rather than a category of employees:

- to reappoint the person or confirm the reappointment,

[23] Texas Government Code (TGC), §573.041
[24] TGC, §573.062(a)

- to change the person's status or compensation, or
- to dismiss the person.[25]

Exemptions from Nepotism Requirements

The following positions are exempt from the nepotism requirements:

- bus drivers, if the school district is located either wholly or in largest part in a county with a population less than 35,000[26] and
- substitute teachers.[27]

Determining Kinship by Consanguinity and Affinity

Kinship between two people can be established by either:

- consanguinity—the two people have the same ancestor, or one is a descendant of the other, including an adopted child,[28] or
- affinity—the two people are married to each other or one person is a blood relative of the other person's spouse.[29]

The methods of determining degree of kinship are shown in Exhibits 1.1.8.1.A and 1.1.8.1.B.

[25] TGC, §573.062(b)
[26] TGC, §573.061(4)(B)
[27] TGC, §573.061(6)
[28] TGC, §573.022
[29] TGC, §573.024

Exhibit 1.1.8.1.A Consanguinity—Blood Relations to a Public Official

Determining Degree of Consanguinity between a School District Public Official and Other Family Members[30]			
Degree of Consanguinity	**Relationships Included in Each Degree of Consanguinity**		
First Degree	The public official's: • parent • child		
Second Degree	The public official's: • grandparent • grandchild	• sister • brother	
Third Degree	The public official's: • great-grandparent • great-grandchild	A sister or brother of a public official's parent: • aunt • uncle	A child of a public official's sister or brother: • niece • nephew

End of Exhibit 1.1.8.1.A

[30] TGC, §573.023

Exhibit 1.1.8.1.B Affinity—(Relation by Marriage) Blood Relations of Public Official's Spouse

Determining Degree of Affinity between a School District Public Official and His or Her Spouse and the Spouse's Family Members[31]			
Degree of Affinity	**Relationships Included in Each Degree of Affinity**		
First Degree	The public official's: • spouse	The spouse's • parent • child*	
Second Degree	The spouse's • grandparent • grandchild*	• sister • brother	

*For kinship by affinity, the spouse's child or grandchild is not the child or grandchild of the public official.

End of Exhibit 1.1.8.1.B

If a marriage ends in divorce or death, all relationships by affinity created by that marriage also end unless a child of the marriage, including an adoptive child, is living. This extended relationship by affinity does not apply to a member of a school board or an officer of a school district after the youngest child of the marriage reaches the age of 21 years.[32]

No relationship exists if two marriages are necessary to create the relationship. A person is related to any blood relative of his or her spouse but not to marital relatives of his or her spouse.[33]

1.1.8.2 Conflict of Interest

A conflict of interest may occur if a school district chooses to do business with a business entity with which a board member or officer of the district has a substantial interest. The law applies to a school district official whose responsibilities are more than advisory in nature.[34]

A person has a "substantial interest"

- in a business entity if he or she:
    - owns 10 percent or more of the voting shares of stock in the entity,

[31] TGC, §573.025
[32] TGC, §573.024(b) and §573.024(c)
[33] TGC, §573.025(b)(1) and §573.025(b)(2)
[34] Texas Local Government Code (TLGC), §171.001(1)

    - owns either 10 percent or more or $15,000 or more of the fair market value of the entity, or
    - receives funds from the entity that are more than 10 percent of the person's gross income in the previous year;[35]
- in real property if he or she owns a fair market value interest in the property worth at least $2,500;[36]
- in either a business entity or real property if he or she is akin to a person who has an interest described in this list and the kinship is within the first degree of consanguinity or affinity (for information on determining degrees of consanguinity and affinity, see Determining Kinship by Consanguinity and Affinity).[37]

Requirements to Avoid Conflict of Interest in Conducting Business

If a school board member or officer of the district has a substantial interest in a business entity or real property, he or she must:

- file an affidavit stating the nature and extent of the interest before voting or deciding on any action that would have an economic effect on the business entity or the value of the property that is not the same as the effect on the public and
- abstain from participating in the vote or decision.

The affidavit must:

- disclose the full nature and extent of the school official's interest and
- be filed with the official record keeper of the district.

When voting on a budget for the school district, the school board must take a separate vote on any item in the budget related to a contract with a business entity with which a board member has a substantial interest, and the affected board member must not participate in the vote. However, the board member may vote on a final budget if:

- he or she has followed the requirements for disclosure and abstention from voting and
- the issue in which the member has an interest has been resolved.

If the majority school board members are required to file an affidavit disclosing similar interests in a business entity or real property matter, and they do so, then they are not required to abstain from a vote or decision about the matter. [38]

---

[35] TLGC, §171.002(a)
[36] TLGC, §171.002(b)
[37] TLGC, §171.002(c)
[38] TLGC, §171.004

Requirements to Avoid Conflict of Interest in Investing

Under the PFIA,[39] a school board may decide to invest funds that the school district owns or controls. [40]

The board must adopt a written investment policy that emphasizes safety of principal and includes the types of investments allowed, among other provisions specified in law.[41] The written policy must be presented to any person or business entity that offers to enter into an investment transaction with the district.

The person or business entity must execute a written statement acknowledging that the person or entity:

- has received and reviewed the policy and
- has implemented controls to preclude any transactions that are not authorized by the policy.[42]

No investment authorized in the investment policy may be obtained from any person or business entity that has not delivered this written statement to the district.[43]

The board must designate one or more officers of the district as an investment officer to be responsible for implementing the investment policy. But the board retains the ultimate fiduciary responsibility for the funds of the district.[44]

If the investment officer of the district has a personal business relationship with a business entity that proposes to enter into an investment transaction with the district, the investment officer must disclose that relationship in a written statement and file the statement with:

- the school board and
- the Texas Ethics Commission.

The investment officer has a personal business relationship with a person or business entity if he or she:

- is related within the second degree by consanguinity or affinity to a person seeking to sell an investment to the school district (for information on determining degrees of consanguinity and affinity, see Determining Kinship by Consanguinity and Affinity);
- owns 10 percent or more of the voting stock or shares of the business entity;
- owns $5,000 or more of the fair market value of the business entity;
- received funds from the business entity that were more than 10 percent of his or her gross income for the previous year; or

---

[39] TGC, Chapter 2256
[40] TGC, §2256.003
[41] TGC, §2256.005
[42] TGC, §2256.005(k)
[43] TGC, §2256.005(l)
[44] TGC, §2256.005(f)

- received investments during the previous year with a book value of $2,500 or more for his or her personal account.[45]

The district may include a provision in its investment policy that any transaction is unsuitable if it is authorized by an investment officer who has a personal business relationship with the person or business entity offering an investment.[46]

The district, in conjunction with its annual financial audit, must perform a compliance audit on

- management controls on investments and
- adherence to the district's investment policy.[47]

Purchases funded with federal grant funds must adhere to regulations found under 2 CFR, §200, which explains uniform administrative requirements for federal awards.

In accordance with 2 CFR §200.112, federal grant recipients must disclose any potential conflict of interest concerning the expenditure of federal grant funds. Grant recipients must disclose the conflict of interest by completing the Conflict of Interest Disclosure form located on the Request for Prior Approval, Disclosure, and Justification Forms web page on the TEA website.

Purchases made with federal funds are reviewed for compliance with regulations under 2 CFR §200. School districts are required to retain all backup documentation, such as bids, quotes, and cost/price analyses, conflict of interest disclosures, as well as any other additional information as required by the grant.

For additional conflict of interest regulations concerning federal awards, see

- 2 CFR §200.113, and
- 2 CFR §200.318.

1.1.8.3 Other Conflict of Interest Disclosure Requirements

In addition to the requirements outlined above, in 2015, the Texas Legislature adopted House Bill (HB) 1295, which added TGC, §2252.908. The law states that a governmental entity or state agency may not enter into certain contracts with a business entity unless the business entity submits a disclosure of interested parties to the governmental entity or state agency at the time the business entity submits the signed contract to the governmental entity or state agency. The disclosure requirement applies to a contract entered into on or after January 1, 2016. The law applies only to a contract of a governmental entity or state agency that either:

- requires an action or vote by the governing body of the entity or agency before the contract may be signed or

---

[45] TGC, §2256.005(i)
[46] TGC, §2256.005(j)
[47] TGC, §2256.005(m)

- has a value of at least $1 million.

The law required the Texas Ethics Commission to adopt rules necessary to implement that law, prescribe the disclosure of interested parties form, and post a copy of the form on the commission's website. The Texas Ethics Commission adopted the Certificate of Interested Parties form (Form 1295) on October 5, 2015. The Texas Ethics Commission also adopted new rules (Chapter 46) on November 30, 2015, to implement the law.

1.2 Financial Accounting Elements

This section describes the following financial accounting elements:

- **Cash**—is a legal form of tender that can be exchanged for goods, debts, or services.
- **Investment**—an asset or item that is purchased with the hope that it will generate income or appreciate in the future.
- **Capital assets—**assets owned for their role in contributing to the business's ability to generate profit such as land, buildings, machinery, vehicles, etc. Capital assets usually cannot be turned into cash quickly.
- **Liabilities—**legal debts or obligations that arise during the course of business operations. Examples of liabilities include loans, accounts payable, mortgages, deferred revenues, accrued expenses, etc.
- **Debt**—an amount of money that is owed by one party to another party. Debt is a legal obligation to repay money that was borrowed during a legal transaction such as a bank loan, purchasing equipment, obtaining a mortgage, etc.

1.2.1 Current Assets

Current assets are assets that can be reasonably expected to be converted into cash, sold, or consumed within one year.

Examples of current assets include, but are not limited to, the following:

- **Cash and cash equivalents—**current assets that can be converted into cash immediately.
  - Cash is money that is in the form of currency, which includes cash on hand or petty cash, coins, checks that have not been deposited, bank accounts (checking, savings, and money market accounts), and currency notes.
  - Cash equivalents are investments that can readily be converted into cash. The investments must be highly liquid, and short term, with a maturity usually three months or less. Cash equivalents must be highly liquid. A certificate of deposit is considered a cash equivalent.

    - Other examples of cash and cash equivalents include marketable securities, commercial paper, U.S. Treasury Bills, and short-term government bonds with a maturity date of three months or less.

- **Investments** (current)—any investments that can be converted into cash within one year. Examples of current investments include stocks and bonds that can be liquidated quickly.
- **Property taxes receivables** (delinquent)—the uncollected portion of taxes, including any interests or penalties that may be accrued, that were levied and are now delinquent.
- **Allowance for uncollectable taxes** (credit)—the estimated amount of taxes receivable that the school district has estimated it will not collect.
- **Due from other governments** (receivables from other governments)—amount due to the school district from another governmental unit.
- **Due from other funds—**amount due from a particular school district fund from another school district fund for goods or services rendered.
- **Accrued interest—**interest accrued on investments between the last interest payment date and the date of purchase.
- **Other receivables** (net)—debts, unsettled transactions, or monetary obligations owed to the school district that the school district can reasonably expect to collect in the immediate near future.
- **Inventories—**goods that are ready or will be ready for sale, such as
    - raw materials;
    - good in process;
    - finished goods;
    - operating supplies; and
    - ordinary maintenance material and parts.

- **Prepaid items—**goods and services that the school district pays for that will be received in the near future. Examples of prepaid items are prepaid rent, prepaid interest, and unexpired insurance premiums.
- **Other liquid assets that can be readily converted to cash—**assets that can be converted into cash quickly with minimal impact to the price received for the assets (i.e., the cost to convert the assets to cash should be as minimal as possible to ensure that the assets value is not significantly reduced or reduced at all upon conversion of the assets to cash).

1.2.1.1 Cash and Investments

Cash and investments include the following:

- cash including coins, bank accounts, and certificates of deposit
- cash equivalents including current assets, treasury bills, and money market funds
- investments (securities and other assets that the school district acquires primarily for income or profit)

1.2.2 Accounts Receivable

Receivables usually result from revenue transactions. The main sources of revenue that result in outstanding receivables are as follows:

- property taxes
- state and federal grants
- interest income
- intergovernmental revenues

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

For governmental funds, the

- modified accrual basis of accounting is used, and
- revenues received and other sources are recognized in the accounting period that they become both measurable and available to finance expenditures.

Available refers to the collectability of the receivable with the current period or soon enough to be used to pay for liabilities of the current period. General criteria for availability is ***60 days***.

For proprietary funds, revenues earned are recognized in the same manner as in commercial accounting. Accounting for receivables in proprietary funds requires the

- use of the accrual basis of accounting, and
- revenues must be earned before they are recognized.

Revenues are usually recognized when the earning process is complete, and an exchange has taken place.

1.2.2.1 Property Taxes

When property taxes are levied, certain journal entries are made, as in the following example:

Property taxes receivable	Debit Record (DR) $1,000,000
Uncollectable taxes receivable	Credit Record (CR) $100,000
Deferred inflow of resources (Unavailable tax revenue)	CR $900,000

When property taxes are collected, certain journal entries are made, as in the following example:

Cash	DR $900,000
Property taxes receivable	CR $900,000

Unavailable tax revenue is realized simultaneously, as in the following example:

Deferred inflow of resources	DR $900,000
Tax Revenue	CR $900,000

An amount that is not expected to be available within the first 60 days of the next fiscal year should not be counted as revenue, but remain a deferred inflow of resources. Per GASB Statement No. 65: Items Previously Reported as Assets and Liabilities, paragraph 9, "Deferred inflows of resources should be reported when resources associated with imposed nonexchange revenue transactions are received or reported as a receivable before (a) the period for which property taxes are levied or (b) … for all other imposed nonexchange revenues in which the enabling legislation includes time requirements."

For more information on deferred inflows of resources and property taxes, see GASB Statement No. 65: Items Previously Reported as Assets and Liabilities.

1.2.2.2 Other Receivables

Other types of receivables that may be used by your district are:

- **Due from State**. Represents amounts that have been earned by the district that are due from state resources. The measurable and available criteria should be used to record revenues due from the state. Revenue due from the state that was earned during the fiscal year and is expected to be received by the district within ***60 days*** from the financial statement date is recorded as a receivable in this account.
- **Due from Federal Agencies**. Amounts that have been earned by the district that are due from federal agencies. Revenues due from federal agencies are usually accounted for in special revenue funds, based on a specific federal financial assistance program, using the measurable and available criteria. Revenues are only recognized to the extent that expenditures have been incurred. If the amount of the outstanding receivable at the end of your district's fiscal year is not expected to be collected within ***60 days*** from the financial statement date, the district should record a deferred inflow of resources for the outstanding amount.
- **Due from Other Governments**. Amounts that have been earned by the district for services provided to other governments, such as the city or county. The measurable and available criteria must be used to account for the receivable earned. When the services are provided, the district should record revenues and receivables for the amount earned.
- **Accrued Interest Receivable**. Accrued interest represents the amount of interest earned and accruable at month end or fiscal year end on all cash accounts and investments outstanding at that date. Accrued interest should be computed for all outstanding investments and cash accounts that earn interest in all governmental and proprietary funds, regardless of the expected payment date of the interest.

For more information on receivables, including the sales and pledging of receivables, see:

- GASB Statement No. 65: Items Previously Reported as Assets and Liabilities
- GASB Statement No. 48: Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues
- GASB Statement No. 39: Certain Financial Statement Note Disclosures

- GASB Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments

1.2.3 Inventory

Inventory includes nonspendable assets such as:

- consumable goods such as office supplies, paper, computer supplies, building and maintenance supplies, and science lab supplies
- perishable items such as cafeteria food, including commodities received from the US Department of Agriculture
- durable items such as instructional materials and physical education equipment that are not considered to be capital assets

1.2.3.1 Monitoring and Valuing Inventory

Your district may monitor the quantity of inventory by either:

- counting inventory on the last day, or near the last day, of the period being reviewed; or
- continuously updating inventory during the period for using and purchasing inventory.

Inventory valuation is based on historical costs using any one of several assumptions about the flow of cost factors such as the:

- value of each item (suitable only for a few high value items),
- average cost,
- FIFO (first in, first out), and
- LIFO (last in, first out).

The formula for inventory balance is as follows:

Beginning inventory + purchases − inventory consumed = ending inventory

Inventory should be marked down when the assets are impaired by damage, destruction, deterioration, or obsolescence.

Inventory Accounting by the Purchase Method

Fund accounting by the purchase method uses expenditures that are based on cash payments for purchases. An example follows with a year-end inventory of $30:

1. Record receipt of inventory (beginning inventory is $0 in this example)

Expenditures (office supplies)	Debit Record (DR) $100
Accounts Payable	Credit Record (CR) $100

2. Report inventory as of year-end count

Inventory (office supplies on hand at end of year)	DR $30

Fund Balance—Nonspendable	CR $30

Inventory Accounting by the Consumption Method

Fund accounting by the consumption method records expenditures that are based on the consumption of inventory. The year-end inventory is $30, just as in the example above. The fund balance—nonspendable will be adjusted based on year-end closing entries.

- Record receipt of inventory

Inventory (office supplies)	DR $100
Accounts Payable	CR $100

- Report expenditures as of year-end inventory count

Expenditures	DR $70
Inventory (record the decrease in office supplies at year end)	CR $70

1.2.4 Capital Assets

GASB Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments defines capital assets as those that are:

- tangible or intangible,
- used in operations,
- useful life of more than one year, and
- not expected to be sold as a normal part of business operations.

Capital assets are used in full accrual financial statements and are not found in fund balances. Only expenditures (consumption of financial resources) on capital assets appear in government funds. Capital assets include the following:

- **Land**—recorded asset cost should include, in addition to the purchase price, such ancillary costs as legal and title fees, surveying fees, appraisal and negotiation fees, damage payments, site preparation costs (clearing, filling, and leveling), and demolition of unwanted structures.
- **Land improvements**—consist of betterments, other than buildings, that prepare land for its intended use. Examples include site improvements such as excavation, fill grading and utility installation; removal, relocation, or reconstruction of property of others, such as railroads and telephone and power lines, retaining walls, parking lots, fencing, and landscaping.
- **Land use rights**—consist of easements, water rights, timbers rights, and mineral rights. The asset arises from contractual or legal rights and a fee maybe paid to use the property of another. Any fees that are paid to the owner of the property in return for the right of easement.

- **Buildings and building improvements**—include purchase price, contract price, professional fees of architects, attorneys, appraisers, financial advisors, etc.; damage claims; cost of fixtures attached to a building or other structure; construction insurance premiums, interest, and related costs incurred during the period of construction; and any other expenditures necessary to put a building or structure into its intended state of operation.
- **Construction work in progress**—a temporary capitalization of labor, materials, equipment, and overhead costs of a construction project. Upon completion, such costs should be cleared or moved by transfer of the capitalized costs to one or more of the other classes of assets.
- **Furniture and equipment**—should include the total purchase price, before any trade-in allowance, and minus any discounts. Other costs which should be capitalized as equipment include transportation charges, installation costs, taxes, or any other expenditure required to place the asset in its intended state of operation. If library books are considered to have a useful life of greater than one year, they are capital assets and are depreciable. Because most library collections consist of a large number of books with modest values, group or composite depreciation methods may be appropriate.
- **Vehicles**
- **Machinery and equipment**—includes, but is not limited to, computers, network equipment, software, and other electronic devices.
- **Works of art and historical treasures**—are capital assets according to GASB whether they are held singly or in collections if they meet all of the following conditions in accordance with paragraph 27 of GASB Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments as follows:
    - Held for public exhibition, education, or research in furtherance of public service, rather than financial gain
    - Protected, kept unencumbered, cared for, and preserved
    - Subject to an organization policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.
- **Monuments**—capital assets that may qualify as works of art, historical treasures, or similar assets if they meet the requirements above. Depreciation is not required for those capitalized collections or individual items that are considered to be inexhaustible. Inexhaustible collections of individual works of art or historical treasures are those with extraordinary long useful lives. Because of their cultural, aesthetic, or historical value, the holder of the asset applies efforts to protect and preserve the asset in a manner greater than that for similar assets without such cultural, aesthetic, or historical value.
- **Infrastructure**—long-lived capital assets that are normally stationary in nature and which can normally be maintained for a significantly greater number of years than most capital assets. Infrastructure assets include: roads, bridges, tunnels, water and sewer systems, dams, lighting systems, and drainage systems.

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

- **Computer software**—the most common type of intangible asset most school districts will encounter is internally generated computer software. This includes software developed by district employees or a third party, as well as commercially available software to which more than minimal incremental effort is applied to ready it for use in district operations. The district should follow the specified conditions approach to determine which of the three stages of activities are involved in order to determine which costs should be capitalized.
- **Commercially available software**—that is purchased or licensed by the district without modification (not internally generated) generally meets the description of an intangible asset. If a district enters into a licensing agreement with a vendor for multiple components, such as use of the software, modifications to meet the district's requirements prior to going into operation, user training, routine maintenance, and rights to upgrades, the portion for use of the software generally would be capitalized, while user training and routine maintenance would be expensed. Another example would be a five-year agreement with annual payments for the right to use the software, which would be reported as an intangible asset along with a long-term liability. Depending on the materiality, external modifications of computer software should be capitalized if they result in an increase in functionality or efficiency of the software or extend the estimated useful life.

1.2.4.1 Control of Capital Assets

To maximize control over capital assets, your district must keep a detailed subsidiary ledger that includes the following information:

- the asset purchased
- date of purchase, construction, or acquisition
- price paid to acquire and put the asset in place
- expected useful life and disposal date of the asset
- location of the asset
- inventory number or identification code (for movable items)
- fund from which the asset was purchased
  other information that may be useful for control

1.2.4.2 Inventories of Capital Assets

Your district must periodically inventory certain capital assets, such as furniture and equipment. The inventory enables your district to:

- identify and resolve discrepancies between the capital asset inventory list and what is on hand,

- maintain a list of fully depreciated assets still in use, and
  list and write off missing items in accordance with established internal policy, using journal entries that comply with GAAP.

1.2.4.3 Capitalization of Capital Assets

Capital assets must be capitalized if:

- the unit cost of the asset is $5,000 or more, and
- the useful life of the capital asset is estimated at one year or more.

However, your school district may wish to establish accounting policies with a lower capitalization limit for items recorded as capital assets. In addition, your district may wish to maintain accountability for certain capital assets even if they do not meet the district's capitalization policy. For example, certain audiovisual or computer equipment may not be capitalized (i.e., not recorded as a capital asset), but a listing of such assets and their location may be maintained for control and accountability purposes.

1.2.4.4 Impairment of Capital Assets

GASB Statement No. 42: Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, paragraph 5 defines an impairment of a capital asset as "*a significant, unexpected decline in the service utility of a capital asset.*" Paragraph 6 clarifies that "The service utility of a capital asset is the *usable capacity* that at acquisition was expected to be used to provide service …."

- **Significant**: The events or changes in circumstances that lead to impairments that are not considered to be normal and ordinary.
- **Unexpected**: At the time the capital asset was acquired, the event or change in circumstance would not have been expected to occur during the useful life of the asset.
- **Decline in service utility**: A reduction in the usable capacity that at acquisition was expected to be used to provide service, as distinguished from the level of utilization.
    - The current usable capacity of a capital asset that is less than its original usable capacity due to normal wear and tear and expected decline in useful life is not considered to be an impairment; however, impairing events or changes in circumstances that reduce usable capacity may indicate impairment.
    - Decreases in utilization and existence of, or increases in, surplus capacity that are not associated with a decline in usable capacity are generally not considered to be impairment.

Determination of Impairment

Determination of impairment is a **two-step process** of (GASB Statement No. 42):

- identifying potential impairments
- testing for impairment

Identification of Impairment

Identification of potential impairment of capital assets is **step one** in the two-step process of determining impairment. Events that may cause a capital asset to become impaired are, but not limited to:

- **Physical damage** (such as damage by fire, flood, or other natural disaster, when the level of damage is such that restoration efforts are needed to restore service utility)
- **Technological advancements or obsolescence**
- **Enactment of laws or regulations or other environmental factors** (such as new windstorm standard that a facility does not meet and cannot be modified to meet)
- **Change in manner or duration of use** (such as the closure of a campus in your district prior to the end of its useful life)
- **Construction stoppage** (such as stoppage of construction as a result of the lack of funding)

Test for Actual Impairment

After your district has identified capital assets that potentially meet the definition of capital asset impairment, your district must determine the actual impairment, which is **step two** in the two-step process. Actual impairment requires the presence of **both** of the following two factors (GASB Statement No. 42):

- The magnitude of the decline in service utility is significant.
    - The expenses associated with continued operation and maintenance, including depreciation, or costs associated with restoration of the capital asset are significant in relationship to the current service utility. In circumstances other than those involving physical damage, management's action to address the situation is an indication that the expenses are too high in relation to the benefit.
- The decline in service utility is unexpected.
    - The restoration cost or other impairment circumstance is not a part of the normal life cycle of the capital asset. Management is not expected to foresee with precision the useful life of a capital asset or the service utility throughout its useful life. However, there is a reasonable range of expectations about the service utility and useful life at the time of acquisition.

If both factors are not present, there is no impairment loss to measure and record. If both factors are present and there is a conclusion that there is an impairment of a capital asset, then next step must be performed to measure the actual impairment.

Measurement of Actual Impairment

- If the district **will no longer use the asset**, or **construction stoppage** is involved, the district should report the capital asset at the lower of carrying value or fair value.

- If the district **will continue to use the asset**, it should measure the amount of impairment (portion of historical cost that should be written off) by the method that best reflects the decline in the capital asset's service utility.

The methods used to measure impairment are (GASB Statement No. 42):

- **Restoration Cost Approach**. Under this approach, the amount of impairment (portion of the historical cost that should be written off) is derived from the estimated costs to restore the utility of the capital asset. Restoration cost is the amount necessary to return the capital asset to its original condition and does not include any amount attributable to improvements and additions.
- **Service Units Approach**. The historical cost of the service utility of the capital asset that cannot be used due to the impairment event or change in circumstances in determined.
- **Deflated Depreciated Replacement Cost Approach**. This approach replicates the historical cost of the service product.

Damages to capital assets caused by tornadoes, wind, and rainstorms, and other natural disasters, fire, theft, and vandalism should be recorded to reflect the difference between:

- the cost of replacement; or
- restoration and insurance; or
- other contributions; or
- subsidies received as reimbursement.

If there is a complete loss of the asset, the old asset should be written off by a debit to Net Investment in Capital Assets and a credit to the appropriate capital asset account.

Partial losses or damages that are replaced or repaired should be recorded at cost and treated as an expense. The original value of such assets should be retained, unless additions or betterments are made in conjunction with the repairs. A betterment exists when a part of an existing asset is replaced by another and the replacement provides a **significant increase** in the life or value of the property.

Exhibit 1.2.2.4.A summarizes the impairment indicators and methods used to measure the impairment of capital assets based on the district's decision to continue to use the capital asset or no longer use the capital asset.

1.2.4.4.A Summary of Methods used in Measuring Impairment of Capital Assets

Indicator of Impairment	Capital Asset That Will Continue to Be Used by District	Capital Assets That Will No Longer Be Used by District
Evidence of Physical Damage	• Restoration Cost Approach method • Apply ratio to carrying value • Report impairment loss	Use lower of carrying value or fair value
Enactment or Approval of Laws or Regulations or Changes in Environmental Factors	• Service Units Approach method • Determine cost of remaining service units • Report impairment loss	Use lower of carrying value or fair value
Technological Development or Evidence of Obsolescence	• Service Units Approach method • Determine cost of remaining service units • Report impairment loss	Use lower of carrying value or fair value
Change in Manner or Duration of Use	• Deflated Depreciated Replacement Cost Approach method or Service Units Approach method • Compare carrying value • Report impairment loss	Use lower of carrying value or fair value
Construction Stoppage	• Lower of Carrying Value or Fair Value • Report impairment loss	Use lower of carrying value or fair value

End of Exhibit 1.2.4.4.A

1.2.5 Liabilities

A liability is a debt or other legal obligation that:

- arose out of a past transaction,
- is owed to a person or entity outside the school district, and
- is not an encumbrance.

Liabilities can be either **current** or **long term**.

1.2.5.1 Current Liabilities

Current liabilities are debts or obligations that re due within one year. A current liability is one that is paid:

- with expendable available resources and
- usually within 60 days.

Examples of current liabilities include, but are not limited to, the following:

- **Accounts payable—**debts owed to other entities (private persons, firms, or corporations) outside of the school districts for goods and services received by the school district. Accounts payable do not include amounts due to other funds of the same school district or to other governmental entities.
- **Accrued expenses (other liabilities, loans payable, act.)**—short-term obligations representing amounts, such as loans payable, bonds payable, capital lease obligations, and other payables that are due within one year.
- **Payroll deductions and withholdings payable—**amounts deducted from employee's salaries for withholding taxes and other withholding purposes, such as court ordered garnishments.
- **Accrued wages and benefits payable—**accrued wages and benefits, such as compensated absences that will be paid within one year.
- **Due to other funds**—amount due to a particular school district fund for goods or services rendered
- **Due to other governments—**amounts due to other governmental entities from the school district.

  Unearned revenues—revenues collected by the school district before they become due. Unearned revenues are also revenues collected by the school district that do not meet either the availability or earnings criteria. A liability account, usually classified as a current liability on the balance sheet that reports amounts received in advance of providing goods or services. When the goods or services are provided, this account balance is decreased and a revenue account is increased.

1.2.5.2 Long-term Liabilities

A **long-term liability** is one that is due in the following year or beyond (due more than one year into the future).

Examples of long-term liabilities include, but are not limited to, the following:

- **non-current liabilities due within one year,** such as pension obligations, deferred tax liabilities, deferred compensation, and capital leases

- **non-current liabilities due in more than one year,** such as long-term loans and bonds payable
- **premium and discount on issuance of bonds**

Arbitrage rebate liabilities and **contractor withholding** are discussed in more detail below.

1.2.5.3 Payroll Liabilities

Payroll liabilities include amounts for:

- employment benefits and net paycheck amounts owed to employees and
- withholdings owed to taxing authorities.

Payroll and benefits, also known as payroll liabilities, are the largest portion of a district's operating expenditures and as such, it is important for each district to fully comprehend each component associated with payroll liabilities and implement appropriate internal controls.

When discussing payroll liabilities, there are several items that must be addressed by your school district such as:

- payroll systems
- payroll clearing account
- salaries payable
- compensated absences
- deferred compensation
- pensions
- post-employment benefits other than pensions
- termination benefits

Payroll Systems

Your district's payroll system must have the capability to meet the following requirements:

- adequate reporting for effective control and monitoring
- providing the required reports required by laws, rules, and regulations
- creating and maintaining adequate records for each employee, including time sheets, W-2 forms, W-4 forms, I-9 forms, optional (voluntary) and mandated deductions such as retirement/annuity contributions, federal withholding, FICA (Federal Insurance Contributions Act)/Medicare, child support, levies, etc., employment contracts, and other pertinent information to process and document payroll accounting
- timely preparation of payroll reports required by governmental agencies such as Teacher Retirement System of Texas (TRS) reports, 941s, and federal income tax (wage and earnings tax) deposits

- accurately calculating gross pay, payroll deductions, and net pay

Individual payroll records are necessary to provide both budgetary control and the reports required by various governmental agencies and internal management. The payroll system that your district chooses should be the most efficient and effective system to help your district meet its payroll requirements.

Payroll Clearing Account

A payroll clearing account is not a requirement, but a payroll clearing account may offer some advantages for your district. Salaries and wages are debited as expenditures to the fund for which services are performed and liabilities are incurred. If a payroll clearing account is used, transfers are made from the expending fund and actual disbursements to payees for net salaries and withholdings are made from the clearing account.

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

Salaries Payable

Payroll expenditures, also known as salaries payable, should be recorded and reported in the period which they are incurred.

Unpaid salaries and related benefits, such as fringe benefits, that have been earned but not yet paid are recorded as accrued expenditures. The calculation that is used for the amount to accrue is:

> [(Employee's Daily Rate **x** Number Days Worked for the Month) **–** Amount Paid for the Month] = **Amount to Accrue for the Month**

The difference between the amount earned and the amount paid is recorded in an account titled **Accrued Wages Payable**. Salaries are to be accrued in the month earned, even though a contract may overlap fiscal years. The expenditure code(s) used for accrued salary should agree with the accounts defined for each fiscal year.

For example, if a teacher employed for 187 days begins work on August 13, 2018, and completes the contract on June 6, 2019, the salary is to be accrued for the appropriate number of days worked in each of the months of August through June. In this example, the salary earned in August is expended in the fiscal year ending August 31, 2018, using the appropriate expenditure codes(s) for that fiscal year. The amounts earned in September through June are expended in the new fiscal year, using the appropriate expenditure code(s) for the new fiscal year.

Employees may be employed for varying numbers of days for different positions. The employees' salary should begin accruing on the earliest day of employment. For example, an employee who is a teacher and a band director may have two contracts. The teacher contract might be for 187 days of employment beginning August 13. The band director contract might be for 193 days of employment, beginning on July 29. This employee's salary begins accruing in July, regardless of when the employee receives a paycheck for the new contracts.

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

Compensated Absences

Compensated absences include:

- vacation
- sick
- holiday leave
- personal leave
- sabbatical
- other leave benefits

Compensated absences is a term that describes paid time off made available to employees in connection with vacation leave, sick leave, and comparable types of other leave, such as personal leave and holiday leave.

Your district's comprehensive compensated leave program may include both paid leave and unpaid leave. TEC, §22.003, establishes the minimum amount of leave that your district must establish for district employees. Your district will accrue a liability for paid leave such as vacation leave and other comparable types of leave offered to each employee.

Recognition and Measurement of Compensated Absences

- Compensated absences that are based on **services already rendered** by employees and **not contingent on a specific event**, such as illness that is outside of the control of the district and the employee, will accrue a liability as the benefits are earned by the employees as the employees earn the rights to the benefits.[48]

[48] GASB Statement No. 16: Accounting for Compensated Absences

- Compensated absences that relate to **future services** or **that are contingent on a specific event** that is outside the control of the district and the employee should be accounted for in the period those services are rendered or those events take place. (GASB Statement No. 16)

Vacation Leave and Similar Compensated Absences

GASB Statement No. 16 requires paid leave, such as vacation leave and other comparable types of compensated absences, to be accrued as a liability as the benefits are earned by the employees if **both** of the following conditions are met:

- The employee's rights to receive compensation are generally attributable to services already rendered.
- It is probable that the school district will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

Your district will accrue a liability for vacation leave and other compensated absences with similar characteristics as vacation leave during the current or prior periods for which the vacation leave and similar compensated absences were earned but not used.

In measuring the liability, districts should take into consideration benefits that employees are not yet entitled to but are likely to qualify for in the future. Thus, if your district's comprehensive compensated absences plan provides that employees are permitted to earn vacation leave, in addition to the required five days mandated in the TEC, after being on the job for six months, the district should estimate the number of new employees who will satisfy the six-month eligibility requirement in the next six months. Your district should then accrue vacation leave pay for these employees in the current year even though the employees have not yet satisfied the eligibility requirement.

Your district should also adjust for benefits earned, but which are expected to lapse. The state minimum of five days that is required in the TEC never expires (lapses) and is transferrable if the employee decides to transfer to another school district. However, if your district decides to award additional days of vacation/personal leave, the following is an example of what should be done to determine the benefits that are expected to lapse. For example, if employees **are not** permitted to carry forward more than 21 vacation days each fiscal year (the maximum vacation leave balance that each employee is allowed to have and carry forward each fiscal year is 21 days), the district would estimate the vacation days that are likely to lapse (vacation days that exceed the 21-day maximum) and reduce the accrued payroll liability accordingly.

Characteristics of other compensated absences that are similar to vacation leave are:

- paid time off, if it is not contingent upon a specific event outside the control of the district and employee.

- leave use is conditioned only on length of service—an event that essentially is controllable by the district or employee, rather than arising from an unforeseen and uncontrollable event such as illness

Sick Leave

GASB Statement No. 16 distinguishes between

- **non-vesting sick leave**–the district **does not have obligation** to make payment if an employee terminates service,
- **accumulating sick leave**–earned but unused rights are carried forward for future use, and
- **vesting sick leave**–the district **has an obligation** to make payment if an employee terminates service and is not contingent on an employee's future service.

"A liability should be accrued as the benefits are earned by the employees if it is probable that the employer will compensate the employees for benefits through cash payments conditioned on the employees' termination or retirement ("termination payments")" (GASB Statement No. 16, par. 8.a). A liability for sick leave and other compensated absences with similar characteristics is accrued using one of the following termination approaches:

- **Termination Payment Method**. An accrual for sick leave liability is made under this method if the district determines that it is probable the benefits will only be paid to employees upon their termination. An accrual is not made for sick leave absences due to illness or other contingencies, such as medical appointments and funerals.
    - The estimate is based on a district's past experience of making termination payments, adjusted for the effect of changes in termination payment policy and other current factors. Using this method, the district would determine the average number of days or dollar amount of sick leave paid in the past for each year of employee service. The district would then determine the sick leave termination cost for each year worked and multiply this amount by the number of person-years worked by active employees to calculate the liability.
- **Vesting Method**. An accrual for sick leave liability is made under this method based on the accumulated sick leave balance as of the balance sheet date for all eligible employees that are currently eligible to receive termination payments and for employees that are expected to become eligible in the future to receive sick leave termination benefits.
    - The estimate is based on the actual number of days that are likely to be paid for as a termination benefit. Based on records of individual or groups of employees, the district would calculate the total sick leave to which employees are entitled. It would then review these records and estimate, based on prior experience, the number of days that are likely to be paid out as sick leave benefits. For example, if an employee has 100 days of accrued sick leave as of the balance sheet date and is expected to have 80 days upon termination, but a maximum of 50 days of sick leave may be paid on termination, a liability of 50 days should be recognized.

Non-vesting sick leave and accumulating sick leave are not a true liability, according to GASB Statement No. 16, because they are contingent upon a future event (sickness) that is beyond the control of both the district and the employee. Therefore, the statement prohibits the accrual of a liability for non-vesting sick leave and accumulating sick leave.

Liability Calculation for Compensated Absences

Per GASB Statement No. 16, paragraphs 10 and 11[49]:

- The compensated absences liability calculation should be calculated based on pay or salary rates in effect at the balance sheet date; or
- If the district pays employees for their compensated absences at a rate other than the employees pay or salary rate, for example, at a lower amount established by regulation, contract, or local enactment, those other rates, as of the balance sheet date, should be used to calculate the compensated absences liability.

The district will also accrue a liability for salary-related payments that are directly and incrementally associated with payments made for compensated absences on termination, such as:

- the district's share of Social Security and Medicare taxes;
- the districts pension plan contributions; and
- other salary related payments associated with compensated absences.

The accrual is based on the entire liability for each compensated absence for which salary-related payments are applicable.

- Payments directly and indirectly associated with sick leave termination payments will be accrued for the entire sick leave liability.
- Vacation leave termination payments are accrued for the entire vacation leave liability, including leave that might be taken as paid time off rather than paid as termination payments.

Only the current portion of the compensated absences liability should be reported on the balance sheet of the governmental funds. The current portion is the unpaid amount at the end of the reporting period that normally would be liquidated with expendable available financial resources and should be applied using the modified accrual basis of accounting. The remainder of the liability is reported as a long-term (non-current) liability.

For more information on salaries and fringe benefits, see 1.4.4 Salaries and Fringe Benefits Allocations.

For more information on compensated absences, see GASB Statement No. 16.

[49] GASB Statement No. 16: Accounting for Compensated Absences

1.2.5.4 Arbitrage Rebate Liabilities

This section applies to **government-wide financial statements** only.

Arbitrage rebate liabilities, as regulated by the Internal Revenue Service (IRS), are liabilities to the US Department of the Treasury created when a tax-exempt entity receives proceeds on tax-exempt bonds and invests those proceeds at a higher interest rate, also known as ***yield to maturity*** or ***yield***. The gain is called tax arbitrage and is recovered by the IRS. The TEA does not regulate arbitrage rebate liabilities.

According to IRS Publication 4079: Tax-Exempt Governmental Bonds, the rebate liability requirements do not apply if:

- the yield is not materially higher than the yield of the bond issue (but the IRS examples have a strict threshold, such as 1/1000 of a percent);

- the period was temporary, such as three years for capital projects and 13 months for restricted working capital expenditures; or
- the bond proceeds were invested as part of:
    - a reasonably required reserve or replacement fund, or
    - an amount not exceeding the lesser of:
        - 5 percent of the original bond proceeds or
        - $100,000.

Each year, your school district must calculate the amount of its arbitrage rebate liability for the government-wide financial statements. Your district must record this liability in the fund that received the proceeds of the debt issuance—the fund that will ultimately pay the rebate.

Exhibit 1.2.A includes an illustration of recording arbitrage rebate liabilities.

Exhibit 1.2.A Recording Arbitrage Rebate Liabilities

Example of How to Calculate the Dollar Amount for the Journal Entry

Bond Issuance	1993 Receivable (Liability)	1994 (Increase) Decrease in Liability	1994 Receivable (Liability)
School Building Unlimited Tax Bonds, Series 1989	$(250,000)	$(45,000)	$(295,000)
School Building Unlimited Tax Bonds, Series 1991	50,000	10,000	60,000
Unlimited Tax Refunding Bonds, Series 1993	(100,000)	15,000	(85,000)
Amount Recorded in Financial Statements as Arbitrage Liability	$(300,000)		$(320,000)

Example of a Journal Entry

	Debit	Credit	
Interest Expense 599-77-6529-00-000-Y	$20,000		
Other Long-Term Debt 599-00-2590-00-000-Y		$20,000	

End of Exhibit 1.2.A

The rules for arbitrage rebate and yield restriction are complex. For information about arbitrage issues, see the following:

- IRS Publication 4079, Tax-Exempt Governmental Bonds
- Banks to Bonds: A Practical Path to Sound School District Investing

1.2.5.5 Contractor Withholding

The Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011, signed into law on November 21, 2011, repealed section 3402(t) of the Internal Revenue Code (IRC). Previously all federal and state government entities, and some local governments, would have withheld 3 percent of payments to contractors for certain services.

1.2.6 Debt

Debt is money owed and is created by borrowing money on either a short-term or a long-term basis:

- **Short-term debt** generally must be repaid within 12 months.
- **Long-term debt** generally takes more than 12 months to repay.

A school district might use short-term debt to raise cash for seasonal expenses. A district typically uses long-term debt to pay for construction of a capital asset or to improve infrastructure.

Whether the district chooses to incur short-term or long-term debt both forms of debt are either tax-supported debt or voter approved tax-supported debt.

Tax-supported debt is backed by a pledge of property taxes levied within the school district's boundaries. Voter approved tax-supported debt is secured by a pledge of a sufficient property tax dedicated to pay debt service.

1.2.6.1 Types of Debt Instruments

A school district may use the following types of debt instruments:[50]

- **Bonds**:
    - general obligation bonds
    - revenue bonds
    - advance refunding bonds
    - refunding bonds
    - credit agreements
    - capital appreciation bonds

- **other types of debt**:
    - tax anticipation notes
    - loans secured by delinquent tax collections levied in or for past, current, and future years
    - interest-bearing time warrants
    - school bus loans
    - lease or lease-purchase buses
    - environmental or asbestos cleanup and building system notes

[50] TLGC, Chapter 271, and TEC, Chapter 34, and Chapter 45

  - personal property contractual obligations
  - leases:
    - operating leases
    - capital leases

The rules for lease accounting are complex. For information about lease accounting, see the following:

- GASB Statement No. 87: Leases
- 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)
- GASB Statement No. 13: Accounting for Operating Leases with Scheduled Rent Increases
- GASB web page: "What You Need to Know About Accounting for Leases"
- GASB web page: "Leases—Reexamination of NCGA Statement 5 and GASB Statement 13"

Capital appreciation bonds (CABs) are a form of debt instrument that is widely used by school districts as a financing option for buildings and other capital projects. CABs are long-term securities sold at a discount. The yield, or accretion, is reinvested at a stated rate until maturity at which time the investor receives total payment. The payment represents both principal and interest. For capital appreciation bonds and compound interest bonds, accreted values are calculated as interest in the year of maturity.

HB 114, 84th Texas Legislature, 2015, established new laws relating to the issuance of certain capital appreciation bonds. HB 114 amended TGC, §1201.0245 by stating that a school district may not issue capital appreciation bonds that are secured by ad valorem taxes unless certain criteria is met by the school district. For detailed information on HB 114, see TGC, §1201.0245.

1.2.6.2 Debt Refunding

Debt refunding is issuing new debt and using the proceeds to pay existing debt:

- **Current refunding** uses the new debt to repay the old debt immediately.
- **Advance refunding** uses new debt to pay principal and interest on old debt as they become due, or earlier.

Debt defeasance is satisfying or voiding a debt without it being repaid. Debt defeasance can be:

- **legal**, in which a debt is satisfied according to legal requirements in the debt instrument, even though the debt is not actually paid; or
- **in-substance**, in which a school district places funds in an irrevocable trust to be used to repay all interest and principal on a debt.

When debt is defeased, it is no longer reported as a liability on the balance sheet. Only the new debt, if any, is reported as a liability.

As long as a debt retired by an in-substance defeasance is outstanding, your district must include notes to the financial statements in its AFR. The notes must disclose:

- the amount of debt defeased and
- a general description of the transaction.

For more information on debt defeasance accounting and reporting requirements, see GASB Statement No. 86, Certain Debt Extinguishment Issues[51].

For accounting and reporting requirements for debt refunding, your district should see the following:

- GASB Statement No. 86: Certain Debt Extinguishment Issues
- GASB Statement No. 65: Items Previously Reported as Assets and Liabilities
- GASB Statement No. 62: Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements
- GASB Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments
- GASB Statement No. 23: Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities
- GASB Statement No. 7: Advance Refundings Resulting in Defeasance of Debt

1.2.6.3 Other Debt Disclosure Requirements

Your school district must disclose the following items in notes to financial statements of the AFR:

- details of bonds payable for each outstanding debt issued, including:
    - a description of each debt issued;
    - the type of debt;
    - the interest rate, including the terms of rate changes for debt with a variable rate;
    - the amount of outstanding principal at the beginning of the fiscal year;
    - new issues or retirements; and
    - the amount of outstanding principal at the end of the fiscal year;

- debt principal and interest requirements to maturity, presented separately for each of the first five years and then in five-year increments; for variable rate debt, interest requirements must be determined using the rate in effect at the date of the statement; and
- principal, interest, and bond issuance costs and fees broken down by data control codes; for more information, see Annual Financial Report Data Feed Standards, located on the Electronic Submissions web page maintained by the TEA Division of Financial Compliance.

[51] GASB Statement No. 86: Certain Debt Extinguishment Issues

In addition to the disclosures outlined above, the 84th Texas Legislature, 2015, enacted HB 1378, relating to the fiscal transparency and accountability of debt held by the school district. Each school district must report the following financial information annually to the Texas Comptroller's office. This information must be posted on the school district's website until the next annual report is completed and posted on the school district's website:

- the amount of all authorized debt obligations;
- the principal of all outstanding debt obligations;
- the principal of each outstanding debt obligation;
- the combined principal and interest required to pay all outstanding debt obligations on time and in full;
- the combined principal and interest required to pay each outstanding debt obligation on time and in full; and
- the amounts of all authorized and outstanding debt obligations secured by ad valorem taxation, expressed as a total amount and a per capita amount.

In addition, if the authorized and outstanding debt obligations are secured by ad valorem taxation the school district must disclose the following for each authorized and outstanding debt obligation secured by ad valorem taxation:

- the issued and unissued amount;
- the spent and unspent amount;
- the maturity date; and
- the stated purpose for which the debt obligation was authorized.

Also, your school district must disclose:

- its current credit rating given by any nationally recognized credit rating organization concerning the debt obligations of your school district;
- the total amounts of all authorized and outstanding debts secured by ad valorem taxes expressed as a per capita amount;
- an explanation of the payment sources for the different types debt; and
- a projected per capital amount as of the last day of the maximum term of the most recent debt obligation issued by the school district.

For detailed reporting requirements required by HB 1378, see TLGC, §140.008.

As a school district you are also required to adhere to Texas Government Code, Chapter 1202, Examination and Registration of Public Securities.[52] Some of the debt instruments disclosed in section

[52] TGC, Chapter 1202

1.2.6.1 of Module 1 of the *FASRG* are considered public securities. For additional information on examination and registration of public securities see the Public Finance webpage on the Texas Attorney General's website[53].

1.2.7 Risk Financing and Related Insurance Issues

GASB Statement No. 10: Accounting and Financial Reporting for Risk Financing and Related Insurance Issues defines risk management as "the process of managing an organization's activities to minimize the adverse effects of certain types of losses."

Organizations typically manage risk using:

- risk control (to minimize the losses that strike an organization) and
  risk financing (to obtain finances to restore the economic damages of those losses).

Methods of financing risk include:

- risk retention or self-insurance, in which an organization retains funds to use for recovering from a loss;
- risk transfer to or from an insurer, such as an insurance company or a risk pool; and
- risk transfer to a noninsurer.

For accounting and reporting standards for your district's risk financing and insurance-related issues, see:

- GASB Statement No. 10: Accounting and Financial Reporting for Risk Financing and Related Insurance Issues
- GASB Statement No. 30: Risk Financing Omnibus, an amendment of GASB Statement No. 10
- GASB Statement No. 59: Financial Instruments Omnibus

1.2.8 Deferred Outflows of Resources and Deferred Inflows of Resources and Outflows and Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are flows of resources into and out of the school district during the fiscal year. Deferred outflows of resources and deferred inflows of resources are transactions that **do not qualify as assets or liabilities.** To alleviate confusion, the GASB has limited the term deferred to deferred outflows of resources and deferred inflows of resources (GASB Statement No. 65: Items Previously Reported as Assets and Liabilities).

Deferred outflows of resources and deferred inflows of resources are related to future periods, unlike revenues and expenses, which are related to the period in which they occur. The term deferred in deferred outflows of resources and deferred inflows of resources refers to **recognition** of the deferred

[53] Texas Attorney General's office Public Finance webpage

outflows of resources and deferred inflows of resources by the school district. Recognition is deferred until a **future period**.

- **Deferred outflow of resources** is a consumption of nets assets applicable to a future reporting period and has a positive effect on net position that is similar to assets.
- **Deferred inflow of resources** is the acquisition of net assets that is applicable to a future reporting period and has a negative effect on net position that is similar to liabilities.

It is important for your school district to remember that the event associated with the outflows and inflows of resources related to the deferrals has already occurred. However, the **recognition** of the deferred resources (deferrals) has not yet occurred; therefore, the resources are classified as deferred outflows and deferred inflows.

School districts must record:

- **deferred outflows of resources** as a separate subheading following assets but before liabilities; and
- **deferred inflows of resources** as a separate subheading following liabilities but before equity (net investment in capital assets and restricted and unrestricted funds).

1.2.8.1 Deferred Outflows of Resources

Deferred outflows of resources are defined as a governmental entity's **consumption of assets** that applies to a future reporting period (GASB Concepts Statement No. 4: Elements of Financial Statements).

Examples of deferred outflows of resources include, but are not limited to, the following:

- deferred outflows related to TRS pension liability
- grants **paid** in advance of meeting the time requirements of the grant
- deferred amounts from refunding of debt (debits)
- cost to acquire rights to future revenues (intra-entity)
- deferred loss from sale-leaseback
- fees paid to permanent investors **prior to** the sale of the related loan(s)
- direct loan origination costs, **paid prior to** the sale of the related loans, for **loans held for sale**
- direct loan origination costs, **incurred prior to** the sale, for **mortgage loans held for resale**
- direct loan origination costs for investment **loans** held for sale

1.2.8.2 Deferred Inflows of Resources

Deferred inflows of resources are defined as a governmental entity's **acquisition of assets** that applies to a future reporting period (GASB Concepts Statement No. 4).

Examples of deferred inflows of resources include, but are not limited to, the following:

- deferred inflows related to TRS pension liability
- unavailable property tax receivable (property tax revenue received in advance)
  Property tax revenue received in one year, but the payment is for the next fiscal year.
    - Example: A school district has a fiscal year start date of August 1. The taxing entity levies its property tax for the coming fiscal year and sends out tax bills on the preceding July 1. The government then starts to receive payments on property tax bills during the month of July, amounting to $100,000, before the next fiscal year has begun. Since the property tax payment is for the **next year's** property taxes, the school district must recognize the property tax revenue of $100,000 as **deferred inflow of resources**.
- grants received in advance of meeting time requirements
  If a school district receives a cash grant and all of the grant criteria have been met, except for the time requirement, then the grant must be recognized as a deferred inflow.
    - Example: The district receives the grant on September 1, 2017, and the district met all of the required criteria of the grant on July 1, 2018, except for the time requirement of the grant. The time requirement of the grant states that no grant funds may be expended until September 1, 2018. Since the grant funds must be **recognized in a future period**, **because they cannot be expended until September 1, 2018**, the grant funds **must be deferred** until the grant funds can be recognized.
- deferred amounts from the refunding of debts (credits)
- proceeds from the sale of future revenues
- deferred gain from sale-leaseback
- unavailable revenue in governmental funds
- regulatory credits (gains or other reductions)
- receipt of payment for points related to loan origination
- receipt of payment for points for a mortgage loan held for investment
- loan origination fees, **including** any portion related to points, **received prior to the sale** of **mortgage loans held for resale**
- loan origination fees, **including** any portion related to points, for **loans held for resale**
- loan origination fees, **including** any portion related to points, for **investment loans held for sale**

1.2.8.3 Presentation of Deferred Outflows of Resources and Deferred Inflows of Resources on the Financial Statements

Your school district must report deferred outflows of resources and the deferred inflows of resources on each applicable financial statement.

Government-Wide Statement of Net Position

Your school district's net position is your school district's assets plus deferred outflows of resources, less liabilities and deferred inflows of resources. Deferred outflows of resources are disclosed in a separate section between the asset section and the liabilities section. Deferred inflows of resources are disclosed in a separate section following the liabilities section. Deferred outflows of resources are coded to the 1700 series of object codes and the deferred inflows of resources are coded to the 2600 series of object codes.

Exhibit 1.2.8.3.A discloses the presentation of deferred outflows of resources and deferred inflows of resources on the government-wide statement of net position.

Exhibit 1.2.8.3.A Government-Wide Statement of Net Position—Presentation of Deferred Outflows of Resources and Deferred Inflows of Resources

Assets	+	Deferred Outflow of Resources	–	Liabilities	–	Deferred Inflow of Resources	=	Net Position
Data Code **1000**		Data Code **1700**		Data Code **2000**		Data Code **2600**		Data Code **3000**

Please note that the minus, plus, and equal signs are included in the exhibit to show the calculation steps in the net position formula only. The minus, plus, and equal signs will not appear on your school districts financial statements.

End Exhibit 1.2.8.3.A

Governmental Funds Balance Sheet

On the governmental funds balance sheet, assets plus deferred outflow of resources are equal to liabilities plus deferred inflows of resources plus fund balances.

Exhibit 1.2.8.3.B discloses the presentation of the deferred inflow of resources on the governmental funds balance sheet.

1.2.8.3.B Governmental Funds Balance Sheet—Presentation of Deferred Inflows of Resources

Total Assets Data Code **1000**	+	Deferred Outflow of Resources Data Code **1700**	=	Total Liabilities Data Code **2000**	+	Deferred Inflow of Resources Data Code **2600**	+	Fund Balances Data Code **3000**	=	Total Liabilities, Deferred Inflows of Resources and Fund Balances Data Code **4000**

Please note that the equal and plus signs are included in the exhibit to show the calculation steps only. The equal and plus signs will not appear on your school districts financial statements.

End Exhibit 1.2.8.3.B

1.2.8.4 Outflows of Resources and Inflows of Resources

There are some transactions in which the resulting item should be reported as an **outflow of resources** (expenditure or expense) or an **inflow of resources** (revenues) because the item does not meet the definition of an asset, deferred outflow of resources, liability, or deferred inflow of resources.

- An **outflow of resources** is a consumption of net assets by the district that is applicable to the reporting period (GASB Concepts Statement No. 4).
- An **inflow of resources** is an acquisition of net assets by the district that is applicable to the reporting period (GASB Concepts Statement No. 4).

Outflows and inflows of resources are different from deferred outflows and deferred inflows of resources because the item (the outflow of resources or inflow of resources) applies to the **current reporting period**, not a future reporting period. In addition, GASB Statement No. 65 states the term deferred can only be used with deferred inflows of resources and deferred outflows of resources. Inflows of resources and outflows of resources are reported as balances on the resource flows statement in the current period.

Examples of **outflow of resources** (expenditure and expense) include, but are not limited to, the following:

- debt issuance costs (other than prepaid insurance)
- costs to acquire loans

- initial direct costs of an operating lease (initial costs incurred by the lessor in an operating lease)
- direct loan origination costs associated with a mortgage loan held for investment
- net balance (debit) of direct loan origination costs, including any portion related to points, related to lending activities
- acquisition costs for public entity risk pools
- insurance acquisition costs
- fees paid for the purchase of a loan or a group of loans
- fees paid to permanent investors (to ensure the sale of loans)

Examples of **inflow of resources** (revenues) include, but are not limited to, the following:

- fees received related to the purchase of a loan or a group of loans
- commitment fees (realized upon exercise of the commitment)
- Net balance (credit) of loan origination fees, excluding any portion related to points, related to lending activities
- loan origination fees, excluding any portion related to points, associated with a mortgage loan held for investment
- loan origination fees, including any portion related to points, associated with the mortgage loans held for resale

For accounting and reporting standards on deferred outflows of resources, deferred inflows of resources, outflows of resources, and inflows of resources, see:

- GASB Statement No. 65: Items Previously Reported as Assets and Liabilities
- GASB Statement No. 63: Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position
- GASB Concepts Statement No. 4: Elements of Financial Statements

1.2.9 Fund Equity

Equity is the net worth of a fund. Fund equity for governmental funds is reported as **fund balance**. For proprietary funds and fiduciary funds, equity is reported as **net position**.

1.2.9.1 Fund Balance

Fund balance is the gross difference between governmental fund assets and deferred outflows of resources, and liabilities and deferred inflows of resources reflected on the balance sheet (**Assets + Deferred Outflows of Resources – (Liabilities + Deferred Inflows of Resources) = Fund Balance**). The fund balance of the general fund is significant, because the general fund is the primary fund through which most functions are financed and which includes state aid and local maintenance taxes.

Fund balances for governmental funds consist of the following five components[54]:

- nonspendable
- restricted
- committed
- assigned
- unassigned

See 1.2.10.3 Governmental Funds Financial Statements for detailed information on governmental funds fund balance components.

1.2.9.2 Net Position

Net position is assets plus deferred outflows of resources, less liabilities, and less deferred inflows of resources (**Assets + Deferred Outflows of Resources - Liabilities - Deferred Inflows of Resources = Net Position**) (GASB Statement No. 63).

The three components of net position are:

- net investment in capital assets,
- restricted, and
- unrestricted.

Net investment in Capital Assets

Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

[54] GASB Statement No. 54: Fund Balance Reporting and Governmental Fund Type Definitions

Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in the net position component of net investment of capital assets.

If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflow of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflow of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.[55]

Restricted Net Position

This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Usually a liability relates to a restricted asset if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported (GASB Statement No. 63).

Unrestricted Net Position

Is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position (GASB Statement No. 63).

The total net position of a district represents what the district owns and what it owes (the resources the district can use to provide services and operate the district versus the district's liabilities or obligations to others). A **positive net position** demonstrates that the district is financially solvent. A **negative net position** demonstrates that the district is financially insolvent and financial measures/controls have either not been implemented and or are not being monitored to ensure the district's solvency. A negative net position also demonstrates a lack of financial prudency. A district's total net position can be tracked overtime to assess whether a district's financial health is improving or deteriorating.
See 1.2.10.1 Government-wide Fund Financial Statements for more information on net position and the statement of net position.

1.2.10 Fund Types and Financial Statement Presentations

Fund financial statements present information on the school district's management and control of its financial resources and provide users with fiscal accountability information to enable them to assess if resources raised for a particular purpose were used for that purpose as required by law, regulation, and legally adopted budgets.

---

[55] GASB Statement No. 63: Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Fund financial statements center on information about the school district's major governmental and enterprise funds, including its blended component units, and present information about a school district's fiduciary funds and component units that are fiduciary in nature.

A distinct set of financial statements is presented for each fund category

- governmental funds
- proprietary funds
- fiduciary funds

Financial statements are prepared by using a **basis of accounting** and a **measurement focus**.

1.2.10.1 Basis of Accounting

Basis of accounting is a term that refers to **when** revenues, expenditures, expenses, transfers, assets, deferred outflows of resources, liabilities, and deferred inflows of resources are recognized in the accounts and reported in the financial statements. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions should be recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from nonexchange transactions should be recognized in accordance with the requirements of GASB Statement No. 63.[56]

Basis of accounting relates to the timing of the transactions, events, or circumstances, regardless of the nature of the transactions, events, or circumstances. Transactions, events, or circumstances are recognized either on the accrual basis of accounting or modified accrual basis of accounting.

- **Accrual basis of accounting** records revenues in the period in which they are earned and become measurable; expenses are recorded in the period incurred, if measurable.

- **Modified accrual basis of accounting** recognizes revenues in the period in which they become available and measurable, regardless of whether cash has been received.

  Revenues are considered available when they will be collected either during the current period or soon enough after the end of the period to pay current liabilities. Revenues are considered measurable when they are reasonably estimable. Expenditures are generally recognized when the fund liability is incurred, if measurable.

  - **"Available"** means the revenue is expected to be received in cash in the current period or soon enough thereafter to pay liabilities of the current period.

[56] GASB Statement No. 63: Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

- **"Measurable"** means the amount of revenue is known or can be reasonably estimated.

The terms "available" and "measurable" are also discussed in 1.2.13 Revenues.

1.2.10.2 Measurement Focus

Measurement focus is concerned with **what** financial transactions and events will be recognized in the accounting records and reported in the AFR. Measurement focus is concerned with the inflow and outflow of resources. While there are many measurement focuses used in accounting, there are two that are fundamental to governmental accounting:

- **Flow of economic resources** focus considers all assets available to the district for the purpose of providing goods and services. Under this focus, all assets and liabilities, both current and long term, are recorded within the fund and depreciation is recorded as a charge to operations.

- **Flow of current financial resources** focus measures the extent to which financial resources obtained during a period are sufficient to cover claims incurred during that period. Effects of transactions or events that affect financial resources are recognized when they take place, regardless of when cash is received or paid. Long-term capital assets and long-term obligations are not recorded within a fund under this measurement focus.

Governmental funds center primarily on the sources, uses, and balance of current financial resources; therefore, governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Proprietary funds focus on the determination of net income and changes in net position, financial position, and cash flows; therefore, they utilize the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds also utilize the flow of economic resources measurement focus and the accrual basis of accounting.

For more information on the basis of accounting and the measurement focus that is applicable for government-wide and fund financial statements, see Exhibit 1.2.10.A.

Exhibit 1.2.10.2.A Major Features of the Government-wide and Fund Financial Statements

Type of Statements	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	all activities of your district (except fiduciary funds) and your district's component units	the activities of your district that are not proprietary or fiduciary	activities that your district operates that are similar to private sector businesses	funds for which your district acts as the trustee or agent for someone else's resources
Required Financial Statements	• statement of net position • statement of activities	• balance sheet • statement of revenues, expenditures, and changes in fund balances	• statement of net position • statement of revenues, expenses, and changes in fund net position • statement of cash flows	• statement of fiduciary net position
Accounting Basis and Measurement Focus	• accrual accounting • flow of economic resources focus	• modified accrual accounting • flow of current financial resources focus	• accrual accounting • flow of economic resources focus	• accrual accounting • flow of economic resources focus
Type of Asset and Liability Information	all assets and liabilities, both financial and capital, short term and long term	only assets expected to be used up and liabilities that come due during the year or soon thereafter (Capital assets are not included.)	all assets and liabilities, both financial and capital, and short term and long term	all assets and liabilities, both financial and capital, and short term and long term
Type of Inflow and Outflow Information	all revenues and expenses during the fiscal year, regardless of when cash is received or paid	revenues for which cash is received during or soon after the end of the fiscal year; expenditures when goods or services have been received and payment is due during the fiscal year or soon thereafter	all revenues and expenses during the fiscal year, regardless of when cash is received or paid	not applicable to agency funds

End of Exhibit 1.2.10.A

1.2.10.3 Government-wide Financial Statements

Government-wide statements include the entire school district's fund activities except the activities of the fiduciary funds; the statements include non-fiduciary component units. Government-wide financial statements are designed to provide a broad overview of the school district's finances in a manner similar to a private sector business. The government-wide statements are comprised of the following financial statements:

- statement of net position
- statement of activities

All assets and liabilities, both financial and capital, short term and long term, and deferred outflows of resources and deferred inflows of resources are reported on the financial statements. Information on the government-wide financial statements is reported by using the economic resources measurement focus and the accrual basis of accounting.

Statement of Net Position

The statement of net position[57] displays the financial position of the school district and its component units. The statement of net position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and the total net position (Assets + Deferred Outflows of Resources - Liabilities - Deferred Inflows of Resources = Net Position) of the school district. The net position consists of the following components and must be reported in the following hierarchical manner:

- **Net investment in capital assets**—represents the difference between capital assets, net of accumulated depreciation, and liabilities attributable to the acquisition, construction, or improvement of those assets. (Represents the net amount invested in capital assets [original cost, net of accumulated depreciation, and net of capital-related debt]).
- **Restricted**—represents resources that have limitations placed on the resources that are externally imposed by the creditor, grantors, contributors, laws, or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Internal actions, such as those by the board of trustees, may lead to the restriction of resources.
- **Unrestricted**—includes all other amounts that are not required to be reported in the net investment in capital assets or restricted categories.

Statement of Activities

The statement of activities displays the results of operations for the school district for the year. The statement of activities is designed to report and compare the direct expenses and program revenues of the different functions of the school district's governmental activities and its business-type activities.

---

[57] GASB Statement No. 63: Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Program revenues are revenues that are related to the different functions of the school district. They are generally generated from fees and charges for services offered by the district and from taxpayers and citizens. Revenues that are not classified as program revenues are reported as general revenues.

The statement of activities also separately reports transfers and special and extraordinary items. Transfers report a shift in resources between governmental and business-type activities. A special or extraordinary item is used to report an event that is unusual or infrequent or both. For example, the sale of property owned by the school district.

In the statement of activities:

- Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Some capital outlays, such as inventories, when they are consumed are reported as expenses in the statement of activities.
- Capital outlay expenditures are allocated over their estimated useful lives and reported as depreciation.

Only the gain/loss on the sale of capital assets is reported, causing the fund balance to change by the book value of the capital assets sold.

Finally, the statement of activities reports the change in net position for the year. The net position displayed is the "bottom line" result of operations of the school district. The net position is used to measure whether the financial position of the school district improved or declined for the year.

The **economic resources measurement focus** and the **accrual basis of accounting** are used to prepare the statement of net position and the statement of activities.

1.2.10.4 Governmental Funds

Governmental fund reporting focuses largely on the sources, uses, and balances of current financial resources and often has a budgetary orientation. The governmental fund category, under GASB Statement No. 34, includes the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds.

Governmental funds consist of the following major funds:

- **General fund**—contains all financial resources that are not reported in another fund.
- **Special revenue funds**—account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments, or for major capital projects) that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

- **Capital project funds**—contain financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including acquisition or construction of capital facilities and other capital assets. The capital project fund excludes capital-related outflows financed by proprietary funds or assets that are held in trust for individuals, private organizations, or other governments.
- **Debt service funds—**account for the accumulation of resources that are restricted, committed, or assigned for and the payment of general long-term debt principal and interest.
- **Permanent funds**—contain financial resources that are legally restricted to the extent that only earnings, and **not principal**, may be used for purposes that support the district's programs. Permanent funds do not include private-purpose trust funds.

Revenues should be classified by major source and expenditures by full function.

1.2.10.5 Governmental Fund Financial Statements

Governmental fund financial statements contain the non-proprietary and non-fiduciary activities of the district. The governmental funds are comprised of the following financial statements:

- **Balance sheet**—presents information on the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balances for each major governmental fund (rather than fund types) in separate columns and for all non-major governmental funds in the aggregate in a single column.
- **Statement of Revenues, Expenditures and Changes in Fund Balances**—presents information on the inflows, outflows, and balances of current financial resources of each major governmental fund in separate columns and for the non-major governmental funds in aggregate.

Only assets expected to be used up and liabilities that come due during the fiscal year or soon thereafter are reported on the governmental financial statements. No capital assets are reported on the governmental financial statements. The accounting basis used for the governmental financial statements is the modified accrual basis of accounting.

Revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term liabilities, which should be recognized when due (GASB Statement No. 34 and GASB Statement No. 63).

Fund balances for governmental financial statements consist of the following components (fund balances) and must be reported in the following hierarchical manner (GASB Statement No. 54):

- **Nonspendable**—fund balance that cannot be spent because they are not in a spendable form, or legally or required by contract for a specific future use. Examples of nonspendable fund balances include, but are not limited to:
  - inventories
  - prepaid items
  - property acquired for resale
  - long-term amount of loans and notes receivables

- **Restricted fund balance**—amounts that are restricted for a specific purpose (per the definition outlined in GASB Statement No. 34[58] and amended by GASB Statement No. 46,[59] such as restrictions imposed by enabling legislation, creditors, grantors, contributors, or other governmental laws and regulations. Examples of restricted fund balance include, but are not limited to:
  - construction
  - federal and state programs
  - retirement of long-term debt
  - fund balance of consolidated school districts

  There should never be a negative restricted amount in any of the funds that your district has designated as restricted.

- **Committed fund balance**—amounts that can only be used for specific purposes pursuant to constraints imposed by the district's board of trustees. The committed amounts cannot be used for any other purpose unless the board of trustees removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Examples of the committed fund balance include, but are not limited to:
  - construction
  - self-insurance
  - capital expenditures
  - retirement of notes and loans payable
  - claims and judgments

- **Assigned fund balance**—amounts that are constrained by the district to be used for specific purposes, but are not restricted or committed. Examples of assigned fund balance include, but are not limited to:

---

[58] GASB Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments

[59] GASB Statement No. 46: Net Assets Restricted by Enabling Legislation an amendment of GASB Statement No. 34

  - construction
  - self-insurance
  - capital expenditures
  - retirement of notes and loans payable
  - claims and judgments

  Your school district should not assign funds if it creates a negative assigned fund balance.

- **Unassigned fund balance**—amounts that have not been assigned to other funds and are neither restricted, committed, nor assigned for a specific purpose within the general fund. The unassigned fund balance is what remains after amounts have been allocated or assigned to the previous four classifications, listed above.

There are several required note disclosures for governmental funds financial statements:[60]

- Your district's accounting policing concerning restricted, committed, assigned, and unassigned fund balance classifications must be disclosed in the notes to the financial statements.
- If a nonmajor fund had a fund deficit (liabilities exceeded assets), your school district will need to disclose it because the deficit cannot be seen in the aggregated non-major funds column.
- If items are reconciled in the aggregate into categories that obscure the individual adjustments, then your district should provide a more detailed reconciliation in the notes.
- The amount of time after the end of the fiscal year during which collections can be considered available and thus recorded as revenue is called the period of ***availability***. Although accounting standards specify that the period of availability for property taxes is 60 days, they are silent on other revenues.
  Districts should disclose in the summary of significant accounting policies (usually the first note disclosure) the length of time it used to define availability for its other revenues.
- Interfund balances that remain as of the end of the year—amounts due to and from each of the columns in the fund financial statements, including not only the governmental funds, but also the proprietary and fiduciary funds. Your district will describe the purposes for the interfund balances and identify any that are not expected to be repaid within a year.
- Interfund transfers made during the fiscal year—amounts transferred among the fund columns. This disclosure should also describe why the transfers were made and will single out transfers that do not occur on a routine basis or that are inconsistent with the activities of the fund making the transfer.

[60] GASB, "Touring the Financial Statements, Part III: The Governmental Funds," *The User's Perspective,* November 2007.

For specific note discloses, use the applicable GASB Statements to determine the required note disclosures. Note that different statements require difference note disclosures. For instance:

- GASB Statement No. 63: Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position requires details of deferred outflows of resources and deferred inflows of resources be disclosed in a governmental fund balance sheet if the total deferred amounts are obscured by aggregation or if there is a significant difference between a deferred outflow of resources or deferred inflow of resources and the balance of the related asset or liability. Other note disclosure requirements are included.
- GASB Statement No. 61: The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34
- GASB Statement 54: Fund Balance Reporting and Governmental Fund Type Definitions requires the deficit fund balance or net position of individual funds to be disclosed in the footnotes of the financial statements, defines fund balance classification policies and procedures, and includes other note disclosure requirements.
- GASB Statement No. 38: Certain Financial Statement Note Disclosures
- GASB Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments

1.2.10.6 Proprietary Funds

Proprietary funds, sometimes referred to as "income determination" or "commercial-type" funds, are used to account for a school district's ongoing organizational activities that are similar to those often found in the private sector.

Proprietary fund reporting focuses on determining operating income, changes in net position, financial position, and cash flows and includes enterprise and internal service funds.

Proprietary funds consist of the following major funds:

- **Enterprise funds**—report any activity for which the district charges a fee for goods or services to an external user.
- **Internal service funds**—report any activity that provides goods and services to other funds, departments, or agencies of the district on a cost-reimbursement basis.

Enterprise funds are required to be reported for any activity for which a fee is charged to external users for goods or services. GASB Statement No. 34 has made the conditions under which a government uses enterprise funds more restrictive. Activities are required to be reported as enterprise funds if:

- the activity is financed with debt secured solely by a pledge of the net revenues from fees and charges of the activity, or

- laws or regulations require that the activity's costs of providing services, including capital costs such as depreciation or debt service, be recovered with fees and charges, rather than with taxes or similar revenue, or pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs such as depreciation or debt service.

Internal service funds must be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund. Major fund reporting requirements do not apply to internal service funds. The combined totals for all internal service funds should be reported in separate columns in the proprietary fund financial statements to the right of the total enterprise funds column.

1.2.10.7 Proprietary Fund Financial Statements

Proprietary fund statements include activities that the district operates. The net position of proprietary funds is recorded in three components on the following financial statements:

- statement of net position
- statement of revenues, expenses and changes in fund net position
- statement of cash flows

All assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position are reported on the financial statements. The accounting basis used for the proprietary fund statements are the **accrual accounting method** and the **economic resources measurement focus** method.

1.2.10.8 Fiduciary Funds

Fiduciary funds are resources held by the district in a custodial or agent capacity/manner.

Fiduciary funds consist of the following major funds:

- **Pension** (and other employee benefit) trust funds—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
- **Investment trust funds**—the external portion of the investment pools reported by the sponsoring governmental entity
- **Private-purpose trust funds**—trust arrangements under which principal and income benefit individuals, private organizations, or other governments
- **Agency funds**—resources held by the district in a custodial capacity. Agency funds usually involve the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments

The statement of fiduciary net position should include information about the district's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position for each fiduciary fund type.

For more information on fiduciary funds and the responsibilities of your district, see

- GASB Statement No. 84: Fiduciary Activities
- GASB Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Government

1.2.10.9 Fiduciary Fund Financial Statements

Fiduciary fund reporting is based on net position and changes in net position. Fiduciary fund net position is recorded on the following financial statements:

- statement of fiduciary net position
- statement of changes in fiduciary net position

All assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position are reported on the financial statements. The accounting basis used for the fiduciary funds is the **accrual accounting** and **economic resource focus** methods.

Within proprietary and fiduciary fund statements of net position, balances are classified and displayed into the following three components:

- **Net investment in capital assets**—the net amount that has been invested in capital assets (original cost, net of accumulated depreciation, and net of capital-related debt).
- **Restricted**—the amount of net position for which limitations have been placed by creditors, grantors, contributors, laws, and regulations. For example, school districts that account for food services within an enterprise fund may have restrictions related to certain proceeds or commodities imposed by the United States Department of Agriculture (USDA). Internal actions through enabling legislation (which is legally enforceable) and constitutional provisions may also lead to restricted net position. Permanent endowments or permanent fund principal amounts included in restricted net position must be displayed in two additional categories:
    - expendable
    - nonexpendable
- **Unrestricted**—the amount of net position that is not restricted or invested in capital assets and is the net of related debt.

For more on accounting and reporting standards for the various governmental financial statements, use the applicable GASB Statements, such as:

- GASB Statement No. 84: Fiduciary Activities
- GASB Statement No. 65: Items Previously Reported as Assets and Liabilities
- GASB Statement No. 63: Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

- GASB Statement No. 61: The Financial Reporting: Omnibus—an amendment of GASB Statements No. 14 and No. 34
- GASB Statement No. 54: Fund Balance Reporting and Governmental Fund Type Definitions
- GASB Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments
  GASB Concepts Statement No. 4: Elements of Financial Statements

1.2.11 Encumbrance Accounting

An encumbrance is the name given to funds that have been reserved when a purchase order is finalized or a contract has been signed, but not yet performed (unperformed executory contracts for goods or services.) When these types of actions occur, your district encumbers funds to fulfill said commitments. Essentially, encumbrances represent amounts your district has committed to pay for goods or services that have not been received by your district.

An encumbrance account does not represent an expenditure, but it does represent a commitment to expend resources. All commitments must be outlined in the required budget(s) and amended budget(s) of your district. Remember, budgets are the only legal authority for your district to expend funds of the district.

It is the responsibility of your district to know how much money has been spent to date and to ensure funds have been allocated for all commitments/obligations. An encumbrance accounting system is a method of ascertaining the availability of funds and then reserving funds to cover outstanding obligations.

A main benefit of encumbrance accounting is avoiding budget overspending. When commitments are made (purchase orders or contracts executed), the appropriate accounts are reviewed for available funds. If an adequate fund balance exists, the amount of the commitment is immediately charged to the account to reduce the available balance for control purposes.

1.2.11.1 Reporting Requirements for Encumbrances

If your district decides to use encumbrance accounting, some of the reporting requirements that your district will be required to adhere to are, but not limited to, the following:

- The encumbrances are not displayed on the face of the financial statements because encumbered amounts are included in the restricted, committed, and assigned fund balance classifications of your district.

- Encumbered amounts cannot be included in the unassigned fund balance classification because "execution of a purchase order is tantamount to assigning the amount of the purchase order to a specific purpose; thus, the outstanding encumbrance amount would be included in assigned fund balance." (GASB Implementation Guide No. 2015-1, Q&A7—Q&AZ, Question Z.54.28)

- If your district uses encumbrance accounting, significant encumbrances are required to be disclosed in the notes to the financial statements in their entirety by major funds and nonmajor funds in the aggregate.[61]

For more information on encumbrance accounting, see:

- GASB Statement No. 54: Fund Balance Reporting and Governmental Fund Type Definitions
- GASB Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments
- GASB Implementation Guide No. 2015-1

1.2.12 Interfund Transfers

Interfund transfers are flows of assets, such as goods and services, without equivalent flows of assets in return and without a requirement for repayment. (GASB Statement No. 34)

Interfund activity within and among the three fund categories (governmental, proprietary, and fiduciary) should be classified and reported as follows (GASB Statement No. 34).

1.2.12.1 Reciprocal Interfund Activity

- **Interfund loans**—amounts provided with a requirement for repayment. Interfund loans are not reported as other financing sources or uses in the fund financial statements.
- **Interfund services provided and used**—sales and purchases of goods and services between funds for a price.

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

[61] GASB Statement No. 54: Fund Balance Reporting and Governmental Fund Type Definitions

1.2.12.2 Nonreciprocal Interfund Activity

- **Interfund transfers**—flows of assets, such as goods and services, without equivalent flows of assets in return and without a requirement for repayment. Interfund transfers include payments in lieu of taxes that are not payments for, and are not reasonably equivalent in value to, services provided.
- **Interfund reimbursements**—repayments from the funds responsible for particular expenditure or expenses to the funds that initially paid for them. Interfund reimbursements are not disclosed in the financial statements.

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

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

The net residual interfund receivable/payable between governmental and business-type activities should not be eliminated but should be presented in each column (government activities and business-type activities) as internal balances. These amounts will be the same and will therefore cancel out when they are combined (horizontally) in the statement of net position to form the column for total primary government activities. (GASB Statement No. 34)

Because of inconsistencies in use and interpretation of standards for reporting fund balances, GASB issued GASB Statement No. 54: Fund Balance Reporting and Government Fund Type Definitions to clarify definitions of governmental fund types and fund balance classifications.

1.2.13 Revenues

Revenues are increases in resources to your school district's current financial resources excluding:

- interfund transfers,
- debt issue proceeds, and
- redemptions of demand bonds.

Your school district's accounting records must reflect revenues at the most detailed level. Revenues must be classified by fund and source.

Revenues are recognized when they are subject to accrual, which means they must be both measurable and available (GASB Statement No. 34). Revenues are:

- **measurable** when the amount of the revenue is subject to reasonable estimation, and

- **available** when they are subject to collection within the current period or after the end of the period but in time to pay liabilities outstanding at the end of the current period.

Revenues in governmental funds are recognized on the modified accrual basis of accounting. Revenues in proprietary funds are recognized using the accrual basis of accounting, which means revenues in proprietary funds are recognized in the period in which they are earned and are classified either as **operating** or **non-operating** in the same manner as commercial accounting. Whereas operating revenues are generated by the primary activity of the fund, non-operating revenues are those that are not directly related to the primary activity of the fund and are generated by other means, such as through interest earnings.

Operating transfers **are not** considered revenue.

1.2.13.1 Reporting of Revenues

The accounting and financial reporting of revenues within a school district is determined by the economic substance of the underlying transactions. The GAAP criteria for determining the type of transaction is based on the classification and characteristics of the transaction.

Within school districts, transactions may be classified as:

- exchange transactions
- exchange-like transactions, or
- nonexchange transactions.

Exchange transactions are those in which the parties involved give up and receive **essentially equal values**. Revenues from exchange transactions are generally recognized when an exchange, in the ordinary course of operations, is effected unless the circumstances are such that the collection of the exchange price is not reasonably assured.

Although similar to exchange transactions, **exchange-like transactions** represent situations in which the values exchanged **may not be equal** or the direct benefits may not be exclusively for the parties involved in the transaction. Examples include permits and professional or regulatory licensing fees.

Nonexchange transactions do not involve the exchange of equal or approximately equal value resources.

To clarify and expand on existing guidance on the accounting and financial reporting of **nonexchange transactions** within school districts, the GASB has issued the following guidance:

- GASB Statement No. 70: Accounting and Financial Reporting for Nonexchange Financial Guarantees
- GASB Statement No. 65: Items Previously Reported as Assets and Liabilities

- GASB Statement No. 63: Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position
- GASB Statement No. 36: Recipient Reporting for Certain Shared Nonexchange Revenues—an amendment of GASB Statement No. 33
- GASB Statement No. 33: Accounting and Financial Reporting for Nonexchange Transactions

These standards establish recognition criteria for nonexchange transactions reported on the accrual basis or the modified accrual basis of accounting.

In addition, the GASB has issued the following guidance for exchange and exchange-like transactions:

- GASB Statement No. 63: Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position
- GASB Statement No. 62: Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements
- GASB Statement No. 61: The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34
- GASB Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments

1.2.13.2 Revenue Categories

Districts must account for a variety of revenues, such as property taxes, FSP funds, user charges, and grants that are generally presented in the financial statements of **governmental funds** of a school district in three broad categories:

- **Local and intermediate sources** are those revenues collected from the citizens of the school district's service area and governmental and nongovernmental entities both within and outside the district. Such revenues include, but are not limited to, property taxes, tuition, and interest income.
- **State revenues** are those revenues received from the state of Texas, excluding funds passed through the state from the federal government. Such revenues include state grants and FSP funding.
- **Federal revenues** are those revenues received from the federal government or its agencies, either directly or through the state. Such revenues are primarily from federal programs.

Proprietary fund revenues include:

- charges for services,
- charges to other funds for services rendered, and
- grant revenues.

1.2.13.3 Gifts and Bequests

Your school district, as a governmental entity, may receive a private donation from an individual, a firm, a philanthropic social or service group, an association, a society, or another entity. A gift or bequest (that is, a gift conveyed by a will) may be in the form of cash, securities, stocks, land, or other types of tangible assets. The use of a donation may be either **unconditional** or **conditional**, depending on the terms of acceptance between the donor and the school district.

A gift or bequest is defined as a monetary or other type of donation for which a district has not applied. In contrast, a grant from a governmental or nongovernmental entity is generally not considered a gift or bequest. A grant is generally recorded in a governmental or enterprise fund because it is subject to contractual restrictions, and a district must apply to receive the money.

Unconditional Donations

An **unconditional** donation is a gift or bequest to a school district or student group with no restrictions on its use. This type of donation is usually recorded as follows:

- A **nonmonetary** gift is recorded at appraised or estimated fair market value at the time of receipt in the:
    - general fund and
    - general capital asset fund.
- A **monetary gift** is recorded only in the general fund.

Conditional Donations

A **conditional** donation is one in which the donor has placed restrictions on the use of a gift or bequest. This type of donation creates a fiduciary responsibility and is recorded in a private-purpose trust fund or permanent fund, depending on whether the principal may be expended. If only the interest and not the principal can be used, the donation is recorded in a **permanent trust fund**. If the principal can be used, the donation is recorded in a **private-purpose trust fund**.

For example, if an individual donates $20,000 to the school district to be used for scholarships and specifies that the district can only use the interest earned on the $20,000 to make the scholarship payments, the district would record the donation in a permanent trust fund. On the other hand, if the individual does not specify that the district can only spend the interest earned or specifies that the district can use both the interest earned and the original donation of $20,000 to make the scholarship payments, the district would record the donation in a private-purpose trust fund. Your district's board of trustees should adopt a comprehensive policy which addresses the following aspects of donations:

- acceptance
- recognition by the board of trustees
- valuation
- accounting Policy

- monitoring responsibility for ongoing trusts
- authorization for expenditures

1.2.14 Expenditures and Expenses

The GASB defines **expenditures** as **decreases in net financial resources**.[62] In governmental funds, expenditures are recognized with a modified accrual basis of accounting to measure the flow of financial resources. Expenditures are a decrease in net financial resources as a result of fund liabilities incurred based on a promise to pay for goods and services that have been received. **Expenses** incurred in proprietary funds are recognized using the accrual basis of accounting in the same manner as in commercial accounting for the most part. There are some differences that exist between the recognition of expenditures in governmental funds and the recognition of expenses in proprietary funds.

Full accrual accounting is used in government-wide financial statements, proprietary fund financial statements, and fiduciary fund financial statements. In full accrual accounting, the GASB defines expenses as "decreases in net position resulting from the using up (consumption or expiration of assets) or outflows of assets in the course of operating a district and providing goods and services."[63]

Furthermore, in full accrual accounting, the purchase of an asset is not an expense but the consumption of an asset is an expense. Full accrual accounting measures disclose the flow of assets and liabilities.

1.2.14.1 Expenditures

In governmental funds, expenditures are recognized in the accounting period in which the goods or services are received and the liability for payment is incurred. However, in instances when current financial resources are not reduced as a result of the incurrence of a liability, an expenditure is not recorded.

A common example is the liability for compensated absences such as employee sick and vacation pay. Such liabilities result from current services received from employees; however, the payment of the liabilities usually does not occur until a future date.

As a result, compensated absences relating to employees whose salaries are accounted for in governmental funds are not recorded as expenditures and liabilities of the fund until the due date for payment of the compensated absences. However, if the district expects the payment for the compensated absences relating to employees to be made soon after year end (within 60 days), then the compensated absences are counted as expenditures and liabilities of the fund.

GASB Interpretation No. 6: Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements clarifies the guidance for recognizing certain liabilities and

---

[62] GASB Interpretation No. 6: Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, Section 1600.118, Expenditure Recognition

[63] GASB, *What You Should Know about Your School District's Finances*, D-8

expenditures in governmental funds, including general long-term indebtedness such as compensated absences. The matured portion of long-term indebtedness, to the extent it is expected to be liquidated with expendable available financial resources, should be recorded as a fund liability and expenditure. The unmatured portion of the long-term indebtedness represents a general long-term liability to be presented in the government-wide financial statements.

1.2.14.2 Types of Expenditures and Accounting Treatment

The major types of expenditures are:

- **Operating expenditures** for school districts include a wide range of expenditures. Often the largest portion relates to payroll and related employee benefits.

  The modified accrual basis of accounting requires that proper accruals are made for the amount of unpaid salaries and related benefits earned by employees at fiscal year-end (FYE) because these liabilities will be paid early in the next reporting period. The other types of operating expenditures should be accounted for in the same manner. That is, by using the modified accrual basis of accounting and the economic resources measurement focus with the recording of a liability when the goods or services are received and necessary accruals made at FYE. For purchases that relate to inventory or supply items, refer to 1.2.3 Inventory.
- **Capital expenditures** relate to the acquisition of capital assets. Such expenditures may be recorded in the general fund, special revenue fund, or capital projects fund, depending on the source of funding. Purchases of personal property, such as furniture and equipment, are usually recorded as expenditures in the general fund, if they are financed from operating budgets, or in special revenue fund, if they are financed from grants. Major projects, such as the construction of a school building financed by the proceeds of debt, should be accounted for in a capital projects fund. Costs associated with acquiring capital assets in governmental funds are recorded as capital outlay expenditures when the liability is incurred, usually on receipt of the related asset.
- **Debt service expenditures** represent the payment of principal and interest needed to service debt. Such payments are usually recorded as expenditures in the debt service fund when the amount becomes due and payable and not when they accrue. The general fund may also be used if a debt service fund is not required. No accruals for interest need to be made for interest accrued at FYE. When funds have been transferred to the debt service fund in anticipation of making debt service payments shortly after the end of the period, it is acceptable to accrue interest and maturing debt in the debt service fund in the year the transfer is made. If the transfer includes an amount for a principal payment, that amount should be removed for the general long-term debt fund.

- **Intergovernmental charges** relate to the transfer of resources from one school district to another, to or from other local governments, or to or from the state. Examples include contracted instructional services between public schools, other local governments, or state-operated schools and certain transfers of resources associated with state and local funding such as incremental costs associated with wealth redistribution and Chapter 36 purchase of weighted average daily attendance (WADA). Such expenditures are accounted for in the general fund using the modified accrual basis of accounting. In addition, payments between school districts and fiscal agents of shared services arrangements, such as joint instructional or servicing agreements, are also considered intergovernmental charges.

In addition, operating transfers result in the reduction of a fund's expendable resources, but they are not classified as expenditures. A transfer is a legally authorized movement of monies between funds in which one fund is responsible for the receipt of funds and another fund is responsible for the actual disbursement. In a transfer, the disbursing fund records the transaction as "other financing uses" of resources and not as an operating expenditure, whereas the fund receiving the transfer does not record the receipts as revenue but rather as "other financing sources" of funds.

For information on the recognition of expenditures for different transactions such as exchange and nonexchange transactions, see GASB Statement No. 65: Items Previously Reported as Assets and Liabilities.

1.2.14.3 Expenses

Expenses are defined as the outflow or other using up of assets or the incurrence of liabilities during a period from providing or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or primary operations. Expenses are a reduction in net economic resources. **The term expense is only used in proprietary funds.**

Enterprise funds, internal service funds, permanent funds, and pension trust funds should recognize and classify their expenses in a manner similar to that of commercial enterprises. Expenses are accounted for in these funds using the accrual basis of accounting. Governmental funds recognize an expenditure when the related liability is incurred, and it is expected that the liability will be discharged by expending available financial resources of the fund. On the other hand, a proprietary fund recognizes an expense when the related liability is incurred regardless of when the related liability is expected to be paid.

Proprietary funds recognize expenses using the accrual basis of accounting (i.e., when the related liability is incurred) without regard for the timing of the payment.

- **Associating cause and effect**. Some expenses, such as the cost of goods sold, are recognized on recognition of revenues that result directly and jointly from the same transactions or other events as the expenses.

- **Systematic and rational allocation**. Some expenses, such as depreciation and insurance, are allocated by systematic and rational procedures to the periods during which the related assets are expected to provide benefits.
- **Immediate recognition**. Many expenses, such as selling and administrative salaries, are recognized during the period in which cash is spent or liabilities are incurred for goods or services that are used up either simultaneously with acquisition or soon after.

1.2.14.4 Types of Expenses and Accounting Treatment

The major types of governmental expenditures are accounted for differently in proprietary type fund expense. For example:

- **Capital**—Capital asset acquisition in proprietary funds is accounted for using the flow of economic resources method. Amounts disbursed for the acquisition of capital assets are not recorded as an expense. Instead, the appropriate property, plant, or equipment asset account is debited on the purchase. Depreciation expense is recorded to reflect the usage of the assets during the year.
- **Debt service**—Principal payments on debt do not represent expenses for proprietary funds, but are recorded as a reduction of the obligation. Payments of interest represent expenses to be accounted for on the accrual basis of accounting. Interest is recorded as an expense using the accrual basis of accounting, and, as such, accruals need to be recorded at the end of each period in order to reflect the proper amount of interest expense for the period. **Operating transfers do not represent expenses. The accounting for operating transfers in proprietary funds is similar to the accounting in governmental funds.**

For information on the recognition of expenses for different transactions such as exchange and nonexchange transactions, see GASB Statement No. 65: Items Previously Reported as Assets and Liabilities.

1.2.14.5 Cocurricular/Extracurricular Expenditure Reimbursement Issues

Your district must use function code 34, Student Transportation, to account for only the cost of transporting students to and from school for the regular instructional day. However, your district may also use district buses to transport students for other reasons. For example, your district might use the district buses to transport students for class field trips and extracurricular events.

As a practical matter, your district may record all bus-related expenditures using function code 34 during the fiscal year. But before closing the books for the fiscal year, your district must determine the cost of transportation for purposes other than transporting students to and from school and reclassify the applicable transportation expenditures using other function codes. For example, the cost of transporting students for class field trips is recorded using function code 11, Instruction, and the cost of transporting students for extracurricular athletic events is recorded using function code 36, Extracurricular Activities.

Your district may use any reasonable method for allocating transportation costs to other function codes. For example, your district may use mileage records to calculate amounts to transfer to other function codes. During the year, your district must maintain records of mileage for class field trips, extracurricular athletic events, and any other similar activities. Your district's School Transportation Operations Report can provide a cost per mile for operating your district's school buses. By multiplying the mileage for class field trips by the cost per mile, your district can determine the amount that should be reclassified from function code 34 to function code 11. This is the method that most districts use.

When reallocating transportation expenses, your district should use the object code 6494, Reclassified Transportation Expenditures and Expenses. This code was established to isolate the costs of transportation for purposes other than transporting students to and from school, as required by law.[64]

Your district should determine the level of detail at which to reclassify transportation costs based on the informational needs of the district. When reclassifying expenditures from function code 34, Student Transportation, your district may simply prepare a credit entry using object code 6494 (in function code 34) for the total amount of reclassified expenditures and a debit entry for object code 6494 using the appropriate function codes.

Your district must not reclassify capital outlay expenditures from function code 34 to other function codes, nor use capital outlay expenditures in calculating the percentage that is attributable to other function codes. All capital outlays must remain coded with function code 34.

1.2.14.6 Real Property Expenditure Issues

The guaranteed yield component of the FSP may not be used for capital outlay or debt service.[65] Your school district may use state aid received under TEC, §§42.101–42.106[66], for any lawful purpose, including the following:[67]

- using, purchasing, or acquiring real property or land
- improving real property
- constructing or equipping buildings
- renovating real property
- repairing real property
- maintaining real property
- reducing bond tax by depositing funds into the district debt service fund
- making lease-purchase agreement payments
- public property finance contracts authorized under TLGC, §271.004 and §271.005
- time warrants issued under TEC, §45.103

64 TEC, Chapter 34
65 TEC, §42.301
66 TEC, §§42.101–42.106
67 19 TAC §105.12

- maintenance notes issued under TEC, §45.108
- energy savings performance contracts issued under TEC, §44.901

Additional rules related to the lawful use of FSP state aid can be found in 19 TAC Chapter 105.

1.2.15 Other Financing Sources (Uses)

Revenues and expenditures are not the only inflows and outflows of resources for a district. There are other financing sources and uses that **are not** revenues or expenditures to the district as a whole, and they must be disclosed in the financial statements of the district separately from the revenues and expenditures.

Other financing sources and uses is a governmental fund operating statement classification in which financial resources other than revenues and expenditures are reported. Inflows of current financial resources from other funds, such as interfund transfers **received from other funds** are reported as **other financing sources** rather than revenue, and interfund transfers **sent to other funds** are recorded as **other financing uses**.

- **Other financing sources**—represent operating transfers in from other funds and proceeds of long-term borrowing.
- **Other financing uses**—represent operating transfers out to other funds.

Operating revenue and other financing sources increase fund balance, and expenditures and other financing uses decrease fund balance.

Examples of **other financing sources** are, but not limited to:

- Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources (proceeds of long-term capital-related debt).
- Face value of long-term debt, such as bonds and the face amount of bonds sold, is the nominal value or dollar value of a security instrument as stated by the issuer. For example, for stocks, it is the original cost of the stock shown on the certificate, and for bonds, it is the amount paid to the bondholder at maturity. Face value is also referred to as **par value**.
- Proceeds from bond refunding are the result of the process of retiring or redeeming an outstanding bond issue at maturity by using the proceeds from a new debt issue. The new debt issue is almost always issued at a lower rate of interest than the refunded issue, ensuring a significant reduction in interest expense for the issuer.
- Fund/operating transfers in operating transfers from other funds of the district.
- Proceeds from the disposal of real or personal property proceeds from the disposal of school property, such as real property and equipment.
- Sale of capital assets.
- Compensation for the loss of real or personal property, such as an insurance payment.
- Loan proceeds from loans greater than 12 months.

- Capital lease proceeds from capital leases.

Examples of **other financing uses** are, but not limited to:
- Fund/operating transfers out are operating transfers to other funds of the district.
- Payment to bond refunding escrow agent.
- Issuance premium or discount on bonds—refers to when bonds are selling for more or less than their par value.
    - The term **bonds issued at a premium** refers to newly issued debt that is sold at a price in excess of its par value. When a bond is issued at a premium, the school district will amortize the premium paid over the term of the bond using a straight line method.
    - A **bond discount** is the amount by which the market price of a bond is lower that its principal amount due at maturity. Bond discounts can occur when the bond supply exceeds demand, the bond's credit rating is lowered, or the perceived risk of default increases.

Other financing sources and uses are disclosed after the excess (deficiency) of revenues over (under) expenditures section on the statement of revenues, expenditures, and changes in fund balances for governmental funds and the budgetary comparison schedule for the general fund financial statements.

For more information on other financing sources (uses), see:
- GASB Statement No. 42: Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries
- 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
- GASB Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments

1.2.16 Special and Extraordinary Items

Special and **extraordinary items** are transactions or events, decreases or increases in fund balance, that are both unusual in nature and infrequent in occurrence (GASB Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis – for State and Local Governments). **Special and Extraordinary items** are events and transactions that are distinguished either by their unusual nature or by the infrequency of their occurrence, or both (GASB Statement No. 62: Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements).

Your district should report special and extraordinary items separately after your district reports other financing sources and uses at the bottom of the statement of activities. If both occur during the same period, special and extraordinary items should be reported separately within a “special and extraordinary items” classification.

Significant transactions or other events that are either unusual or infrequent but are not within the control of management should be separately identified within the appropriate revenue or expenditure category in the statement of revenues, expenditures, and changes in fund balances or be disclosed in the notes to financial statements.

Because other financing sources and uses, rather than gains or losses, are reported for debt refunding in governmental funds, these transactions should not be reported as extraordinary items.

1.2.17 Subsequent Events

To ensure that financial statements are not misleading school districts must consider the need to disclose subsequent events. A **subsequent event** is one that occurs after the date of the statement of net position but before the financial statements are issued. An event is considered to be subsequent if the event materially affects the financial condition of your district.

GASB Statement No. 56: Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing refers to subsequent events as recognized events. Some recognized events may require an adjustment to the financial statements and others may only require a disclosure in the notes to the financial statements. See GASB Statement No. 56 for additional guidance.

1.2.17.1 Recognized Event

A **recognized event** is one that:

- provides additional information about a situation that **existed** at the date of the statement of net position and
- requires adjustments to the financial statements.

Any information that becomes available before the issuance of the financial statements must be:

- evaluated, and
- adjustments must be made to the financial statements before issuance.

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

- the nature of the event (for example, the actual loss, loss contingency, deteriorating financial condition) and
- an estimate, or range of estimates, of the actual loss or contingent loss, if no estimate can be made, disclose appropriately.

Examples of **recognized events** that require an adjustment to the financial statements **before** issuance include, but are not limited to:

- bond refinance;
- functional expenditure adjustments, such as function code 73, bond issuance costs and fees;
- salary corrections;
- events affecting the realization of assets, such as receivables and inventories or the settlement of estimated liabilities; and
- loss of a school district facility or property as a result of a tornado, fire, flood, or other natural disaster or manmade disaster if the loss occurred before the issuance of the financial statements.

Your district will need to exercise professional judgment to identify recognized events that require an adjustment to the financial statements.

1.2.17.2 Nonrecognized Event

A **nonrecognized** event is one that:

- relates to a situation that **did not exist** at the date of the statement of net position, but arose later;
- does not require adjustment of the financial statements; and
- should be disclosed in the notes to the financial statements to help the user understand the statements in the AFR.

Examples of **nonrecognized** events include, but are not limited to:

- issuance of bonds, or other debt instruments;
- creation of a new component unit; and
- loss of a school district facility or property as a result of a tornado, fire, flood, or other natural disaster or manmade disaster, if the loss occurred after the issuance of the financial statements)

For more guidance on subsequent events, see

- GASB Statement No. 63: Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position
- GASB Statement No. 56: Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards
- GASB Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments

1.3 Special Accounting Treatments

This section discusses requirements related to three special accounting treatments:

- shared-services arrangements
- food service operations
- teacher retirement on-behalf payments

1.3.1 Shared Services Arrangements

A shared services arrangement (SSA) is an agreement between two or more school districts and/or regional education service centers (ESCs), or a combination of both, to provide specific services for the entities participating in the agreement. Arrangements with entities other than school districts—such as community-based organizations and councils of government, or state or association purchasing cooperatives—to provide services are not considered SSAs. An SSA is **not a separate legal entity**; however, an SSA may be governed by a legal document. The legal document may describe the services to be furnished under the SSA and which entity will provide specific administrative functions. The services provided can be funded by local, state, or federal funds.

In Texas, the most common types of SSAs relate to special education services, adult education services, and activities funded by the Elementary and Secondary Education Act (ESEA). However, the services provided under SSAs are not limited to educational services. An SSA may provide data processing, purchasing, accounting, or any other service.

1.3.1.1 Fiscal Agent

Each SSA must have a fiscal agent which performs various administrative duties. In most cases, the fiscal agent is a member school district. The fiscal agent may receive services under the arrangement or may

administer the arrangement and receive no services.

The fiscal agent usually performs the budgeting, accounting, and personnel responsibilities related to the arrangement. For SSAs whose members receive federal and state funds that flow through a grant, the fiscal agent generally is responsible for ensuring that funds are used according to grant provisions. If the moneys are not used according to grant provisions, the fiscal agent may be financially responsible for the consequences of noncompliance. The fiscal agent also may be financially responsible if a member school district cannot repay its respective portion of questioned costs.

See Responsibilities of the Fiscal Agent.

1.3.1.2 The Written Agreement

When entities enter into an SSA, they should develop a **written agreement** to address the responsibilities of each member and the fiscal agent as well as legal requirements. The agreement should include the following topics.

Organization of the SSA

On establishing an SSA, members should develop policies and procedures related to the following topics and document the policies and procedures in the agreement:

- forming a supervisory entity, such as a board of managers
- determining composition and responsibilities of the board of managers
- appointing the fiscal agent for the arrangement
- electing a chair of the board of managers
- deciding the frequency of meetings
- appointing either a board member (secretary) or another person to record the minutes of each meeting and retain relevant records in a safe place

Ownership of Assets

The written agreement should include a prearranged determination of the ownership of assets, and policies and procedures addressing the disposition of the assets if the SSA is terminated by one or all members. For example, liquid assets (cash and investments) might be redistributed to withdrawing members on the same basis as members initially funded the arrangement. The distribution of capital assets among member school districts should also be predetermined by consent of the board of managers or other governing entity and addressed in the agreement.

Liabilities

The agreement should address responsibility for legal fees incurred as a result of complaints, grievances, or litigation. An SSA is not a legal entity. Therefore, any litigation would be against either the fiscal agent or a member district. The written agreement should include an understanding of how costs related to any liabilities of the fiscal agent would be shared. Grievances, lawsuits, or any other legal action that is taken against the fiscal agent of an SSA by an employee, student, or parent may be for cause against the school district. If so, the costs incurred might be the responsibility of the member district. If the legal action is for cause against the fiscal agent of the SSA, costs incurred might be paid by each member district on a pro rata basis determined by the board of managers.

Basis for Allocating Costs of the Fiscal Agent

The costs of the fiscal agent should be prorated among member school districts on a basis determined by the board of managers or other governing entity under the assumption that all costs are incurred on the behalf of a school district. The basis to be used should be specified in the written agreement. Examples of bases that may be used include, but are not limited to, the following:

- percentage of total SSA expenditures attributable to each school district
- percentage of full-time equivalent staff members attributable to each school district
- percentage of personnel unit (PU) values attributable to each school district (where teachers = 1.00 PU, aides = 0.50 or .075 PU, and support staff = 1.20 PU)
- number of students participating in the SSA attributable to each school district
- amount of an entitlement retained by the fiscal agent to expend on behalf of each member district

Uncontrollable Costs That Affect the Fiscal Agent

The board of managers or other governing entity should include in the written agreement a method to reimburse the fiscal agent if the entity acting as fiscal agent incurs uncontrollable costs because of actions taken against the SSA. For example, if employees of the SSA cause an increase in worker's compensation or unemployment compensation premiums, the board of managers or other governing entity might consider assessing each member school district a prorated portion of the excess costs.

Responsibilities of the Fiscal Agent

Following is a summary of responsibilities that are generally performed by the fiscal agent of an SSA. The written agreement for an SSA may specify these or other responsibilities as appropriate.

- **Employment of Personnel**
    - The fiscal agent usually employs all personnel who are shared among two or more school districts. These employees normally include the director of the SSA and itinerant personnel who serve two or more school districts.
    - In some SSAs, the fiscal agent may also employ teachers. Generally, the SSA's board of managers approves personnel contracts for shared personnel, and the fiscal agent's board of trustees formally approves their employment. These personnel are the employees of the member district or ESC that is acting as fiscal agent.
- **Budgeting and Accounting**
    - In some instances, the fiscal agent may be responsible for preparing the budget for both the fiscal agent and member school districts. For example, when grant funding requested from a granting agency is approved, the fiscal agent should help member school districts develop their portions of the budget.
    - The fiscal agent is responsible for all the accounting records of the SSA. Funds expended on behalf of member school districts are recorded in the appropriate shared services arrangement fund within the special revenue fund.
    - The amount that is distributed to member school districts is debited from function code 93 and expenditure object code 6493. As member districts receive funds from the fiscal agent, each district records the funds using the appropriate revenue code (5723, 5842, or 5952) and records expenditures to the appropriate account.

- **Reporting**
  - The fiscal agent reports primarily to the board of managers or other governing entity. The board should be informed of the SSA's financial condition at least monthly.
  - The fiscal agent allocates funds in the SSA fund among member districts. The prorated basis is determined by the board of managers or other governing entity. The fiscal agent reports these expenditures through PEIMS by member district, fund, and SSA type.

    Note: Adult Basic Education and Regional Day School Program for the Deaf (RDSPD) SSAs are exempt from the requirement to submit the PEIMS record that reports expenditures by member districts.

  - The fiscal agent is also responsible for required state and federal reporting related to a grant and for ensuring that accounts are not overspent by more than the variance allowed, if any. If any of the funds have been distributed to member school districts, the fiscal agent must collect the expenditures from each member district and compile the expenditures for the entire arrangement for review by the member districts before submitting a report.

Responsibilities of Member School Districts

Member school district responsibilities in an SSA also usually concern employment of personnel, budgeting, accounting, and reporting. The written agreement for an SSA may specify these or other responsibilities as appropriate:

- Employment of Personnel

  Each member district usually employs personnel who serve solely that school district. Normally, each member district employs instructional personnel and shares certain noninstructional staff members, but the member district may also employ its own noninstructional staff. For instance, a school district might share a psychologist but employ its own special education diagnostician and counselor. The staff of the member district is employed by its board of trustees.
- Budgeting and Accounting
  - For any portion of funds that a member district receives through the fiscal agent, each member district must budget its portion of the funds and keep accounting records.
  - The district should record expenditures, with offsetting revenue, in the appropriate fund (normally a special revenue fund). When the district sends funds to the fiscal agent, the member district records expenditures in the appropriate fund (normally local maintenance in a special education SSA), in function 93 and in expenditure object code 6492.

- Periodically, the member district should request that the fiscal agent reconcile expenditures with transfers.

- Reporting
  - A member district's primary reporting responsibility is to the board of trustees. The district should inform the board of the district's financial condition at least monthly.
  - Each member district reports through the PEIMS only funds expended by that district.
  - Each member district reports detailed expenditures to the fiscal agent for required state or federal reporting. If the member district has over expended in an account by an unallowable amount, the member district should reduce the expenditures in that fund and record an offsetting expenditure in the local maintenance fund. The fiscal agent accumulates the expenditures from all member school districts and compiles a summary of the expenditures for the entire arrangement before submitting a report.
  - A district that enters into a purchasing contract valued at $25,000 or more under certain cooperative purchasing contracts must document any contract-related fees, including management fees, and the purpose of each fee. The amount, purpose, and disposition of any fee must be presented in a written report annually as an agenda item in an open meeting of the board of trustees. This written report may be audited by the commissioner. This requirement applies only to a contract entered into on or after the effective date of June 16, 2007.[68]

1.3.1.3 Requirements Related to Special Education SSAs

The law authorizes school districts to enter into a written contract to jointly operate their special education programs.[69] This statute also requires that the contract be approved by the commissioner of education. The commissioner has adopted rules and procedures for operating special education SSAs.[70] The procedures are available on the Shared Services Arrangement Procedures page on the TEA website. See these procedures for requirements and deadlines related to establishing and modifying special education SSAs.

1.3.1.4 Other Types of Sharing Arrangements

Other methods for sharing services are joint authority agreements and purchase of service contracts. A **joint authority agreement** is formed when two or more school districts and or ESCs agree to form a separate legal entity to provide services for the participating districts. The legal entity may be

- a joint venture,

---

68 TEC, §44.0331
69 TEC, §29.007
70 19 TAC §89.1075(f)

- not-for-profit corporation, or
- any other appropriate legal form.

Services provided under a joint authority agreement may be funded by local, state, or federal funds. The accounting treatment for a joint authority agreement is identical to that of a shared services arrangement.

In contrast, there are other instances when school districts may contract with each other and or an education service center. This arrangement is called a **purchase of service contract**. A purchase service contract exists when school districts or ESCs agree to compensate another entity for performing services. The school district that is compensating the other school district or ESC maintains very limited control over the personnel rendering the services or the manner in which the services are accomplished. Purchase of service contracts **are not** considered to be shared services arrangements. Exhibit 1.3.1.4.A contrasts shared services arrangements and contracted services.

Exhibit 1.3.1.4.A Comparison of Shared Services Arrangements to Contracted Services

Function	Shared Services Arrangements	Purchase of Service Contract
Management	A board of managers (formal or informal) comprised of representatives appointed by members of alliance has responsibility for financial and operational management	Sole managerial responsibility by entity providing services
Decision-making	Joint administrative decision-making	Sole responsibility for administration by entity providing services
Ownership of assets	Fiscal agent holds assets for members of alliance	Entity providing services has sole ownership of assets used to provide services
Ownership of assets	Member districts may have ownership of assets purchased from fees or funding	No assets are relinquished at end of contract by entity providing services
Cost allocation	Cost sharing arrangement involving members of alliance	A fixed fee is usually charged by the entity providing services and any financial loss by the contractor is covered by other resources

This list is not all–inclusive; but is merely to be used as a guide.

End of Exhibit 1.3.1.4.A

When purchase of service contracts occur, the school district that is receiving the service records the expenditure in the appropriate expenditure object code in the major expenditure object class 6200, Purchased and Contracted Services. And, the school district or ESC that is rendering the service records in Revenue Object Code 5729, Local Revenues Resulting from Services Rendered to Other School Districts.

1.3.1.5 Determination of Accounting and Reporting Treatment for SSAs

Accounting and reporting treatment for shared services arrangements and joint authority agreements varies between agreements. Determining factors for the accounting and reporting treatment are

- source of the arrangement financing,
- fiscal agent's involvement, and
- the member district's involvement.

It is possible for a shared services arrangement to have elements of more than one model for the various types of funding. It is critical that the fiscal agent and member districts agree on all elements of the shared services arrangement and or joint authority agreements before entering into either type of agreement.

For more guidance on shared services arrangements and other sharing agreements see,

- GASB Statement No. 69: Government Combinations and Disposals of Government Operations
- GASB Statement No. 60: Accounting and Financial Reporting for Service Concession Agreements
- GASB Statement No. 34: Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments

1.3.2 Food Service Operations

This section discusses four categories of information about accounting and reporting for food service operations:

- appropriate use of funds
- accounting issues
- revenue recognition (commodities)
- fund balance

Commodities include the dollar value of raw foods such as meats, fruits (canned and frozen), vegetables (canned and frozen), dairy products, oils, grains, spices, condiments, prepared foods, and other edible goods **donated** or **purchased** by the school district during the accounting period for the food nutritional program operated by the school district.

Donated foods provided by the USDA for distribution to school districts through the Texas Department of Agriculture (TDA) are considered commodities.

1.3.2.1 Food Service Operation Funds

Your school district must account for food service operations in one of three different funds:

- general fund
- special revenue fund
- enterprise fund

The fund in which your district records the food service operations depends primarily on:
- the source of the operations' funding,
- whether general fund revenues subsidize the operations, and
- whether the district intends the operations to be self-sustaining.

Your district must record food service operations in the **general fund** if:
- students are not charged for meals and
- all expenditures are paid from:
  - both general fund revenues and a reimbursement from the National School Lunch Program (NSLP) or
  - general fund revenues only.

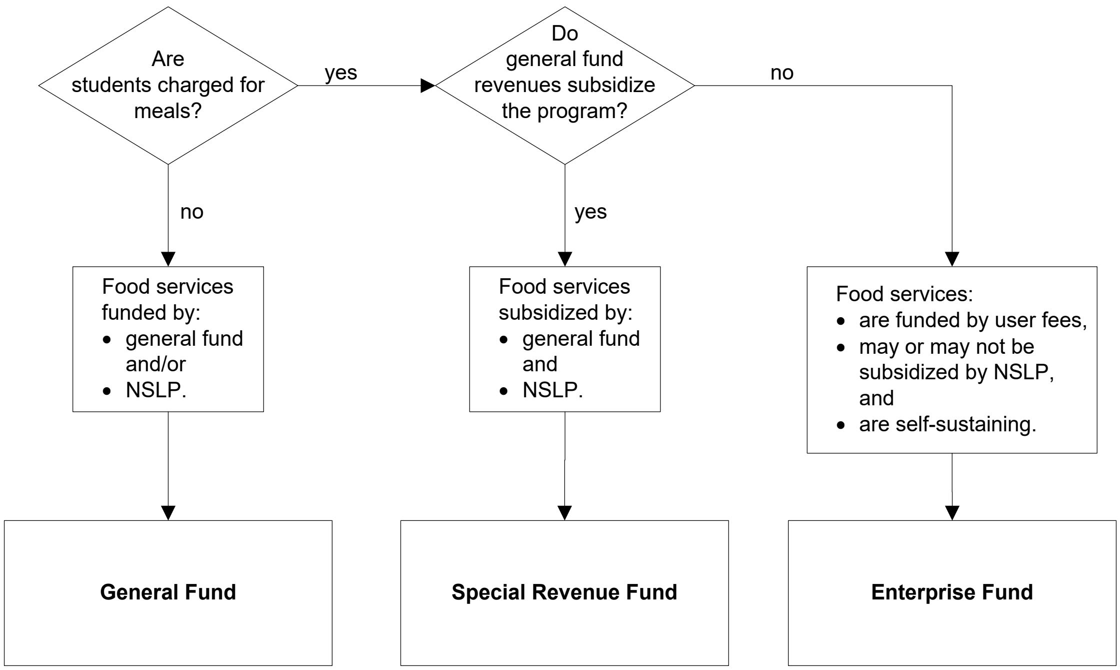
Your district must record food service operations in the **special revenue fund** if:
- the students are charged for meals,
- the district receives an NSLP reimbursement, and
- the district's general fund revenues subsidize the food service operations.

Your district must record food service operations in the **enterprise fund** if:
- the students are charged for meals and
- the district intends the food service program to be self-sustaining (general fund revenues do not subsidize the program).

In all instances, your district should account for the **Summer Feeding Program** in a special revenue fund using fund code 242, Summer Feeding Program, TDA.

Exhibit 1.3.2.1.A is a chart for deciding on a fund for food service operations that should help clarify the appropriate accounting for food service operations.

Exhibit 1.3.2.1.A Deciding on a Fund for Food Service Operations



End of Exhibit 1.3.2.1.A

1.3.2.2 Accounting Issues

After your school district's management determines which fund best reflects the activity of the **food service operations**, several more accounting issues must be addressed. Exhibit 1.3.2.2.A illustrates how using each of the three funds presents unique accounting and reporting issues.

Exhibit 1.3.2.2.A Accounting Issues

Issue	General Fund	Special Revenue Fund	Enterprise Fund
What fund codes are used?	199	240	701
What basis of accounting is used?	modified accrual	modified accrual	accrual
What measurement focus is used?	flow of current financial resources	flow of current financial resources	flow of economic resources
Must the fund be included in the district's budget?	yes	yes	yes
How are capital assets recorded?	in general capital asset accounts	in general capital asset accounts	within the enterprise fund
Are capital assets depreciated?	no	no	yes
How is long-term debt recorded?	in general long-term debt fund	in general long-term debt fund	within the enterprise fund
Are profits and losses measured?	no	no	yes
When are interest expenses recorded?	unmatured interest on general long-term debt Is recorded when due	unmatured interest on general long-term debt is recorded when due	recorded in the accounting period in which it is incurred

End of Exhibit 1.3.2.2.A

The modified accrual accounting method (general fund and special revenue fund) requires:

- revenues to be recognized in the accounting period when they are measurable and available and
- expenditures to be recognized when an event or transaction is expected to draw upon current expendable resources.

The accrual accounting method (enterprise fund) requires:

- income to be recognized when earned and
- expenses to be recognized when incurred.

In the flow of current financial resources measurement focus (used in the General and Special Revenue funds), emphasis is on available expendable resources rather than profits.

In the flow of economic resources model, the measurement focus is a capital maintenance determination of net profit from operations. All cost allocations, including depreciation, are accounted for in this model.

Budget Requirements

If your school district's food service operations revenues and expenditures will be coded under the general fund, special revenues fund, and enterprise fund, then all three funds must be included in the annual budget approved by your school district's board of trustees. The approved budget for all three funds must also be reported to the TEA through the PEIMS process.

Please note, in addition to the requirements for your district's food service operations, your district must include at least the following funds in its adopted budget:

- **general fund**—must be included each year
- **food service fund**—must be budgeted for and submitted to PEIMS regardless of which type of fund is used to account for school nutrition programs
- **debt service fund**—must be budgeted expenditures recorded with function code 71, Debt Service

Fund code 101 is used to code food service operations in the general fund. In the enterprise fund, fund code 701 is used for food operations other than the U.S. Department of Human Services (DHS) Summer Feeding Program. The Summer Feeding Program should be accounted for in the special revenue fund, fund code 242.

Capital Assets and Depreciation

Capital assets purchased with governmental funds (that is, the general fund and the special revenue **fund)** are:

- recognized as expenditures in the appropriate fund,
- recorded as assets in the general capital asset accounts, and
- not depreciated.

Long-Term Debt

Long-term debt is recorded in the general fund and the special revenue fund, and related outstanding principal is recorded in the general long-term debt fund (see 1.2.6 Debt).

Long-term debt and related outstanding principal are both recorded in the enterprise fund (see 1.2.6 Debt).

Profit and Loss Measurement

If your district does not plan to subsidize the food service operations from general fund revenues, it must record food service operations in the enterprise fund. However, your district may occasionally

have a loss in the enterprise fund that requires operating transfers from the general fund. This operating transfer does not alter your district's intent to keep the food service operations self-sustaining.

1.3.2.3 Revenue Recognition

This section discusses issues related to revenue recognition. Exhibit 1.3.2.3.A illustrates how using each of the three funds presents issues related to revenue recognition.

Exhibit 1.3.2.3.A Revenue Recognition

Requirement	General Fund	Special Revenue Fund	Enterprise Fund
Recognition of Federal Financial Assistance	recorded as operating revenue	recorded as operating revenue	recorded as non-operating revenue
Recognition of Commodities Received from USDA	recorded as operating revenue	recorded as operating revenue	recorded as non-operating revenue
Recognition of User Fees	n/a	recorded in the accounting period earned	recorded in the accounting period earned
Recognition of Interest Revenue	recorded as operating revenue	recorded as operating revenue	recorded as non-operating revenue

End of Exhibit 1.3.2.3.A

Federal Financial Assistance

Federal financial assistance received by your district in support of the food service operations is recorded differently for each type of fund.

Examples of federal financial assistance are:

- National School Lunch Program (Catalog of Federal Domestic Assistance [CFDA] 10.555)
- Summer Food Service Program (CFDA 10.559)
- School Breakfast Program (CFDA 10.553)

For the general fund and the special revenue fund, federal financial assistance should be recorded as operating revenue; however, for the enterprise fund, this assistance is recorded as non-operating revenue.

Commodities

If your school district receives commodities from the USDA Commodity Supplemental Food Program (CFDA 10.565), it must record them as follows:

- in the general fund and in the special revenue fund, as operating revenue
- in the enterprise fund, as non-operating revenue

If your district uses the **consumption method** of recording expenditures, the district:

- debits an inventory account with the initial entry to record the commodities and
- credits the inventory account and debits the appropriate expenditure accounts when the commodities are used.

If your district uses the **purchase method** of recording expenditures, it records commodities expenditures when the commodities are received.

Your district may use either the consumption method or the purchase method to record commodities in the governmental funds; however, your district **must** use the consumption method of accounting for inventories in the **government-wide statement of net position**. If your district uses the purchase method of accounting in its governmental funds and the consumption method produces different results, the difference should be included in the reconciliations of governmental funds to governmental activities (Guide to Implementation of GASB Statement 34 and Related Pronouncements).

- Under the **consumption method** (inventories are recorded as expenditures), the expenditures are recorded as commodities are used. The initial journal entry to record the commodities debits an inventory account. When the commodities are used, the inventory account is credited and the appropriate expenditure accounts are debited.
- Under the **purchase method (**inventories are considered assets), the commodities expenditures are recorded when the commodities are received.

Under either the consumption or the purchase method of accounting for commodity inventories, an adjustment must be made at FYE to reflect the unused portion of commodities that remain on hand with the district. Under the consumption and the purchase methods, unused commodities at FYE should be reported as unearned revenues. Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

- Under the **consumption method**, the journal entry to record the ending commodity inventory would be to debit commodity revenues and to credit unearned revenues.
- Under the **purchase method**, the above entry would be necessary, as well as a journal entry to debit inventory and credit commodity expenditures. See 1.2.3 Inventory for additional information.

Your school district must also recognize the unused food commodities inventories. **Governmental fund inventories** are offset by a fund balance reserve indicating that they are unavailable as current expendable financial resources. Unused commodity inventories that are **unavailable as an expendable form** must be classified in the **nonspendable fund balance** category for governmental funds. The nonspendable fund balance classification is for amounts that are not in spendable form, such as inventories.

Therefore, if your school district's management determines the general fund and or the special revenue fund best reflect the activity of the **food service operations** of your school district, any unused commodity inventories that are unavailable as an expendable form at FYE must be classified in the nonspendable fund balance category of the general fund and or the special revenue fund.

Your school district should provide a note disclosure in the financial statements regarding the method of accounting for commodity inventories in the governmental funds.

User Fees

Revenue from user fees must be recognized in the accounting period earned. Consequently, if your school district begins a new school year before September 1, it must record the revenues from August student meal fees in the current fiscal year. For example, a school district that begins a new school year on August 15 records user fees earned from August 15 through August 31 as revenue in the current fiscal year. Revenue from user fees earned after August 31 is recorded in the next fiscal year.

Interest Revenue

Your school district must record interest revenue as:

- operating revenue in the:
  - general fund and
  - special revenue fund and
  - nonoperating revenue in the enterprise fund.

1.3.2.4 Fund Balance

Your school district may not have a fund balance exceeding three months' average expenditures for food service operations in any fund type used to record your district's financial information. In addition, these balances must be used exclusively for allowable child nutrition program purposes.

To determine your school district's fund balance or the net cash resources of the school nutritional program (SNP), the following formula should be used (National School Lunch Policy: Administrator's Reference Manual):

Part A: Prior Year's Expenses ÷ Number of Months in Operation Prior Year = Average Monthly Operating Expenses

Part B: Average Monthly Operating Expenses x 3 (months)

Part C: Compare the districts Total Net Cash Resources on Hand to Part B (three months' average expenses)

If your district's total net cash resources on hand is larger than the amount derived in Part B, three months' average expenses, your district has an excessive operating balance and needs to submit a plan to the TDA to eliminate the excessive balance. If your district has an excessive balance in its SNP account, the district **must** take immediate action to reduce the excessive balance.

Your district must use a school fund account (SFA) to account for all revenues and expenditures of its nonprofit school food service in accordance with State requirements (2 CFR §200 Appendix XI—Compliance Supplement (Appendix XI to Part 200—Compliance Supplement)). An SFA must operate its food services on a nonprofit basis; all revenue generated by the school food service must be used to operate and improve its food services.[71]

The TDA provides financial information in its Administrator's Reference Manual (ARM).

1.3.3 On-Behalf Teacher Retirement System Payments

GASB No. Statement 24 affects school district accounting for pensions and other post-employment benefits. Direct payments made by a paying entity on behalf of another, legally separate entity (employer entity) to a third-party recipient which relate to fringe benefits or salaries ("on-behalf payments") must be recognized as revenues and expenditures/expenses by the recipient employer entity. As a result, payments (contributions) made by the state (the "paying entity") to the TRS (the third-party recipient) on behalf of a school district (an "employer entity") must be recorded as equal revenues and expenditures/expenses of the school district. This section provides a discussion of on-behalf payments and methods for calculating and accounting for them. The TRS receives payments **from the federal government** pursuant to the:

- Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), known as **Medicare Part D**; and
- the **Retiree Drug Subsidy** (RDS) program provisions of 2006.

Under **Medicare Part D** and the **RDS program**, the TRS receives payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These payments are considered on-behalf payments. On-behalf payments must be recognized as equal revenues and expenditures/expenses by each district. The school district should use the same account numbers as the on-behalf payments for pensions. These amounts are provided by TRS annually on their website.

Per GASB Statement No. 24, districts should disclose in the notes to the financial statements the amounts recognized for on-behalf payments for fringe benefits and salaries. For on-behalf payments that are contributions to the pension plan, see GASB Statement No. 68 and GASB Statement No. 75.

1.3.3.1 Overview of Teacher Retirement Contributions and Payments

Employees of a school district that are eligible for teacher retirement have a percentage of their salaries withheld to be paid to the TRS. In addition, the state pays matching funds to the TRS on behalf of the employees. The "matching amount" is not always equal to the deducted amount. For example, 7.7

[71] 7 CFR, §§210.14(a), 210.14(c), 210.19(a)(2), 215.7(d)(1), 220.2(o-2), and 220.7(e)(1)(i)

percent may be deducted from employee gross pay (7.7 percent for teacher retirement and .65 percent for TRS-Care, the TRS health plan for retired employees) and the state may match with 6.58 percent for retirement and 1.00 percent for TRS-Care for a total matching amount of 7.58 percent.

School districts (rather than the state) must pay the matching amounts for school district employees that are paid from federal funds. Additionally, under certain circumstances, the school district must pay a portion of the matching amounts for professional employees paid from non-federal sources. The matching amounts that are not paid by school districts are paid by the state of Texas. These matching amounts paid by the state on behalf of a school district's employees must be recorded by the school district as on-behalf payment revenues and expenditures.

For more information on the current deduction instructions and rates, refer to the TRS payroll reporting manual.

1.3.3.2 On-Behalf Payment Calculation and Accounting Methodology

One method for calculating the amount of on-behalf revenue and expenditure/expense is as follows:

1. Sum the employee salaries, both from federal and non-federal sources, subject to TRS deductions for the fiscal year.
2. Multiply this sum by the state TRS matching rate (add the retirement rate and the TRS-Care rates). This product is the total TRS matching expenditure paid, regardless of who paid the matching amount.
3. Sum the TRS matching amounts paid by the school district for the fiscal year, including the statutory minimum matching, federal grant matching, private grant, 90-day new employee, and TRS-Care matching.
4. Subtract the sum of the TRS matching amounts paid by the school district (step 3) from the total TRS matching expenditure paid. The remainder is the amount of matching expenditure that must be recorded by the school district as an on-behalf expenditure.
5. Record the expenditure in the accounting records.

An example of how to implement this method of calculating the on-behalf expenditure is found in Exhibit 1.3.3.2.A.

1.3.3.2.A Possible Methodology for Calculation and Recording On-Behalf Payment Expenditures

Step	Description	Example
Step 1	Sum the salaries subject to TRS deductions for the year.	Assume a school district has salaries subject to TRS deductions totaling **$3,000,000** for the fiscal year.
Step 2	Multiply this sum by the state TRS matching rate. (Add the matching retirement rate and the matching TRS-Care rate.)	Assume that the TRS matching rate is **7.58 percent.** (6.58 percent for the matching retirement rate and 1 percent for the matching TRS-Care rate) ******The TRS rate is for example purposes only.***
Step 3	Multiply Part 1 **X** Part 2	$3,000,000 x 7.58% = **$227,400**
Step 4	Sum the TRS matching amounts paid by the school district for the fiscal year.	Statutory Minimum - $60,950 **+** Federal Grant - $36,550 **+** TRS-Care - $2,500 **= $100,000** ******Matching amounts are for example purpose only.***
Step 5	Subtract the sum of the TRS matching expenditures paid by the school district (step 3) from the total TRS matching expenditure (step 4).	**$227,400 - $100,000 = $127,400**. Record the on-behalf expenditure in the accounting records.

End of Exhibit 1.3.3.2.A

It is acceptable under GASB Statement No. 24 for all of the on-behalf payments to be charged to the general fund. If your district charges on-behalf payments to the general fund, the TRS deduction must be converted function by function to a percentage of the total.

1.3.4 Pension Expense, Net Pension Liability, Other Postemployment Benefits, and Related Items

This section addresses how your district must implement GASB Statement No. 68: Accounting and Financial Reporting for Pensions and GASB Statement No. 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions using *FASRG* and the accounting codes the TEA provided for this purpose. See Section 1.3.4.1 Financial Statement Presentation and Data Control Codes (DCC) for the TEA for the object and data control codes that have been provided by TEA for the coding of amounts related to pensions.

In addition to the accounting codes provided by the TEA, each school district must use data provided by the TRS. The TRS will provide the schedules disclosed in the table below to each district by posting the schedules on the TRS website[72]. Each district must use the applicable TRS schedules in conjunction with guidance from the TEA to accurately complete the required pension related journal entries. For the specific schedules provided by the TRS, see Exhibits 1.3.4.A and 1.3.4.B.

The TRS schedules contain:

- pension expense,
- net pension liability (proportionate share),
- deferred outflow of resources (TRS pension liability),
- Deferred inflow of resources (TRS pension liability),
- pension contributions made by the district, and
- other postemployment benefits (proportionate share) other than pensions

The data on the TRS schedules will allow each district to recognize net pension liability and net other postemployment benefits (other than pensions) liability as required by GASB Statement No. 68[73] and GASB Statement No. 75[74], respectively.

Exhibits 1.3.4.A and 1.3.4.B show the TRS GASB 68 and GASB 75 schedules, respectively, that are created each year.

[72] Teacher Retirement System (TRS) of Texas website
[73] GASB Statement No. 68: Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27
[74] GASB Statement No. 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

1.3.4.A TRS GASB 68 Schedules

Name of Schedule	Purpose
Schedule of Employer's Proportionate Shares (Allocations)	To show the basis of allocation. This schedule contains the employer contributions and their proportionate shares only. This schedule provides the contribution amounts on which the proportions are based.
Schedule of Pension Amounts by Employer	To provide amounts for journal entries, which is the basis of the journal entries required by GASB. It contains the beginning Net Pension Liability, employer contributions, deferred outflows and deferred inflows of resources and the ending net pension liability.
Schedule of Pension Expense Detail by Employer	To provide the additional detail on the components of the Plan Pension Expense on the Schedule of Pension Amounts by Employer
Schedule of Deferrals to be Expensed by Employer	To provide the future annual amortization of the balance of deferred Outflows (Inflows)
Schedule of On-Behalf Payments by the Non-Employer Contributing Entity	To provide amounts for journal entries recognizing the State's contributions on behalf of employers

End Exhibit 1.3.4.A

TRS maintains the amortization by year for the plan amounts of each deferred outflow and inflow and combines all year's layers together to arrive at a "collective" or "accumulated" total for each deferral. The total accumulated (collective) amount is allocated proportionately to each participating employer. The information is calculated at the plan level so there is no need for the participating employers to maintain an amortization schedule.

1.3.4.B TRS GASB 75 Schedules

Name of Schedule	Purpose
Schedule of Employer's Proportionate Shares (Allocations)	To show the basis of allocation. This schedule contains the employer contributions and their proportionate shares only. This schedule provides the contribution amounts on which the proportions are based.
Schedule of OPEB Amounts by Employer	To provide amounts for journal entries, which is the basis of the journal entries required by GASB. It contains the Beginning Net OPEB Liability, employer contributions, deferred outflows and inflows of resources and the Ending Net OPEB Liability. It also contains the accumulated (cumulative for all years) deferred outflows and deferred inflows.
Schedule of OPEB Expense Detail by Employer	To provide the additional detail on the components of the Plan OPEB Expense on the Schedule of OPEB Amounts by Employer.
Schedule of Deferrals	To provide the future annual amortization of the balance of Deferred Outflows (Inflows)
Schedule of On-Behalf Payments by the Non-Employer Contributing Entity	To provide amounts for journal entries recognizing the State's contributions on behalf of employers

End Exhibit 1.3.4.B

To access the GASB 68 and GASB 75 schedules produced by the TRS, please use the TRS website.
In addition, the TRS provides documentation, updated annually, on its website that includes instructions for using the GASB Schedules. This document will aide your school district in completing the required journal entries required by GASB Statements 68 and 75.

1.3.4.1 Financial Statement Presentation and Data Control Codes (DCC) for the TEA

The TEA has established codes to implement the requirements of GASB Statement No. 68. Your district must use the following object codes and related data control codes[75] in your AFR when reporting amounts related to pensions:

[75] For more information on data control codes, see TEA Data Control Codes.

- **Object code 1920**: Net Pension Assets (NPAs)
- **Object code 2540**: Net Pension Liabilities (NPLs)
- **Object code 5747**: Pension Revenue
- **Object code 6147**: Pension Expense. Pension expense is allocated to:
  - all fund codes proportionally,
  - organization code 998 (to prevent pension expense from being allocated to all organization codes), and
  - program intent code 99
- **Object code 2605**: Deferred Inflows of Resources—Pension
- **Object code 1705**: Deferred Outflows of Resources—Pension
- **Object code 2545**: Other Postemployment Benefits (OPEB) other than pension plans

For an example of deferred inflows and deferred outflows of resources in pensions, see 1.3.4.4 Example of Pension Expense, Contributions, and Journal Entries.

1.3.4.2 Definitions of Terms Related to Pension Accounting for GASB 68 and 75

The following terms have the following meanings as they relate to GASB Statements 67, 68, 74, and 75:

Active employees—individuals employed at the end of the reporting or measurement period, as applicable.

Actuarially determined contribution— a target or recommended contribution to a defined benefit OPEB plan for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.

Actuarial valuation—the determination, as of a point in time (the actuarial valuation date), of the service cost, total pension liability, total OPEB liability, and related actuarial present value of projected benefit payments for pensions and OPEB performed in conformity with Actuarial Standards of Practice unless otherwise specified by the GASB.

Actuarial valuation date—the date as of which an actuarial valuation is performed.

Contributions—additions to a pension plan's fiduciary net position for amounts from employers, nonemployer contributing entities (for example, state government contributions to a local government pension plan), or employees. Contributions can result from cash receipts by the pension plan or from recognition by the pension plan of a receivable from one of these sources.

Discount rate—the single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the total following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected (under the requirements of this Statement) to be greater than the benefit payments that are projected to be made in that period and

(b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term expected rate of return, calculated using the
long-term expected rate of return on pension plan investments.

2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Difference between expected and actual experience—a change applied to the total pension liability (TPL).

Experience change—the amortization of the difference between the expected and actual experience over the current average service lives of all employees, active and inactive. The portion that is not amortized in the first year is carried as a deferred inflow of resources or deferred outflow of resources until it is amortized.

Expected experience—the actuary's demographic and economic estimates used to determine the discount rate applied and the estimated TPL.

Interest on liability—an increase in the TPL calculated by applying the discount rate to the pension liabilities determined by the actuary. The interest on liability is immediately expensed during the measurement period.

Measurement date —the end of the fiscal year of the pension plan and the period for which pension expense is calculated by the TRS. For example, if the TRS uses a measurement date of August 31, 2017, and a district has a fiscal year end of August 31, 2018, then that district must use the measurement date of August 31, 2017, because the audited financial statements of the 2018 pension plan will not be available in time for the district's financial reporting for 2018. Items that occur after the measurement date but before the district's fiscal year end that would normally be pension expense/(revenue) during the plan fiscal year will be recorded as deferred outflows/(inflows) of resources.

Measurement period—the period between the prior and the current measurement dates.

Net investment income—the actual income generated by the PNP.

Net OPEB Liability— the liability of employers and nonemployer contributing entities to employees for benefits provided through a defined benefit OPEB plan that is administered through a trust that meets the criteria outlined by GASB.

Net pension asset (NPA)—an amount calculated as PNP less TPL. If the resulting amount is a positive value, it is called an NPA. If the resulting amount is a negative value, it is called a net pension liability (NPL).

Net pension liabilities (NPL)—an amount calculated as the total pension liability (TPL) minus the plan net position (PNP). If the resulting amount is a negative value, it is called an NPL. If the resulting amount is a positive value, then it is called an NPA. Essentially, the liability of employers and nonemployer contributing entities to employees for benefits provided through a defined benefit pension plan.

Other administrative charges—an amount of administrative charges that affects the pension fund performance. The charges do not originate in the school district but occur at the pension fund. Additionally, the charges are included in pension expense or revenue.

Other postemployment benefits (OPEB)— benefits (such as death benefits, life insurance, disability, and long-term care) that are paid in the period after employment and that are provided separately from a pension plan, as well as healthcare benefits paid in the period after employment, regardless of the manner in which they are provided. OPEB does not include termination benefits or termination payments for sick leave.

Pension expense (or revenue)—the change in the plan's NPL. The amount of increase (or decrease) of NPL that is not attributable to deferred inflows of resources, deferred outflows of resources, other administrative charges, or contributions.

Plan net position (PNP)—the assets of the pension plan used to pay TPL.

Projected return or expected return—the income that is expected to be generated by PNP. It is immediately deducted from pension expense during the measurement period. The portion after the measurement period within the fiscal year is deferred to be deducted from pension expense in the following year.

Postemployment—the period after employment.

Service cost—the increase in TPL caused by employees earning pension benefits during the year. It is immediately expensed during the measurement period.

Smoothing interest—the amortized difference between projected return and net investment income. It is amortized over five years. The portion that is not amortized in the first year is carried as a deferred inflow or deferred outflow of resources until it is amortized.

Termination benefits— inducements offered by employers to active employees to hasten the termination of services, or payments made in consequence of the early termination of services. Termination benefits include early-retirement incentives, severance benefits, and other termination-related benefits.

Total pension liability (TPL)—is the actuarial determined present obligation of pension systems to pay projected benefit payments such as pensions.

Total OPEB liability—the liability of employers and nonemployer contributing entities to employees for benefits provided through a defined benefit OPEB plan that is not administered through a trust.

1.3.4.3 Example of TRS Pension Allocation.

Note: The TRS and your independent external auditor may use a more specific method than the one shown in this example.

This allocation method is based on the proportionate share of employer and on-behalf payments to the TRS to the total contributions of all districts. The proportion is multiplied by the total pension expense of the plan that is not retained by the state of Texas, as shown in Exhibit 1.3.4.3.A.

Exhibit 1.3.4.3.A Example of TRS Pension Allocation

Participating Employer	Contributions—Employer and State On-Behalf ($)	Total Contributions—Employer and State On-Behalf ($)	Proportionate Share as a Percent of Total (%)	Total Pension Expense ($)	Proportionate Share of Total Pension Expense ($)
ISD 123-XXX	500,000	500,000,000	0.1	5 Billion	5 million
ISD 456-XXX	250,000	500,000,000	0.05	5 Billion	2.5 million

End of Exhibit 1.3.4.3.A

1.3.4.4 Example of Pension Expense, Contributions, and Journal Entries

Calculating Pension Expense

Pension expense is calculated by completing the following steps (list is not all inclusive):

1. Use total pension expense as provided by the TRS and the current year expensing of pension expense, which is calculated by the school district, to calculate the grand total pension expense for the school district. See Exhibit 1.3.4.4.A lines 1 thru 21.
2. Add the current year amortization from prior year's deferred outflows of resources. The amortization amount comes from the deferred outflow of resources table maintained by your school district. See Exhibit 1.3.4.4.A line 12.
3. Subtract the current year amortization from prior year's deferred inflows of resources. The amortization amount comes from the deferred inflow of resources table maintained by your school district. See Exhibit 1.3.4.4.A line 13.
4. The deferred outflows cannot be netted against the deferred inflows of resources on the tables maintained by your school district or your bookkeeping system, or in your financial statements.
5. The result is pension expense (pension revenue) that will be recognized by your school district. See Exhibit 1.3.4.4.A line 14.

The components of pension expense provided by the TRS are not individually applied to the accounting system but are used only to calculate the total pension expense as a journal entry. The exception is school districts will record and amortize deferred outflows and deferred inflows of resources. Exhibit 1.3.4.4.A shows how to calculate pension expense in greater detail. The list may not be all inclusive.

Exhibit 1.3.4.4.A Example of Pension Expense

Pension Expense Item	Amount ($)	Explanation
(2) Service Cost (data from column 2 on the table provided by the TRS) (entered as a positive number)	3,476,180	As of the measurement date.
(3) Interest Cost. Interest on Liability (data from column 3 on the table provided by the TRS)	10,329,241	As of the measurement date.
(4) Benefit Changes (data from column 4 on the table provided by the TRS)	0	When benefits for retirees are adjusted up/(down), an increase/(decrease) will be recorded.
(5) Project Investment Earnings (data from column 5 on the table provided by the TRS) (entered as a negative number)	(8,612,793)	As of the measurement date.
(6) Member Contributions (data from column 6 on the table provided by the TRS) (entered as a negative number)	(2,119,236)	The amount that employees contribute to the TRS is a reduction in pension expense (it was expensed in payroll already) and reduces pension liability.
(7) Administrative Expenses (data from column 7 on the table provided by the TRS) (entered as a positive number)	29,252	As of the measurement date.
(8) Other (data from column 8 on the table provided by the TRS)	9,252*	As of the measurement date.
(9) Subtotal of Lines two through 8	3,111,896	**Total of line 2, plus lines 3, 4, 5, 6, 7, and 8 in this table (Line 2 + Line 3 + Line 4 + Line 5 + Line 6 + Line 7 + Line 8)**
(10) Expected and Actual Actuarial Experience (data from column 10 on the table provided by the TRS)	(189,329)	The difference between expected and actual experience from retirees living longer/(shorter) or other factors is amortized over the expected remaining service life of

(entered as a negative number) Experience Change is combined with the change in assumptions below on column 11 of the table provided by the TRS. The school district is responsible for amortizing balance in the future. Amortized Deferred Outflows (Inflows) due to liabilities from prior years. The district must maintain separate Deferred Outflows/Inflows tables for an audit trail. See Exhibit 1.3.4.4.B for more details.		active and inactive employees. In this example, we use 6.9029 years as determined by the TRS: $1,306,919 ÷ 6.9029 = $189,329 $1,306,919 − $189,329 = $1,117,590 $1,117,590 will be applied to an amortization table maintained by the school district and expensed over the remaining years. Deferred Outflows (Inflows) of resources from prior years is amortized here as a positive (negative) amount. The amount is obtained by a Deferred Outflow/Inflow of Resources table maintained by the school district.
(11) Changes in Actuarial Assumptions. (data from column 11 on the table provided by the TRS) (entered as a negative number) Current year expensing of current year layer of deferred outflow/Inflow of resources is combined with experience change above on column 10 of the table provided by the TRS. See (10) above. Amortized Deferred Outflows (Inflows) of resources due to liabilities from prior years. The district must maintain separate Deferred Outflow/Inflow of Resources tables for an audit trail. See Exhibit 1.3.4.4.B for more details.	(175,755)	The change in actuarial assumptions used by the actuary is amortized over the expected remaining service life of active and inactive employees. In this example, we use 6.9029 years as determined by the TRS: $1,213,219 ÷ 6.9029 = $175,755 $1,213,219 − $175,755 = $1,037,464 $1,037,464 will be applied to an amortization table maintained by the school district and expensed over the remaining years. Deferred Outflows (Inflows) of resources from prior years is amortized here as a positive (negative) amount. The amount is obtained by a Deferred Outflow/Inflow of Resources table maintained by the school district.

(12) Projected and Actual Investment Earnings (Plan Level) Smoothing Interest is included in amortized data from column 12 on the table provided by the TRS. Amortized Deferred Outflows (Inflows) of resources due to assets from prior years. The district must maintain separate Deferred Outflow/Inflow of Resources tables for an audit trail. See Exhibit 1.3.4.4.B for more details.	1,790,472*	The difference between projected earnings and net investment income is amortized over five years when the TRS pension outperforms its target rate of return: $8,952,360 ÷ 5 = $1,790,472 $8,952,360 − $1,790,472 = $7,161,888 $7,161,888 will be applied to an amortization table maintained by the school district and expensed over the remaining four years. Deferred Outflows (Inflows) of resources from prior years is amortized here as a positive (negative) amount. The amount is obtained by a Deferred Outflow/Inflow of Resources table maintained by the school district.
(13) Subtotal Plan Level Pension Expense	4,537,284	**Total of line nine plus lines ten, eleven, and twelve in this table (Line 9 + Line 10 + Line 11 + Line 12)**
(14) Employer and Proportionate Share of Contributions and Changes in Proportion (data from column 14 on the table provided by the TRS)	(1,026,726) *	Since the prior measurement date
(15) Pension Expense Plan Level (data from column 15 on the table provided by the TRS)	3,510,558	**Total of line 13 plus line 14 in this table (Line 13 + Line 14)** This amount should reconcile/match the total pension expense amount disclosed in column 5 on the **Schedule of Pension Amounts by Employer** table provided by the TRS.
The rows below are labeled as “Employer Calculates” on the **TRS Schedule of Pension Expense Detail by Employer table. The school district must enter the data to calculate the employer level pension expense based on current year expensing of pension expenses based on the Deferred Outflows of Resources and Deferred Inflows of Resources for the differences in:**		
(16) Expected and Actual Actuarial Experience (Employer Level)	174,591	

(17) Changes in Actuarial Assumptions (Employer Level)	(27,289)	The change in actuarial assumptions is calculated by using a systematic and rational method over a closed period equal to the expected remaining service life of active and inactive employees of the pension plan as of the beginning of the measurement period. Differences between expected and actual experience with regard to economic and demographic factors (difference between expected and actual experience) and changes of assumptions (or other inputs) about future economic or demographic factors for active and inactive employees are included in the calculation.
(18) Projected and Actual Investment Earnings (Employer)	769,485	
(19) Employer and Proportionate Share of Contributions and Changes in Proportion (Employer Level)	(2,956,382)	
(20) Total Employer Level Pension Expense	(2,039,595)	**Total of line 16, plus lines 17, 18, and 19 in this table (Line 16 + Line 17 + Line 18 + Line 19)**
(21) Grand Total Pension Expense (Plan and Employer)	1,470,963	**Total of line 15 plus line 20 in this table (Line 15 + Line 20)**

*Item could be either a negative or a positive amount.
End of Exhibit 1.3.4.4.A

Recording Deferred Outflows and Deferred Inflows of Resources **to a table**

Exhibit 1.3.4.4.B shows an example of what a Deferred Outflow table might look like for amortizing as an expense. A similar deferred inflows table will reduce pension expense as the amortization is recognized annually.

Exhibit 1.3.4.4.B **Deferred Outflow Amortization**

Year that the Deferred Outflow will be amortized.	Remaining Amount, Year, and Remaining Amortization Period of Deferred Outflows (The first year was already expensed in Total Pension Expense as provided by the TRS).			Amount that Deferred Outflow will contribute to pension expense.
Remaining Amount	$10,000,000	$6,000,000	$8,000,000	
Year of Deferred Outflow	2016	2017	2018	
Remaining Amortization Period	5.9029	6.0000	5.9500	
2017	$1,694,083			$1,694,083
2018	$1,694,083	$1,000,000		$2,694,083
2019	$1,694,083	$1,000,000	$1,344,538	$4,038,621
2020	$1,694,083	$1,000,000	$1,344,538	$4,038,621
2021	$1,694,083	$1,000,000	$1,344,538	$4,038,621
2022	$1,583,340	$1,000,000	$1,344,538	$3,927,878
2023		$1,000,000	$1,344,538	$2,344,538
2024			$1,277,310	$1,277,310

End of Exhibit 1.3.4.4.B

The school district will have to create its own:

- Deferred Outflow of Resources table and
- Deferred Inflow of Resources table, and
- add columns and rows as necessary.

Recording Contributions to the TRS

Exhibit 1.3.4.4.C shows an example of entries in the accounting system to record contributions during the year. This entry occurs at the **fund level**.

Exhibit 1.3.4.4.C **Example of Recording Contributions**

Journal Entry for Contributions as of the Measurement Date.	**DR ($)**	**CR ($)**
Contributions during the district's fiscal year (TRS payments as expenditures), object code (6144), Teacher Retirement or TRS Care—On-Behalf Payments	1,257,588	
Revenue for On-Behalf (5831)		1,257,588
Contributions during the district's fiscal year (TRS payments as expenditures), object code (6146), Teacher Retirement or TRS Care	1,257,588	
Teacher Retirement Payroll Liability (2155)		1,257,588
Balance of Debit Records and Credit Records	2,515,176	2,515,176

End of Exhibit 1.3.4.4.C

Contributions after the measurement date are recorded as deferred outflows at the end of the fiscal year. This entry occurs at the government-wide level. Contributions before the measurement date are recorded as adjustments to NPL. A journal entry must be made at least once per year at the government-wide level to account for:

- pension expense,
- deferred outflows and deferred inflows of resources,
- contributions, and
- net pension liability.

All items are as of the measurement date.

Making Journal Entries

Exhibit 1.3.4.4.D shows an example of a journal entry that includes data from pension expense and contributions shown above.

Exhibit 1.3.4.4.D Example of Government-Wide Journal Entries

Journal Entry for First Year of Recognition as a Prior Period Adjustment (object codes shown in parenthesis)	DR ($)	CR ($)
Net Position (3700) (Applies to beginning net position for the results of the year prior to implementation.)	30,776,554	
Deferred Outflow—Pension Contributions (1705) in year of transition only per GASB Statement No. 71 for contributions subsequent to the measurement date of Beginning NPL. Contributions from 9/1/13 to 6/30/14 for June 30 year-end districts and to 8/31/14 for August 31 year-end districts.	2,000,000	
NPL (2540) (beginning balance of year of implementation) (data from column 4 on the table provided by the TRS)		32,776,554
Balance of DR & CR	32,776,554	32,776,554

Journal Entry for First Year of Recognition (object codes shown in parenthesis)	DR ($)	CR ($)
Pension Expense (6147) Data includes amounts, from Exhibits line 14 in 1.3.4.4.A. In following years, amount from Exhibit 1.3.4.4.B the amortized portion of deferred outflows / (inflows) will be debited/(credited) here. (Data from column 17 on the table provided by TRS.)	2,470,172 Amortized portion of deferred outflows/(inflows) will be debited/(credited) here in following years.	
Deferred inflow (2605) (Data from column 23 on the table provided by the TRS.)		*8,164,089 for all deferred outflows, calculated as of the measurement date and will be amortized. See Exhibit 1.3.4.4.B.
Deferred outflow (1705) (Data from column 28 on the table provided by the TRS.)	*2,149,369 for all deferred inflows, calculated as of the measurement date and will be amortized. See Exhibit 1.3.4.4.B.	
Contributions during the measurement year from the school district and on-behalf matching (closing entry for the TRS payments for the district FYE, 6144 & 6146)		*2,515,176 excluding contributions after the measurement date. See Exhibit 1.3.4.4.C and Recording Contributions to the TRS above.

NPL (2540)	6,059,724 This number is the balance of debits and credits for previous items, should match the TRS supporting documents, and will be increase or decrease to get the reported number on the financial statements. Includes contributions made after the measurement date and Additional Contribution Adjustments (Column 5), Service Costs (Column 6), Interest Costs (Column7), Benefit Charges (Column 8), Projected Investment Earnings (Column 9), and Member Contributions (Column 10). (Will make final balance equal to column 30 on the table provided by the TRS.)	
Balance of DR & CR	10,679,265	10,679,265

* Values are expected to be provided by the TRS.

End of Exhibit 1.3.4.4.D

1.3.4.5 Proportionate Share of Collective Net Pension Liability or Assets

Your school district must record the appropriate share of net pension liability or asset and display it on a separate line item on the financial statements (see the example of the TRS pension allocation in Exhibit 1.3.4.3.A). Although GASB Statement No. 68 does not specifically require separate reporting of net pension liability or asset, the TEA does require it for the purpose of financial analysis. Your district will report this as a line item on the L-1 schedule. Exhibit 1.3.4.5.A shows an example of statement of activities for a school district.

Your district may combine net pension liabilities for multiple plans on the financial statements. Net pension liabilities must be on the long-term liability portion of the financial statements. Your district may also combine net pension assets for multiple plans, but may never combine net pension liabilities with net pension assets on the financial statements. Net pension assets must be on the long-term asset portion of the financial statements.

Exhibit 1.3.4.5.A **Excerpt Example: Independent School District Statement of Activities for the Fiscal Year Ended August 31, 2018**

			Program Revenues		Net (Expense) Revenue and Changes in Net Position
		1	3	4	6
					Primary Gov.
Data Control Codes		**Expenses ($)**	**Charges for Services ($)**	**Operating Grants and Contributions ($)**	**Governmental Activities ($)**
Primary Government:					
Governmental Activities:					
11 Instruction		1,000,000	50,000	100,000	(850,000)
Several items are skipped to save space					
93 Payments Related to Shared Services Arrangements		2,000,000	-	-	(2,000,000)
99 Other Intergovernmental Charges		16,000			16,000
[TP] Total Primary Government		28,016,000	50,000	100,000	(27,866,000)
MT Property Taxes, Levied for General Purposes					30,000,000
DT Property Taxes, Levied for Debt Service					300,000
SF State Aid—Formula Grants					200,000
IE Investment Earnings					3,000
PR Pension Revenue (This is not expected to be a regular occurrence, but if it occurs, it goes here.)					
MI Miscellaneous Local and Intermediate Revenue					3,000
TR Total General Revenues & Extraordinary Items					30,506 30,506,000

*See examples of calculating pension expense during the implementation year,Exhibits 1.3.4.4.A, and 1.3.4.4.C.

End of Exhibit 1.3.4.5.A

Districts will never book net pension liability or expense to government fund financial statements unless the pension fund is at risk of not being able to pay beneficiaries within one fiscal year. The amount for other postemployment benefits must not be combined with NPL or NPA and must be a separate item on the financial statement. See an example of a school district statement of net position in Exhibit 1.3.4.5.B.

Exhibit 1.3.4.5.B **Excerpt Example: Independent School District Statement of Net Position, August 31, 2018**

	Primary Government
Data Control Codes	**Governmental Activities ($)**
Assets	
1110 Cash and Cash Equivalents	4,000,000
Several items are skipped to save space.	
154X Other Capital Assets, Net	130,000
1580 Construction in Progress	16,000
1920 Net Pension Assets (This is not expected to occur regularly, but if it does, it goes here.) TOTAL ASSETS	
1700 Deferred Outflow 1705 Pension Contributions	2,149,369
Liabilities	
2110 Accounts Payable	63,000
Several items are skipped to save space.	
2540 Net Pension Liability	38,746,270
TOTAL LIABILITIES	
2600 Deferred Inflow 2605 Other Pension	8,164,089

End of Exhibit 1.3.4.5.B

For more accounting and reporting standards on deferred outflows of resources, deferred inflows of resources, pensions, pension accounting, and other postemployment benefits (other than pensions) see the following:

- GASB Statement No. 82: Pension Issues, an amendment of GASB Statement No. 67, No. 68, and No. 73
- GASB Statement No. 78: Pensions Provided through Certain Multi-Employer Defined Benefit Pension Plans
- GASB Statement No. 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions
- GASB Statement No. 74: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans
- GASB Statement No. 73: Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68
- GASB Statement No. 71: Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68
- GASB Statement No. 68: Accounting and Financial Reporting for Pensions
- GASB Statement No. 67: Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25
- GASB Statement No. 65: Items Previously Reported as Assets and Liabilities
- GASB Statement No. 63: Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position
- GASB Concepts Statement No. 4: Elements of Financial Statements

1.4 Cost Accounting

The law requires that public school districts report “educational system costs by district, campus, and program.”[76] Your school district may elect to apply cost accounting on a more comprehensive basis at the local level. Your district must identify:

- campus costs by the organization code, which comprises the last three digits of the nine-digit county-district number in the *Texas School Directory*,
- program costs by the program intent code or fund code, and
- district costs by the county-district number (from the *Texas School Directory*), which does not show up in the general ledger at the district level but is used by the TEA when compiling reported financial data.

[76] TEC, 44.007(d)

This discussion of cost accounting addresses state required and local option cost accounting methods, including:

- accounting considerations;
- minimum requirements for state reporting;
- allocations of salary and fringe benefits, including TRS matching expenditures;
- suggested methods for cost allocation; and
- administrative costs, as used in the administrative cost ratio.[77]

The federal government also imposes certain cost accounting requirements. Those requirements are outlined in 2 CFR §200.[78]

1.4.1 Accounting Considerations

To account for programs by organization and program intent, the accounting system must include source (input) documents with adequate provisions for coding transactions. The codes used must be uniform throughout the school district and must conform to code standards of the *FASRG* and the *Texas School Directory.*

The *Texas School Directory* includes the county-district number with the organization code represented as a campus number. However, it does not contain the following organization codes:

- R 699 Summer School Organization
- 700 Organization Units—Administrative
- 800–997, Organization Units—Locally Defined (Convert to Organization Code 999 for PEIMS)
- R 998 Unallocated Organization Unit
- R 999 Undistributed Organization Unit

1.4.2 Minimum Requirements for State Reporting

The law[79] requires your district to record information, use it to compile the AFR, and file the AFR with the TEA. (For a sample AFR, see Appendix F: Example Annual Financial and Compliance Report in the FAR Appendices.) But the AFR does not reflect campus-level data because it is a district-level document.

Campus-level accounting:

- is required by law,[80]
- is used in the annual performance report required for accreditation,[81] and

77 19 TAC §109.1001(e)
78 2 CFR Part 200—Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Rewards, 2 CFR §200
79 TEC, §44.008
80 TEC, §44.007(d)
81 TEC, §39.306

- must be reported to the TEA through PEIMS for specified functions.

Organization and program intent accounting can require many accounting data entries. For example, if a teacher has assignments in several program areas and is also assigned to a regular teaching schedule on more than one campus, a number of entries are required to record payment of salary, salary supplements, and related benefits. Salary supplements and fringe benefits must follow the cost of the service performed, requiring many data entries. For guidance on salary allocation, see 1.4.4 Salary and Fringe Benefits Allocations.

More importantly, distributing small amounts of costs for contracted services, supplies, etc., can be prohibitively time consuming. Therefore, your district is generally not required to allocate these costs by organization or program intent code.

For the minimum coding required to account for transactions, see

- 1.4.2.1 Account Code Structure Minimum Requirements
- Appendix A—A.1: Accounting Code Structure and Definitions in the FAR Appendices

1.4.2.1 Account Code Structure Minimum Requirements

Each district must use the code structure specified in the *FASRG*. The minimum coding requirements for any transaction are disclosed in the table below:

Coding	Transaction Type
Fund	All transactions
Function	All expenditures
Object	All assets, liabilities, fund equity, clearing accounts, revenues, expenditures/expenses, other resources, non-operating revenues, other uses and non-operating expenses and transfers in/out
Local Option Codes 1 and 2	Optional
Organization Units	Varies by fund, function, and object for expenditures
Fiscal Year	All transactions
Program Intent	Varies by fund, function, and object for expenditures

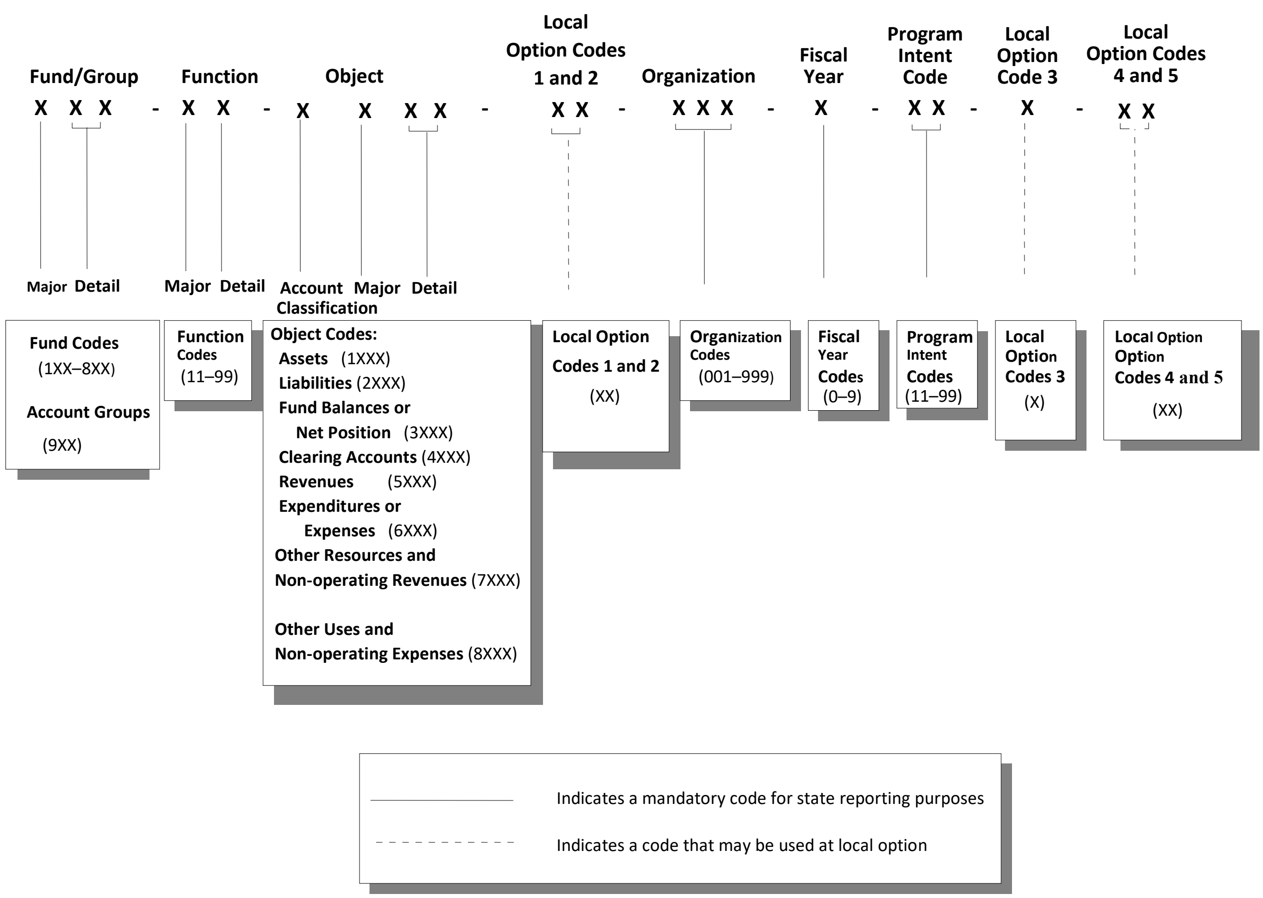
Coding	Transaction Type
Local Option Code 3	Optional
Local Option Code 4 and 5	Optional

Your school district must adhere to the account code structure disclosed in the *FASRG*, because it establishes the standard school district fiscal accounting system required by law. Although certain codes within the account code structure may be used at local option, the sequence of the codes within the structure, and the funds and charts of accounts, are to be uniformly used by all school districts in accordance with GAAP.

Exhibit 1.4.2.1.A, Account Code Structure, illustrates the required account code structure that your school district is required to use as part of the reporting and financial transactions coding process.

Exhibit 1.4.2.1.A **Accounting Code Structure**

The Accounting Code Structure



End of Exhibit 1.4.2.A

Organizational Units

Organization codes are used to accumulate costs incurred for each of the following as applicable:

- Campus
- Summer school/intersession (district wide)
- Special locations
- Administrative cost centers

Organization codes allow the school district management to compare costs within the school district or to other school districts. Organization/campus level accounting is required for school districts. The *Texas School Directory* indicates campus organization units. A school district may have more than one campus location with each location having a unique number assigned in the *Texas School Directory*. The site of a campus may comprise only one building or any number of buildings.

- **Campus Units**—Costs that are clearly attributable to a campus unit listed in the *Texas School Directory* are to be identified specifically for that campus in the school district's accounting records. The campus number assigned in the *Texas School Directory* is to be used to identify accounting transactions for a campus. When a new campus is established, the school district is to report the campus to the TEA so a campus number can be assigned. Costs not specifically attributable to a campus are not required to be identified with a campus code number for accounting purposes unless mandated. (See the Organization Code section in Appendix A for additional information on the assignment of organization units to campuses and cost centers.)

  Some types of expenditures are clearly attributable to a campus. This normally includes most payroll costs and certain purchased and contracted services, supplies and materials, and other costs. Capital outlays are sometimes attributed to a campus, depending on the function governing the expenditures. Certain costs may be incurred for more than one campus, but nevertheless can be attributable to specific campuses. An example is expenditures for a teacher who is assigned to more than one campus on a scheduled basis so percentages of cost can be determined and distributed. Another example is a central kitchen operation where food service expenditures can be distributed to specific campuses on the basis of student participation.
- **Other Organization Units**—Some expenditure functions, e.g., general administration, must use administrative organization units instead of campus organization units.

Districts should use organization code 999 Undistributed with all expenditures when it is not appropriate or mandatory to use another organization unit or campus unit; however, organization code 998 Unallocated may be used at the local option when it is not mandatory to use another organization unit or campus.

Program Intent Codes

These codes are used to account for the cost of instruction and services for a particular need of a

specific set of students. The intent (the student group to which the instruction/service is directed) determines the program intent code, not the demographic makeup of the students served.

Basic and enhanced program intent codes are to be used with payroll and other costs that are directly attributable to the program intent code. In some cases, this may require the allocation of costs among several program intent codes. For functions and objects in which program intent accounting is not mandatory, the allocation of costs should be performed only when, in the judgment of school district management, there would be a material effect on the financial records of either an individual transaction or the total amount of a certain type of transaction. Consideration should also be given to the effort involved in gathering the information necessary to perform the allocation compared

to the benefit to be derived from the allocation of costs.

School districts are strongly encouraged to use enhanced program intent codes for large expenditures that are readily identifiable.

Other program intent codes include Athletics and Related Activities and Undistributed. Program intent code 91 Athletics and Related Activities is to be used to account for payroll costs and other identifiable costs for athletics or programs that exist only because of athletics, such as a drill team, pep squad, and cheerleaders. Costs associated with band are specifically excluded from Program intent code 91.

Program intent code 99 Undistributed is to be used for all expenditures when use of another program intent code is not appropriate or mandatory.

Local Option

A school district may elect to utilize the entire account code system shown in the account code overview or any portion of the overview above the minimum accounting requirements. The accounting system can be expanded locally to meet a variety of needs. With the use of features such as the local option codes, there is no practical limit as to the amount of information that can be derived from the system. School districts are encouraged to use local option codes to meet any special cost accounting requirement that the school district might have.

Many funding sources may have a requirement to account for a specific project. Although the span of the project may be shorter than the overall program or the project may overlap into different accounting periods, cost by project should be available. Project accounting provides the capability to determine accurate costs of operations at detailed levels without establishing a separate accounting system for each project. Project accounting can be accomplished by using local option codes. Normally, project codes would be utilized only when management desires an analysis of specific phases of a program or when federal or state funds require such procedures.

In some cases, relatively minor amounts of money will be involved in project accounting. This fact should not diminish the importance of project accounting for legal compliance with fund requirements and valuable cost control and effectiveness information.

1.4.3 Direct and Indirect Costs

2 CFR §200.413 defines direct costs for federal grants as costs that can be:

- tied to a particular purpose or activity, such as a federal grant project, or other activity; and
- assigned to those activities relatively easily and accurately.[82]

1.4.3.1 Direct Costs

Direct costs are costs that can be directly and wholly attributed to a specific fund, function, object, organization, or program intent. These costs can include administrative activities, but cannot use an arbitrary allocation. For example, an employee in human resources spends time specifically on a particular federal grant. The time spent on the federal grant may be substantiated by a time and effort report if the time used for the grant is separately identified.

2 CFR §200.414[83] classifies indirect costs (that is, facilities and administrative (F&A) costs) into two broad categories:

- **Facilities** costs includes:
  - depreciation on buildings, equipment, and capital improvement, or interest on debt associated with those items;
  - expenses for operations and maintenance; and
  - library expenses for institutions of higher education.
- **Administration** costs includes:
  - general expenses such as the director's office, accounting, personnel, and other expenditures not included under facilities, and
  - library expenses for nonprofit entities.

1.4.3.2 Indirect Costs

Indirect costs are costs that cannot be directly attributed to a specific fund, function, object, organization, or program intent. Expenditures to a district's business office, personnel, payroll, human resources, and purchasing activities are typically indirect costs, unless these can be traced to a specific fund, function, object, organization, or program intent. For example, the superintendent of a very small district also teaches two classes in the afternoon. The time spent in front of students for these classes could be considered a direct cost, while all other time is treated as an indirect cost. Additionally, printer ink for the business office is an indirect cost because the office supplies are used to benefit multiple funds.

As stated in 2 CFR §200.413(a), "Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs."

For more information on the indirect cost calculation, see Indirect Cost Rates on the TEA website.

---

[82] 2 CFR §200.413
[83] 2 CFR §200.414

1.4.4 Salary and Fringe Benefits Allocations

Personnel costs constitute the majority of your school district's budgeted expenditures. Consequently, allocating personnel costs to the appropriate cost centers is important to your school district in preparing a budget and in coding expenditures. Allocating personnel costs enables your district to:

- provide accurate information by cost center and program,
- evaluate the economy and efficiency of a cost center or program,
- maintain budgetary control, and
- calculate accurate percentages of noninstructional personnel costs and all other nonpersonnel costs to be used in the cost allocation formula.

Note: In a school district, a cost center is most often an organization unit or a program intent. To facilitate this discussion, this section refers to a campus as an example of a cost center and to a principal as an example of the cost center's manager. When an organization or program intent code is not specified, an undistributed code is acceptable.

To manage the resources assigned to the campus, the principal must have accurate information about the costs of operating the campus. Since personnel costs are normally the largest single expenditure for any campus or program intent, campus expenditure reports must include appropriately allocated personnel costs to provide an accurate picture of the resources used by the campus or program.

As part of managing its resources, your school district creates a budget. Each campus must maintain budgetary control over the campus's portion of the budget. To maintain control, all related expenditures should be assigned to accounts over which the principal has authority. With personnel costs, this control is best maintained by allocating the personnel costs to appropriate campuses and program intent codes.

1.4.4.1 Allocation of Salaries

Allocations of salary expenditures must include at least the following categories:

- instructional salaries (function code 11)
- certain extracurricular salaries (function code 36)
- administrative salaries (function code 41)
- substitute salaries
- all other salaries

Instructional Salaries (Function Code 11 Instruction)

Instructional salaries must be recorded using fund, function, object, organization (campus unit), fiscal year, and program intent codes, at a minimum. Your district may use additional local option codes.

Instructional salaries are a component of the TEA-provided cost allocation formula used to calculate allocations for almost all other expenditures. Because these costs have such a significant impact on the allocation of other costs, instructional salaries must be allocated accurately.

Certain Extracurricular Salaries (Function Code 36)

Certain extracurricular salaries must be recorded using fund, function, object, organization (campus unit when applicable), fiscal year, and program intent codes, at a minimum. For clarification of what is included in this category, see Extracurricular Salaries below.

Administrative Salaries (Function Code 41)

Administrative expenditures, including salaries, must be recorded using fund, function, object, organization, and fiscal year codes, at a minimum. Organizational codes for administrative expenditures include, among others, codes for the:

- superintendent's office,
- tax collection office (tax costs), and
- school board.

Your school district must allocate administrative expenditures to these organizations to provide information required by the TEA to use in the calculation of indirect cost rates for school districts.

Substitute Salaries

Expenditure object code 6112, Substitute Teachers, may be used only with function code 11, Instruction.

Minimum coding for substitute teachers is limited to fund, function, object, and fiscal year. The undistributed organization code (999) and program intent code (99) may be used. While this coding sets forth the minimum level of cost accounting, your school district may expand the coding at the local option level.

All Other Salaries

Organization codes for campus units must be used for all payroll costs, when possible, with the following function codes:

- function code 12, Instructional Resources and Media Services
- function code 23, School Leadership
- function code 31, Guidance, Counseling, and Evaluation Services
- function code 32, Social Work Services
- function code 33, Health Services
- function code 36, Extracurricular Activities
- function code 52, Security and Monitoring Services
- function code 53, Data Processing Services
- function code 61, Community Services
- function code 81, Facilities Acquisition and Construction

For staff members who cannot readily be classified to a campus unit, your district may use organization code 999, Undistributed. For additional information on assigning organization codes to campuses and cost centers, see Appendix A—A.6 Organization Codes.

To record all other salaries, your district:

- must use fund, function, object, and fiscal year codes; and
- may use the undistributed organization (999) and program intent codes (99).

Your school district may elect to code transactions in greater detail by using additional elements of the code structure as shown in the following examples:

- Your district may use local option codes to provide expenditure information that exceeds TEA requirements, such as recording expenditures by department (for example, science, English, or mathematics).

Your district may allocate certain salary costs to specific organization codes (that is, campuses) or program intent codes even though the salaries are not charged to functions requiring organization or program intent accounting.

Methods of Allocating Salaries

Your school district may choose any reasonable method for allocating salary costs, but the method used must be:

- documented in a plan that describes the reasoning for the chosen allocations,
- applied consistently over time, and
- reviewed periodically for changes in activities or assignments that may affect the allocation method.

The allocation method must be documented to:

- provide a historical record of the method,
- address any questions that may arise (for example, during an internal or external audit), and
- provide information to new staff members who are responsible for performing the allocations.

Generally, the same allocation method must be applied consistently over time. For example, your district must establish a method at the beginning of the school year and apply it consistently throughout the school year unless a change occurs during the year that invalidates the original method. This consistency requirement does not mean that your district cannot adjust allocated amounts or percentages to reflect actual activities, but that the method itself should not change without justification.

Your school district must review its allocation methods periodically to verify their continued validity. Two primary issues should be considered:

- The methods may have become invalid because of a change in the:
    - nature of a specific position or
    - activities performed by a staff member.

An allocation method may still be valid, but the amounts or percentages used in the allocation may have changed.

In both cases, your school district must amend its allocation method. Your district must also determine if previously recorded expenditures within the fiscal year should be adjusted to more accurately reflect what occurred.

The following sections provide examples of several salary allocation methods for instructional and noninstructional staff members.

Noninstructional Salaries

The most common method for allocating noninstructional salaries is allocating salaries based on the time spent on a specific job. Your district may require daily time records or exception reports that can be used to determine actual time spent on a job. Alternatively, your district may rely on an analysis of historical records or on time information derived during selected test periods.

It may be helpful to express allocations in terms based on the hours in your district's standard workday or on standard hours for a specific position.

Instructional Salaries

The TEA requires that salary expenditures for instructional staff members be coded to the fund, function, object, organization, fiscal year, and program intent codes. This requirement may make allocating instructional salaries more complex than allocating noninstructional salaries. The following items discuss possible solutions:

- **Time on task**—In many cases, instructional staff members work at an assigned campus. The organization code for these salary expenditures should reflect the assigned campus. Salaries for instructional staff members assigned to more than one campus should be allocated to campuses based on the time actually spent at the campuses. For example, a music teacher may teach at three campuses and be scheduled to teach at each campus every third day. This teacher's salary may be allocated equally among the three campuses.
- **Class periods**—Class periods may be used to calculate time spent at each campus. For example, a teacher may be scheduled to teach two periods at one campus each day and three periods at a second campus each day. This teacher's salary should be allocated 40 percent to the first campus and 60 percent to the second campus.

- **More than one program intent**—If a class is designed with more than one intent, a school district should allocate the instructional salary to the applicable program intent codes. For example, a class may have been designed to provide *basic* educational services but has been significantly modified to provide remedial services to some students. A school district should determine what percentage of time the teacher spends providing instruction for the accelerated education program.

Exhibit 1.4.4.1.A shows an example of a salary allocation for a teacher who provides different services during different periods of the day.

Exhibit 1.4.4.1.A Salary Allocation for Teacher Providing Multiple Services

Total Salary for Teaching Contract: $48,000

Daily Schedule

Class Period	Time per Period (%)	Organization Code	Program Intent Code
1	100	Elementary Campus 101	11, Basic Education
2	75	Elementary Campus 101	11, Basic Education
2	25	Elementary Campus 101	24, Accelerated Instruction
3	100	N/A	N/A (Planning and Preparation Period)
4	100	N/A	N/A (Lunch)
5	100	Elementary Campus 102	11, Basic Education
6	90	Elementary Campus 102	11, Basic Education
6	10	Elementary Campus 102	24, Accelerated Instruction

Allocation Calculation

The following table shows how the teacher's duties (coded by organization and program intent) are broken down into percentages.

Class Period	Campus Organization Code	Program Intent Code	Units* Worked		Total Units Worked	Percent Worked for Each Code Combination (%)
1–2	101	11	1.00 + .75	=	1.75	44
2	101	24	.25	=	.25	6
5–6	102	11	1.00 + .90	=	1.90	47
6	102	24	.10	=	.10	3
			Total		4.00	100

*In this example, one *unit* equals one of the instructional periods assigned to an FTE (full-time equivalent) teacher.

The following table shows how the percentages are used to allocate the teacher's salary to accounts based on organization and program intent.

Account Codes	Calculation: Total Salary ($) x Percentage (%)		Salary Allocation ($)
199-11-6119-00-101-Y-11-0-00	48,000 x 44	=	21,120
199-11-6119-00-101-Y-24-0-00	48,000 x 6	=	2,880
199-11-6119-00-102-Y-11-0-00	48,000 x 47	=	22,560
199-11-6119-00-102-Y-24-0-00	48,000 x 3	=	1,440
	Total		48,000

End of Exhibit 1.4.4.1.A

Extracurricular Salaries

The TEA requires expenditures for extracurricular salaries to be coded using the fund, function, object, organization, fiscal year, and program intent codes.

Salaries for related activities must be coded using the same codes. For example, expenditures for salaries incurred to provide for student participation in competitive athletic activities, such as football, basketball, golf, swimming, and volleyball, include salaries for:

- coaching;
- sponsors for drill team, cheerleaders, and pep squad; and
- any other activities that support athletics and exist as a result of athletics.

The coding must include:

- function code 36, Extracurricular Activities and
- program intent code 91, Athletics and Related Activities.

Salaries for **coaches** and **sponsors** must include a campus organization code.

Salaries for **extracurricular activities** not related to athletics, such as a photography or orchestra club that meets outside regular instructional hours, should use program intent code 99, Undistributed.

Salaries for classes that are designated as **physical education** (PE) or PE equivalents are considered instructional and should use function code 11, Instruction and should *not* use program intent code 91, Athletics and Related Activities. In most cases, program intent code 11, Basic Education is used. In other words, if students receive credit for the class, the related salary costs should be coded as instructional and normally part of the basic education program.

Some staff members may teach classes during the regular school day and also be involved in activities that support athletics. Salaries for periods during the regular school day in which a staff member performs coaching duties or other related activities are *not* considered to be instructional if PE or PE equivalent credit is not granted. These salary costs should be coded using function code 36, Extracurricular Activities and program intent code 91, Athletics and Other Related Activities. In addition, salaries for periods outside the regular school day (for example, hours before or after school and days before the school year begins or after the school year ends) should be coded using function code 36, Extracurricular Activities and program intent code 91, Athletics and Related Activities.

1.4.4.2 Fringe Benefits

Fringe benefit expenditures include a school district's costs for items such as:

- FICA matching expenditures,
- TRS matching expenditures,
- a state portion of the TRS as required by GASB Statement No. 24 (as it relates to on-behalf teacher retirement payments),
- health and life insurance costs,
- workers' compensation, and
- unemployment compensation.

Your district should code fringe benefit expenditures in the same manner as the salary expenditures to which they apply. Generally, the district should allocate fringe benefits to match the distribution of a staff member's total salary distribution. An exception has been made for expenditure object code 6144, Teacher Retirement or TRS Care—On-Behalf Payments and Medicare Part D Payments.

For expenditure object code 6144, the benefit need only be charged to the following codes:

- fund
- function
- object
- fiscal year

Under GASB Statement No. 24, your district may charge all "on-behalf" payments to the general fund. For additional information, see 1.3.3 On-Behalf Teacher Retirement System Payments.

All other fringe benefits must be charged to the following codes on a prorated basis that follows the salary:

- fund
- function
- object
- organization
- fiscal year
- program intent

Under some circumstances, your district must allocate fringe benefit costs and salary costs using the same method. For example, health insurance expenditures must be allocated in the same manner as the salary. Exhibit 1.4.4.2.A demonstrates health insurance expenditure allocations for a teacher with coaching duties.

Exhibit 1.4.4.2.A Health Insurance Allocation

Duty	Account Code	Salary ($)	Percentage of Salary Allocated to Each Duty (%)	Health Insurance Benefit Allocation* ($)
Teaching	199-11-6119-00-001-Y-11-0-00	15,000	50	1,500
Teaching	199-11-6119-00-001-Y-21-0-00	7,500	25	750
Coaching	199-36-6119-00-001-Y-91-0-00	7,500	25	750
Total		30,000	100	3,000

***Note**: The allocation of the health insurance benefit is based on the allocation of the salary to which the insurance applies. In this example, the teaching duties that are used as the basis for allocation are divided proportionately between program intent codes 11, Basic Instruction, 21, Gifted and Talented, and 91, Athletics and Related Activities.

End of Exhibit 1.4.4.2.A

Teacher Retirement System Matching Expenditures

Your district must allocate TRS matching expenditures in the same manner as it allocates the salaries included in the TRS calculation.

For example, in Exhibit 1.4.4.2.B, the total TRS matching rate multiplied times the total salary provides the total TRS matching expenditure. The expenditure is allocated in the same manner as the salary.

Exhibit 1.4.4.2.B Allocation of TRS Matching Expenditures

Note: The rates and assumptions used in this exhibit are examples only. These calculations in school districts vary depending upon actual TRS matching rates, employee contract terms, etc.

Factors

Salary	$50,000
TRS Matching Contribution Rate	6.8%
TRS-Care Matching Contribution Rate	0.55%
Cost of Education Index	1.08
State Base Salary[84]	$27,540

Calculation of TRS Matching Expenditure

$50,000 x 7.35% = $3,675.00

Allocation of TRS Matching Expenditures

Type of Duty	Salary ($)	Portion of Total Salary (%)	TRS Matching Expenditures ($)
Teaching Duties—Locally Funded	21,500	43	1,580.25
Teaching Duties—Federally Funded	21,500	43	1,580.25
Head Teacher Duties—Locally Funded	3,000	6	220.50
Pep Squad Sponsor Duties—Locally Funded	4,000	8	294.00
Total	50,000	100	3,675.00

End of Exhibit 1.4.4.2.B

Several separate components of the total TRS matching expenditures may be present. These components may include the following:

- **Federal grant matching expenditure**—This expenditure is calculated on federally funded salaries. The TRS matching contribution rate is multiplied times the federally funded salary.
- **Federal TRS Care matching expenditure**—This expenditure is calculated on federally funded salaries. The TRS matching contribution rate is multiplied times the federally funded salary.

[84] Minimum ten-month contract, 187 days of service, under TEC, §21.401

- **On-behalf teacher retirement payments**—The state pays the TRS matching expenditure not paid by the school district. Therefore, the calculation is the total TRS-eligible salary multiplied times the TRS matching contribution rate (established by the state) less the sum of the statutory minimum, federal grant, and federal TRS Care matching expenditures.

A school district must record the TRS matching amount paid by the state on behalf of the school district as a TRS matching expenditure. For more information, see the following:

- Appendix A: Accounting Code Structure and Codes, revenue object code 5831, Teacher Retirement or TRS Care—On-Behalf Payments, and
- Summary of GASB Statement No. 24.

Exhibit 1.4.4.2.C shows the calculation of each component of the TRS matching expenditure based on the factors in Exhibit 1.4.4.2.B.

Exhibit 1.4.4.2.C Calculation of TRS Matching Expenditure Components

Note: The TRS matching rates shown are examples only. Applicable TRS matching rates must be used in actual calculations by school districts.

Statutory Minimum Matching Expenditure

Because the maximum federal grant matching amount is charged to the federal account fund code, 100 percent of the statutory minimum matching is allocated among the local account fund codes:

[$50,000 – ($27,540.00 x 1.08)] x 7.35% = $3,675

Federal Grant Matching Expenditure (coded 100 percent to federal account fund codes):

$21,500 x 6.80% = $1,462.00

Federal TRS Care Matching Expenditure (coded 100 percent to federal account fund codes):

$21,500 x 0.55% = $118.25

On-Behalf Teacher Retirement Payments

$50,000 x 7.35% = $3,675.00

$3,675.00 – ($1,488.87 + $1,462.00 + $118.25) = $605.88

Summary of TRS Matching Expenditure Allocation

Account Codes	TRS Statutory Minimum ($)	Federal Grant ($)	Federal TRS-Care ($)	On-Behalf ($)	Total ($)	Percentage of TRS Matching Expenditure (%)
199-11-6144-00-001-Y-11-0-00	-	-	-	385.38	385.38	43
199-11-6146-00-001-Y-11-0-00	1,194.87	-	-	-	1,194.87	
211-11-6146-00-001-Y-24-0-00	-	1,462.00	118.25	-	1,580.25	43
199-36-6144-00-001-Y-91-0-00	-	-	-	220.50	220.50	6
199-36-6146-00-001-Y-91-0-00	294.00	-	-	-	294.00	8
Subtotal	1,488.87	1,462.00	118.25	605.88	3,675.00	100

End of Exhibit 1.4.4.2.C

1.4.5 Cost Allocation Methods

The law requires school districts to account for costs by "campus" (organization) and "program" (program intent).[85] Salaries and benefits of instructional personnel are generally assigned to account codes based on a teacher's or teacher aide's schedule. As a result, the coding of instructional salaries and benefits remains relatively static during the year. However, the coding of nonpayroll costs requires a substantial commitment of the campus staff's time because of the high volume of transactions and the numerous account codes to which such expenditures must be charged. Nonpayroll costs include costs associated with:

- salaries and benefits of substitute teachers,
- contracted services,
- supplies,
- other operating expenditures, and
- capital outlay.

[85] TEC, §44.007(d)

Your district may eliminate the need to code most nonpayroll costs to an organization and program intent code by:

- calculating the FTEs for instructional staff members attributed to each organization and program intent combination, and
- allocating nonpayroll costs according to the percentage of instructional staff members attributed to each organization and program intent combination.

Since nonpayroll costs in instruction represent only about 6 percent of total instructional expenditures, the allocation should not produce material differences between fully costing each individual transaction and allocating costs based on instructional FTEs. The main advantage of using the FTE allocation method is to save time for school district staff members who code expenditures that represent a relatively small percentage of total expenditures.

In general, the costs associated with an employee, such as fingerprinting, should be coded to the same fund, function, object, organization, fiscal year, and program intent code level as the employee's salary.

An example of allocating costs based on FTEs is shown in Exhibit 1.4.5.A below.

Exhibit 1.4.5.A Example of Cost Allocation Based on FTEs

Assumptions

Instructional FTEs for each instructional staff member must be available. There are several options for obtaining instructional FTEs. The following calculation does not depend on how the instructional FTEs are obtained.

A staff member's (Staff member #1) instructional FTE is calculated as .5. The staff member's payroll account codes are allocated as follows:

Account Code	Salary Allocated ($)
199-11-6119-00-101-4-11-0-00	11,000
199-11-6119-00-101-4-24-0-00	8,000
199-23-6119-00-101-4-99-0-00	15,000
	34,000

Calculations

Identify all payroll account codes that include function code 11, Instruction. Sum the salary amounts for the payroll account codes with function code 11:

Account Code	Salary Allocated ($)
199-11-6119-00-101-4-11-0-00	11,000
199-11-6119-00-101-4-24-0-00	8,000
	19,000

For the payroll account codes with function code 11, sum the salary amount for each combination of organization and program intent code (PIC):

Org	PIC	Salary ($)
101	11	11,000
101	24	8,000
		19,000

Calculate the percentage of salary for each combination of organization and program intent code:

Org	PIC	Calculation of Percentage (%)
101	11	11,000 ÷ 19,000 = 58
101	24	8,000 ÷ 19,000 = 42

Calculate the instructional FTE for each combination of organization and program intent code:

Org	PIC	Instructional FTE
101	11	.58 x .5 = .29 FTE
101	24	.42 x .5 = .21 FTE

Sum the instructional FTEs for each organization and program intent code combination for all staff members, and sum the instructional FTEs for all instructional staff members:
Assume that calculations for other staff members have resulted in the following:

Staff member #2	199-11-6119-00-101-4-11-0-00	1.00 FTE
Staff member #3	199-11-6119-00-101-4-11-0-00	.75 FTE
	199-11-6119-00-101-4-24-0-00	.25 FTE
Staff member #4	199-11-6119-00-001-4-11-0-00	.50 FTE
	199-11-6119-00-001-4-21-0-00	.50 FTE

Organizational Code	Program Intent Code (PIC)	Instructional FTEs	Allocated FTEs
101	11	.29 † 1.00 † .75 =	2.04 FTE
101	24	.21 † .25 =	.46 FTE
001	11	.50 =	.50 FTE
001	21	.50 =	.50 FTE
			3.50 FTE

Calculate allocation percentages for each combination:

Organizational Code	Program Intent Code (PIC)	Allocation Perecentages	
101	11	2.04 ÷ 3.50 =	58.3%
101	24	.46 ÷ 3.50 =	13.1%
001	11	.50 ÷ 3.50 =	14.3%
001	21	.50 ÷ 3.50 =	14.3%
			100.0%

Multiply the allocation percentages for each combination times the expenditure accounts not allocated to a specific organization and program intent code (PIC) combination:

Account Codes	Total	Org 101 and PIC 11	Org 101 & PIC 24	Org 001 and PIC 11	Org 001 and PIC 21
	100%	**58.3%**	**13.1%**	**14.3%**	**14.3%**
199-11-6399	$100,000	$58,300	$13,100	$14,300	$14,300
199-13-6399	$200,000	$116,600	$26,200	$28,600	$28,600
199-21-6399	$100,000	$58,300	$13,100	$14,300	$14,300
199-34-6119	$100,000	$58,300	$13,100	$14,300	$14,300
Total	**$500,000**	**$291,500**	**$65,500**	**$71,500**	**$71,500**

Expenditures that are coded to specific organizations but not to specific program intent codes can be allocated using the same method. In the example, FTEs for organization code 101 include 2.04 FTEs for program intent code 11 and .46 FTEs for program intent code 24. Percentages are calculated as follows:

Org	PIC	Instructional FTEs	Allocation Percentages
101	11	2.04	2.04 ÷ 2.50 = 81.60%
101	24	.46	.46 ÷ 2.50 = 18.40%
Total for Organization Code 101		2.50	100.00%

Aggregate all costs that are charged to a specific organization but not to a specific program intent code:

Account Codes	Costs
199-23-6119-00-101-4-99-0-00	$100,000
199-23-6399-00-101-4-99-0-00	$10,000
199-31-6399-00-101-4-99-0-00	$5,000
Total	$115,000

Allocate these expenditures to the appropriate program intent codes based on the percentages calculated in the previous steps:

Account Codes	Program Intent Codes		Total
	11	24	
	81.60%	**18.40%**	**100%**
199-23-6119-00-101-4-99-0-00	$81,600	$18,400	$100,000
199-23-6399-00-101-4-99-0-00	$8,160	$1,840	$10,000
199-31-6399-00-101-4-99-0-00	$4,080	$920	$5,000
Total	**$93,840**	**$21,160**	**$115,000**

Expenditures that are coded to specific program intent codes but not to specific organization codes can be allocated using the same method. In the example, FTEs for program intent code 11 include 2.04 FTEs with organization code 101 and .5 FTEs with organization code 001. Percentages are calculated as follows:

Org	PIC	Instructional FTEs	Allocation Percentages
101	11	2.04	2.04 ÷ 2.54 = 80.32%
001	11	.50	.50 ÷ 2.54 = 19.68%
Total for Program Intent Code 11		2.54	100.00%

Aggregate all costs that are charged to a specific program intent code, but not to a specific organization:

Account Codes	**Costs**
199-21-6399-00-999-4-11-0-00	$100,000
199-31-6399-00-999-4-11-0-00	10,000
199-32-6399-00-999-4-11-0-00	5,000
Total	$115,000

Allocate these expenditures to the appropriate organization based on the percentages calculated in the previous steps:

Account Codes	**Organization Codes**		**Total**
	001	**101**	
	80.32%	**19.68%**	**100%**
199-21-6399-00-999-4-11-0-00	$80,320	$19,680	$100,000
199-31-6399-00-999-4-11-0-00	$8,032	$1,968	$10,000
199-32-6399-00-999-4-11-0-00	$4,016	$984	$5,000
Total	**$92,368**	**$22,632**	**$115,000**

End of Exhibit 1.4.5.A

1.4.6 Administrative Costs

One of the advantages of cost accounting is its presentation of direct (instructional services) costs as a ratio to indirect (all support services) costs of the school district. Support services are broken into two categories: administrative costs and other support services as defined below.

Administrative costs, as general fund expenditures (fund code 199, General Fund), are determined by using the following calculations:

1. Add the amounts that are designated with object codes 6100–6400 and the following function codes:
   - 21, Instructional Leadership
   - 41, General Administration
2. Add the amounts that are designated with object codes 6100–6400 and the following function codes:
   - 11, Instruction
   - 12, Instructional Resources and Media Services
   - 13, Curriculum Development and Instructional Staff Development
   - 31, Guidance, Counseling, and Evaluation Services
3. Divide the sum in step 1 by the sum in step 2.

1.5 Required Reports and Data Submission

Your district must report its financial accounting and other information to the TEA and other entities, as specified in this section.

1.5.1 Annual Financial and Compliance Report

Your district must file an AFR or a comprehensive annual financial report (CAFR) that has been modified to include the information required in an AFR with the TEA .[86] At the same time, your district must also include a **data feed text file**.

The AFR or CAFR presented for approval to the board of trustees of the district and submitted to the TEA must be the complete final version, not a draft. It must not state anywhere on the AFR or CAFT that it is a draft version. In addition, the complete AFR or CAFR must be signed and **dated before** or **on** the date of the board's approval.

Note: In some circumstances, your district may also have to submit its AFR to a federal agency. For more information, see 1.5.3.1 Single Audit Filing.

For a sample AFR, see Appendix F: Example Annual Financial and Compliance Report.

1.5.1.1 Deadlines for Submitting the AFR

Your district's AFR is due to the TEA no later than the 150th day after the end of the district fiscal year that the report covers. If your district's fiscal year ends June 30, the report is due November 27. If your district's fiscal year ends August 31, the report is due January 28.[87]

1.5.1.2 Instructions for Submitting the AFR

Your district must submit the AFR or modified CAFR to the TEA electronically in two parts:

- an AFR document in PDF format
- a data feed text file

Instructions for submitting the required documents are available on the TEA Division of Financial Compliance website. For the **AFR PDF document**, your district must use the instructions provided in the Electronic Report Submission Standards PDF available on the Electronic Submissions webpage.

For the **data feed text file**, your district must use the instructions provided in the following documents also available on the TEA Electronic Submission webpage:

- Annual Financial Report Data Feed Standards

[86] TEC, §44.007
[87] TEC, §44.008

- Brief Overview of the Audit Data Feed Finalization Process

For more information on the data feed text file, see 1.5.1.4 Data Feed Codes.

1.5.1.3 Required Components of the AFR

To comply with TEA and GASB requirements, your district's AFR or modified CAFR must include the components described in this section. (If your district prepares a CAFR for submission to the Government Finance Officers Association and the Association of School Business Officials, it is not required to prepare a separate AFR to meet TEA reporting requirements provided that the CAFR submitted to the TEA has been supplemented with TEA-required information.)

Following is a brief overview of the required AFR components.

Table of contents

Certificate of the board

The certificate of the board must:

- state that the board of trustees has reviewed the AFR;
- indicate whether the board approved or disapproved the contents of the AFR; and
- include the:
  - date of the board's approval or disapproval;
  - reasons for the disapproval, if applicable;[88] and
  - original signature of the board secretary and the board president.

Note: Your district must include the certificate of the board regardless of whether the board approved or disapproved the contents of the AFR.[89]

Management's discussion and analysis (MD&A)

Independent auditor's report

- The report must be dated and signed by the independent auditor.

Basic financial statements

- Government-wide financial statements
  - A-1 Statement of Net Position
  - B-1 Statement of Activities

---

[88] TEC, §44.008(d)
[89] TEC, §44.008(d)

Fund financial statements

- Governmental funds:
  - C-1 Balance Sheet
  - C-1r Reconciliation of Balance Sheet to Statement of Net Position
  - C-2 Statement of Revenues, Expenditures, and Changes in Fund Balances
  - C-3 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances to Statement of Activities
- Proprietary funds
  - D-1 Statement of Net Position
  - D-2 Statement of Revenues, Expenses, and Changes in Fund Net Position
  - D-3 Statement of Cash Flows
- Fiduciary fund (and similar component units)
  - E-2 Statement of Fiduciary Assets and Liabilities
  - Discretely presented component units (fund financial statements as required supplementary information if component unit does not issue separate financial statements)

Notes to the financial statements (see GASB Statement No. 34)

Required supplementary information (RSI) other than MD&A (see GASB Statement No. 34)

- G-1 Budgetary Comparison Schedule—General Fund (See also 1.1.3 Budget Requirements**).**

TEA-required schedules

- J-1 Schedule of Delinquent Taxes Receivable
- J-4 Budgetary Comparison Schedule for National School Breakfast and Lunch Programs
- J-5 Budgetary Comparison Schedule Required by the Texas Education Agency—Debt Service Fund
- L-1 Schedule of School First Indicators

Statistical Section (see GASB Statement No. 44)

- Financial trends information
- Revenue capacity information
- Debt capacity information
- Demographic and economic information
- Operating information

Federal Awards Section

- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

- Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133
- Schedule of Findings and Questioned Costs
- Summary Schedule of Prior Audit Findings
- K-1 Schedule of Expenditures of Federal Awards

Note Disclosures

Your district's AFR must also contain certain note disclosures. There are generally three broad categories for types of note disclosures:

- Those that describe the accounting methods, policies, and choices underlying the amounts in the financial statements
- Those that provide additional detail about or explanations of the amounts in the financial statements
- Those that present amounts that otherwise would meet the definition of financial statement information, but does not meet all of the criteria to be recognized (for instance, because the amounts cannot be measured with sufficient reliability).

For specific note disclosures, use the applicable GASB Pronouncement Statements to determine the required note disclosures because the different statements require difference note disclosures. For instance:

- GASB Statement No. 84: Fiduciary Activities
- GASB Statement No. 82: Pension Issues, an amendment of GASB Statement No. 67, No. 68, and No. 73
- GASB Statement No. 78: Pensions Provided through Certain Multi-Employer Defined Benefit Pension Plans
- GASB Statement No. 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions
- GASB Statement No. 74: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans
- GASB Statement No. 73: Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68
- GASB Statement No. 71: Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68
- GASB Statement No. 68: Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 requires note disclosures on pensions.
- GASB Statement No. 63: Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position requires investments, capital assets, and significant effects of subsequent events be disclosed.

- GASB Statement 62: Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements requires disclosures on entity risk management activities.
- GASB Statement No. 61: Financial Reporting Entity: Omnibus, an amendment of GASB Statement No. 14 and No. 34 requires cash deposits with financial institutions to be disclosed.
- GASB Statement No. 54: Fund Balance Reporting and Governmental Fund Type Definitions requires the deficit fund balance or net position of individual funds to be disclosed in the footnotes of the financial statements.
- GASB Statement No. 38: Certain Financial Statement Note Disclosures contains note disclosure requirements concerning the future premium payments, and debt service requirements to maturity.
- GASB Statement No. 34: Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments requires the method used to capitalize assets be disclosed, types of transactions included in program revenues, policy for defining operating and nonoperating revenues of proprietary funds, policy on applying restricted and unrestricted resources, and long-term liabilities be disclosed.
- GASB Statement No. 30: Risk Financing Omnibus, an amendment of GASB Statement No. 10 requires a note disclosure on the premium deficiency liability.

1.5.1.4 Data Feed Codes

The TEA uses data feed codes to ensure accuracy in building a statewide database for policy development and funding plans. Your district must include data feed codes in its AFR.

Data feed codes are displayed on the financial statements A-1, B-1, C-1, and C-2. Each of these uses either object codes, function codes, or codes unique to the financial statement. The data feed codes for each statement include the following:

- A-1—uses object codes only
- B-1—uses function codes for expenses; unique alpha codes for totals, general revenues, and other items
- C-1—uses object codes only
- C-3—uses object codes for revenues, other financing sources (uses), and fund balance at the end of year; uses function codes for expenditures; unique numeric codes apply to some items

The standards for the data feed text file are on the Division of Financial Compliance's Electronic Submissions web page in the following documents:

- Annual Financial Report Data Feed Standards
- Brief Overview of the Audit Data Feed Finalization Process

1.5.1.5 Publication in a Newspaper

The president of your district's board of trustees must submit audited financial information to a newspaper in each county in which the district or any part of the district is located for publication (TLGC, §140.006). The chosen newspaper must be one that is widely circulated within the boundaries of the school district. The school district must submit the following:

Exhibit C-3 (Statement of Revenues, Expenditures and Change in Fund Balance, Governmental Funds) from the AFR.

The financial information must be published no later than 150 days after the close of the fiscal year. [90]

For more information on the publication requirements, see the TLGC, §140.006.

1.5.1.6 Notification for Late Audit

The due date for submitting the AFR to the TEA is established in statute; thus, there is no provision for extension.[91]

If your district cannot submit a properly prepared AFR to the TEA within two weeks of the due date, the district must notify the TEA in writing. This notice must:

- explain the circumstances causing the noncompliance and
- state when the AFR will be submitted.

1.5.1.7 Noncompliance

If your school district does not submit an AFR to the TEA within the prescribed period or if the submitted report is not properly prepared, the TEA will notify the district's superintendent that the district has not complied with the requirement. The TEA may also conduct a special accreditation investigation of the district's financial accounting practices and state and federal program requirements. Based on the results of this special investigation, the district's accreditation rating may be lowered.[92]

1.5.2 Other Reports to the TEA, State Agencies, and Local Entities

1.5.2.1 State Compensatory Education Audit

For information on required reports related to State Compensatory Education, see:

- Module 9: State Compensatory Education and

---

[90] TLGC, §140.006
[91] TEC, §44.008(d)
[92] TEC, §39.057

- the State Compensatory Education page on the Division of Financial Compliance website.

1.5.2.2 State Reporting for Bonds

If your district has outstanding bond issues, additional state filing requirements may apply. Your district should consult its bond counsel or the Texas Bond Review Board for those filing requirements.

Exhibit 1.5.2.2.A, State Bond Reporting Requirements and Related Issues, discloses some, but not all, state requirements for reporting bonds and other state requirements related to bonds.

Exhibit 1.5.2.2.A State Bond Reporting Requirements and Related Issues

Statute, Law or Rule	Title
Texas Government Code (TGC)	**Chapter Title**
TGC, Chapter 1201	Public Security Procedures Act
TGC, §1201.0245	Capital Appreciation Bonds by Political Subdivision
TGC, Chapter 1202	Examination and Registration of Public Securities
TGC, Chapter 1207	Refunding Bonds
TGC, §1371.0521	Independent School District Obligation
Local Government Code (TLGC)	**Chapter Title**
TLGC, §140.0045	Itemization of Certain Public Notice Expenditures Required in Certain Political Subdivision Budgets
TLGC, §140.005	Annual Financial Statement of School, Road, or Other District
TLGC, §140.006	Publication of Annual Financial Statement by School, Road, or Other District
TLGC, §140.008	Annual Report on Certain Financial Information
TLGC, §1201.002	
Texas Education Code (TEC)	**Chapter Title**
TEC, §45.001	Bonds and Bond Taxes
TEC, §45.003	Bond and Tax Elections
TEC, §45.0031	Limitation on Issuance of Tax-Supported Bonds

Statute, Law or Rule	Title
TEC §42.259(g)	Foundation School Fund Transfers
TEC, §45.004	Refunding Bonds
TEC, §45.005	Examination of Bonds by Attorney General
Texas Attorney General's office Public Finance Division	
TEC Chapter 45, Subchapter I	Intercept Program to Provide Credit Enhancement for Bonds
Texas Administrative Code (TAC)	**Chapter Title**
Title 1 TAC, Chapter 53, Subchapter A	Municipal Securities
1 TAC §53.5	Determination of Bond Allowable Rate
1 TAC §53.12	Refunding Bonds
1 TAC §53.61	School District Tax Bond Elections
1 TAC §53.62	Approval of School District Bonds

End of Exhibit 1.5.2.2.A

For more information on reporting for bond issues, see 1.5.3.2 Federal Reporting for Bonds.

1.5.2.3 Other State-Required Report—Municipal Advisory Council

Your district must send a copy of its AFR to the Municipal Advisory Council as soon as possible after filing the AFR with the TEA.

1.5.2.4 PEIMS Reporting

Your district must submit the following financial information annually through PEIMS, as specified in the PEIMS Data Standards:

- budget data for the current fiscal year
- actual audited financial data for the prior year

Your district must also submit all student, staff, organization, and attendance data specified in the PEIMS Data Standards. For more information on the PEIMS data standards, see the PEIMS Data Standards web page.

Actual financial data reported through the PEIMS collection system must be reported on a 12-month basis.

PEIMS submissions are required four times a year: fall, midyear, summer, and extended year. Some districts also are required to submit extended year data. The following list describes which information is required in each of the four submissions:

- **Fall submission** includes organization and campus data, SSA data, campus-related data, ***current fiscal year budget data***, staff data, and student data. The student data include identification/demographic information, enrollment information, special program information, and dropout and graduated student information.
- **Midyear submission** includes organization and campus data, SSA data, and ***actual audited financial data for the preceding fiscal year***.
- **Summer submission** includes organization and campus data; student data such as identification and demographic information; and attendance, course completion, and year-end status information
- **Extended year submission** includes Optional Extended Year Program (OEYP) data, extended school year (ESY) services data, and bilingual/English as a Second Language summer school program data.

A link to current year due dates for each submission is available on the TEA website.

1.5.2.5 District Reporting Schedule

By law, the TEA must develop and maintain a comprehensive schedule of reporting requirements generally imposed by the TEA or any state agency or entity to the extent possible.[93] This information is available on the District Reporting Schedule webpage.

The District Reporting Schedule lists due dates, requirements, and contacts for each report.

Each year, your school district should review the reports in the District Reporting Schedule and:

- determine which reports listed apply to your district,
- identify and notify the responsible staff member,
- provide responsible staff members the pertinent information in the District Reporting Schedule,
- verify that the required information is available within your district or plan how to capture the information, and
- determine due dates for required reports.

Your district can submit some reports to the TEA online or through other electronic means rather than through paper forms.

[93] TEC, §7.037

1.5.3 Reports to Federal Agencies

Under certain circumstances, your district must report information to federal agencies, as described in this section.

1.5.3.1 Single Audit Filing

If your district expended $750,000 or more in a year in direct or indirect federal awards, your district must submit the following reports to the Federal Audit Clearinghouse:

- a completed and signed Form SF-SAC, Data Collection Form for Reporting on Audits of States, Local Governments and Non-Profit Organizations as a Single Audit reporting package and
- your district's AFR.

For instructions, see the Federal Audit Clearinghouse[94] home page.

For additional information about the required single audit, see 2 CFR Part 200—Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Rewards, Supart F—Audit Requirements (2 CFR §200, Subpart F—Audit Requirements).

1.5.3.2 Federal Reporting for Bonds

If your district has outstanding bond issues, additional federal filing requirements apply. Your district should consult the following for those filing requirements:

- your district's bond counsel
- the Municipal Securities Rulemaking Board (MSRB)
- Securities and Exchange Commission regulations[95]

For more information on reporting for bond issues, see 1.5.2.2 State Reporting for Bonds.

1.6 Requirements Related to Federal Grants and Financial Assistance

Federal financial assistance may take the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, and insurance or direct appropriations. Depending on the amount and source of the federal financial assistance received, school districts may be required to satisfy audit and reporting requirements prescribed by Government Auditing Standards issued by the

---

[94] Federal Audit Clearinghouse
[95] 17 CFR §240.15c2-12

Comptroller General of the United States (and often referred to as the Yellow Book); the Single Audit Act of 1984 as amended by the Single Audit Act Amendments of 1996, Public Law 104-156 (the Single Audit Act); other federal agency policies and regulations; and agreements or contracts with the federal agencies. Several statutory and regulatory requirements are applicable to all or most federal assistance programs.

For the applicable federal regulations for federal financial assistance received by the school district, see 2 CFR Part 200. In addition, see Appendix D: Other Federal and State Requirements in the Financial Accounting and Reporting Appendices.

In addition, there are other regulations that may be applicable to the federal assistance that your school district receives.

For information on requirements related to federal grants and financial assistance, see the TEA Administering a Grant resources web page for information on the following:

- general and fiscal guidelines
- provisions and assurances
- amendments
- expenditure reporting
- handbooks
- budgeting guidance
- allowable cost guidance
- training, travel guidelines
- federal cost principles
- uniform administrative requirements
- audits

1.7 Tax Concerns and Obligations

Tax concerns and obligations of school districts include issues such as the following:

- arbitrage rebate on tax-exempt bonds
- salaries and wages reporting
- withholding on fringe benefits
- independent contractor status
- application of sales and use taxes
- exempt organizations

1.7.1 List of Publications

The following IRS publications address tax issues that come up frequently for school districts:

- Publication 15: (Circular E), Employer's Tax Guide
- Publication 463: Travel, Entertainment, Gift, and Car Expenses
- Publication 521: Moving Expenses
- Publication 525: Taxable and Nontaxable Income
- Publication 535: Business Expense
- Publication 571: Tax-Sheltered Annuity Plans (403(b) Plans) for Employees of Public Schools and Certain Tax-Exempt Organizations
- Notice 931: Deposit Requirements for Employment Taxes
- Publication 969: Health Savings Accounts and Other Tax-Favored Health Plans
- Notice 2018–77: Per Diem Rates
- Standard Mileage Rates
- Publication 3755: Tax Exempt Bonds—Filing Requirements
- Publication 4079: Tax-Exempt Governmental Bonds
- Other IRS Publications, such as instructions for forms:
    - 1098
    - 1099
    - 5498-ESA
    - W-2G and 5754
- Publication 1141: General Rules and Specifications for Substitute Forms W-2 and W-3
- Publication 1179: General Rules and Specifications for Substitute Forms 1096, 1098, 1099, 5498, W-2G, and 1042-Sand Certain Other Information Returns

1.7.2 Arbitrage Rebate on Tax-Exempt Bonds

Because the rules are complex for arbitrage rebate and yield restriction, your district should seriously consider engaging qualified consultants for help with arbitrage-related compliance. For information about the proper GAAP treatment and disclosures related to the arbitrage rebate liability, see 1.2.5.2 Arbitrage Rebate Liabilities. The following publications provide information about issues related to arbitrage:

- IRS Publication 4079: Tax-Exempt Governmental Bonds
- Banks to Bonds: A Practical Path to Sound School District Investing, published by the Legislative Budget Board

1.7.3 Salaries and Wages Reporting: Form W-2

Your district must file Form W-2, Wage and Tax Statement, each calendar year for all employees. The form summarizes all wages and taxes withheld from an employee's pay during the calendar year. Your district must provide the form to each employee by January 31 and to the IRS by February 28 of the following calendar year. Requirements for substitute forms are provided in IRS Publication 1141: General Rules and Specifications for Substitute Forms W-2 and W-3.

Your district must include all taxable amounts in box 1, Wages, tips, other compensation, of Form W-2. Box 14, Other, is also available for your district to provide employees with any information it desires. This is the only unrestricted box available on the Form W-2.

Taxable fringe benefits, which may be provided **in-kind** or by cash payments from the school district, must be included in Form W-2 (in box 1). Taxable fringe benefits include:

- automobiles
- restricted use automobiles
- nonqualified moving expenses
- nonaccountable travel reimbursement
- per diem or mileage allowance for the amount paid in excess of the amount treated as substantiated under IRS rules
- family travel expenses
- employee contributions to an Archer medical savings account (MSA)
- employer contributions to an Archer MSA if includible in the income of the employee
- employee contributions to a health savings account (HSA)
- employer contributions to an HSA if includible in the income of the employee
- employer contributions for qualified long-term care services to the extent that such coverage is provided through a flexible spending or similar arrangement
- uniforms or clothing
- deferred compensation or annuities
- cost of group term life insurance in excess of $50,000
- whole life insurance
- payments for non-job-related education expenses or for payments under a nonaccountable plan unless excludable under educational assistance programs
- other benefits

Certain details may be required in other boxes on the form. See the instructions for Form W-2 for a full listing of taxable items.

In addition to reporting wages earned by each employee, your district must deposit all payroll taxes withheld from employees wages with the IRS using the EFTPS (Electronic Federal Tax Payment System).

1.7.4 Other Federal Tax Issues

This section provides information about other federal tax forms that your district may have to file.

1.7.4.1 Employee Versus Independent Contractor—Form W-2 Versus Form 1099-MISC

For an employee, your district must file Form W-2, Wage and Tax Statement. For an independent contractor, your district must file Form 1099-MISC, Miscellaneous Income (see 1.7.4.2 Form 1099 Reporting). The amounts paid to the independent contractor are considered to be **nonemployee compensation**.

Whether an individual is considered an employee or an independent contractor for tax purposes is a question of fact determined by the IRS. In making this determination, the IRS considers several facts regarding evidence of control and independence. The facts fit primarily in the following three categories, as defined in the IRS Topic 762—Independent Contractor vs. Employee:

- **Behavioral Control** covers facts that show whether the district has a right to direct or control how the work is done through instructions, training, or other means.
- **Financial Control** covers facts that show whether the district has a right to direct or control the financial and business aspects of the worker's job. This includes:
  - the extent to which the worker has unreimbursed business expenses,
  - the extent of the worker's investment in the facilities used to perform services,
  - the extent to which the worker makes his or her services available to the relevant market,
  - how the district pays the worker, and
  - the extent to which the worker can realize a profit or incur a loss.
- **Relationship of the parties** covers facts that show how the parties perceive their relationship. This includes:
  - written contracts describing the relationship the parties intended to create;
  - whether the district provides the worker with employee-type benefits, such as insurance, a pension plan, vacation pay, or sick pay;
  - the permanence of the relationship; and
  - The extent to which services performed by the worker are a key aspect of the regular business of the district.

A qualified plan must be maintained for the exclusive benefit of **employees**. If contractors are erroneously treated as employees, there could be complications for the TRS.

For additional information, see the following on the IRS website:

- Publication 15: (Circular E), Employer's Tax Guide
- Topic 762—Independent Contractor vs. Employee

1.7.4.2 Form 1099 Reporting

For any **unincorporated** business, not just an individual, that receives $600 or more for services, not merchandise, in a **calendar year**, your district must issue a Form 1099-MISC, Miscellaneous Income. For more information, see IRS Publication 15: (Circular E), Employer's Tax Guide.

Your district must have on file the taxpayer identification number for any employee or contractor who is a payee of the district. The payee should return a completed Form W-9, Request for Taxpayer Identification Number and Certification, to your school district before the district makes payment. If the payee fails to provide its taxpayer identification number or to certify that it is incorporated, backup withholding, also called **nonpayroll income tax withholding**, is required. That is, your district must withhold an amount to be paid for income taxes.

Taxes withheld must be deposited with:

- the IRS using EFTPS (Electronic Federal Tax Payment System); and
- reported to the IRS on Form 945, Annual Return of Withheld Income Tax.

1.7.4.3 Reporting for Retirement and Fringe Benefit Plans

Form 5500, Annual Return/Report of Employee Benefit Plan, is required for section 125 (cafeteria) plans. Your district must file the form by the end of the seventh month following the close of the plan year. The plan document should identify the plan year. For more information, see the Form 5500 Corner on the IRS website.

1.7.4.4 Reporting for Payroll Taxes Withheld

Payroll taxes withheld must be deposited with:

- the IRS using the EFTPS; and
- reported to the IRS by using the required form(s).

For more information on IRS employment tax reporting and depositing requirements see Depositing and Reporting Employment Taxes on the IRS website.

1.7.4.5 Penalties

If your district fails to file the required forms, it may be subject to various penalties.

1.7.4.6 Social Security Taxes

Since July 1991, people employed by a school district have not been exempt from FICA taxes if they are not *members* of a retirement plan. Employees who do not participate in the TRS must be provided a separate retirement plan by a school district or their earnings are subject to FICA.

Employees who generally are subject to FICA in the absence of a school district plan are part-time employees and employees who do not participate in the TRS because of minimum age and service requirements.

For additional information, see Tools for Federal, State, and Local Governments on the IRS website.

1.7.4.7 Employee or Board Member Travel and Business Expenses

With proper accounting and documentation, your district may reimburse the full cost of travel and subsistence without income tax consequences, provided that the amount does not exceed the amount determined using the state travel allowance guide adopted by the comptroller.[96] For more information, see Textravel on the comptroller's website.

All such reimbursements must be in accordance with your district's policies for expense reimbursements. To avoid income tax consequences, the employee must report to the school district the actual amounts of expenditures and must provide receipts for lodging costs and for any expenditure over $25. Certain exceptions to these rules are noted below.

In lieu of actual expenses, your district may adopt a per diem reimbursement policy. Under this method, only the business purpose and fact of the travel must be substantiated. For the most recent information, see IRS Publication 1542: Per Diem Rates.

For more information, see Publication 463 Travel, Entertainment, Gift, and Car Expenses.

An officer or employee of a school district who is engaged in official business may participate in the comptroller's contract for travel services.[97]

Note: Expenses for alcoholic beverages are not reimbursable from any funding source of the school district.

1.7.4.8 Section 403(b) Annuities

Section 403(b) annuity plans exist throughout the state. They are a common method of allowing employees to save for retirement and increase their benefits over the amounts the employees will receive from the TRS. These plans may be provided by a school district (which is not common) or by way of employee-elected deferrals of salary.

Section 403(b) plans are governed by IRS rules. For general information on the plans and links to additional IRS information, see IRS 403(b) Tax-Sheltered Annuity Plans.

1.7.4.9 Section 457 Plans

Section 457(b) plans, also called eligible deferred compensation plans, are another form of retirement income planning. Amounts in a plan meeting these requirements are not taxable to the employee until they are made available (withdrawn or funded). For additional information, refer to the IRSC 457 website(b) Deferred Compensation Plans.

Section 457(f) plans generally govern taxability of special annuities (that is, annuities that are not generally provided to all employees) provided to highly compensated individuals.

[96] TGC, §660.021
[97] TGC, §2171.055

1.7.5 Exempt Organizations

Several regulations affect purchases and sales by exempt organizations.

1.7.5.1 Purchases by Exempt Organizations

As used here, the phrase *exempt organization* refers to organizations exempt from sales tax on their *purchases* of otherwise taxable goods and services. Exempt organizations are not required to pay sales tax on the purchase of tangible personal property or taxable services if the property or service is to be used exclusively for public purposes.

There are two ways that exempt status may be obtained:

- Certain organizations may apply for and obtain a letter of exemption from the state of Texas
- Comptroller of Public Accounts. Such requested exemption applies to many private schools. The organization may be statutorily exempt. Statutory exemption includes public school districts.

Statutorily exempt organizations include the state of Texas and its unincorporated agencies and instrumentalities; any county, city, special district, or other political subdivision of the state; and any college or university created or authorized by the state. Therefore, public school districts are statutorily exempt organizations. No written application or other action is required of these organizations to receive exempt status. [34 TAC §3.322(c)(5)]

In the ordinary course of business, a vendor must assume that a buyer's purchase is subject to sales tax unless the buyer presents an exemption certificate. However, a purchase voucher issued by a statutorily exempt organization is sufficient proof of the entity's exempt status. Nonetheless, an exemption certificate must be given to the vendor if an authorized *agent*, rather than the statutorily exempt organization itself, makes a cash purchase of merchandise for an exempt organization.

An *employee* of an exempt organization cannot claim an exemption from tax when purchasing taxable items of a personal nature even if the employee receives an allowance or reimbursement from the organization for the items purchased. Also, a person traveling on official business for an exempt organization must pay sales tax on taxable purchases whether reimbursed on a per diem basis or reimbursed for actual expenses incurred.

1.7.5.2 Sales by Exempt Organizations

Exemption from paying sales tax on your district's *purchases* does not relieve it from the obligation to collect sales tax on its *sales,* if any. An exempt organization, such as a school district, that sells taxable items must obtain a sales tax permit and must collect and remit tax on all sales of taxable items made by the organization unless those sales are otherwise exempt from the tax. If your school district needs to obtain a sales tax permit, it must file a Form AP-201, Texas Application for Sales and Use Tax Permit, with the Texas Comptroller of Public Accounts.

Your school district should review its operations for possible obligations to collect sales taxes and should ensure that all such obligations are properly met. For more information, see the Tax Publications page on the Texas Comptroller of Public Accounts website.

1.7.6 Treatment of Rehired Annuitants

A rehired annuitant is a retiree who is hired by his or her former employer or by another employer that participates in the same retirement system as the former employer. This includes a former participant in a state retirement system who has previously retired and who is either:

- currently receiving retirement benefits or
- has reached normal retirement age.

A rehired annuitant either draws a retirement benefit from the TRS or has reached retirement age under the requirements by the TRS and the Texas Legislature.

Rehired annuitants not in positions covered by a Section 218 Agreement are excluded from mandatory social security coverage under FICA. However, all retirees hired after March 31, 1986, are covered for Medicare.

The regulations provide that a rehired annuitant is deemed to be a qualified participant in the retirement system, regardless of whether he or she continues to accrue a benefit or whether benefits continue during the employment period. Contributions are not required to be made to the state retirement system on the retired annuitant's behalf.

For more IRS rehired annuitants requirements, see the Rehired Annuitants web page on the IRS website.

The 80th Texas Legislature, 2007, made changes regarding rehired annuitants. In addition, two Attorney General Opinions are related to retired and rehired teachers:

- JC-0442 and
- GA-0018.

For the most up to date information on any TRS-related requirements concerning rehired annuitants, see the TRS website.

1.8 E-Rate—Requirements for the Schools and Libraries Universal Service Fund (USF) Program

The Universal Service Fund (USF) Program, or E-rate program, helps schools and libraries to get affordable broadband. Your district (or a school or library):

- applies for the program with the Universal Service Administrative Company (USAC),
- pays for services at a discounted rate,
- records the expenditure as cash paid or an amount due for a service received, and

- must not treat the discount as revenue.

The USAC reimburses service providers.

For more information about the E-rate program and the related federal regulations, see the following websites:

- E-Rate—Schools & Libraries USF Program on the Federal Trade Commission website
- Federal Communications Commission (FCC) Order FCC-11-125
- Related CFR regulations
- TEA E-Rate web page

Acronyms

AICPA—American Institute of Certified Public Accountants

ADA—Average Daily Attendance

CAFR—Comprehensive Annual Financial Report

CFR—Code of Federal Regulations

ESEA—Elementary and Secondary Education Act

ESSA—Every Student Succeeds Act

FASB—Financial Accounting Standards Board

FCC—Federal Communications Commission

FDIC—Federal Deposit Insurance Corporation

FIFO—First in – First out

FTE—Full-time equivalent

FSP—Foundation School Program

GAAP—Generally Accepted Accounting Principles

GAGAS—Generally Accepted Government Auditing Standards

GAO—Government Accountability Office

GASB—Governmental Accounting Standards Board

GCAF—General Capital Asset Fund

GFOA—Government Finance Officers Association

GLTDF—General Long Term Debt Fund

LEA—Local Education Agency

LIFO—Last in – First out

NCGA—National Council on Governmental Accounting

NCLB—No Child Left Behind

NSLP—National School Lunch Program

OMB—Office of Management and Budget

OPEB—Other Postemployment Benefits

PEIMS—Public Education Information Management System

SEC—Securities and Exchange Commission

TAC—Texas Administrative Code

TEC—Texas Education Code

TDA—Texas Department of Agriculture

TPPF—Texas Public Property Finance Act

TRS—Teacher Retirement System of Texas

USC—United States Code

USF—Universal Service Fund

USDA—United States Department of Agriculture

WADA—Weighted Average Daily Attendance

Bibliography

American Institute of Certified Public Accountants. Statements on Auditing Standards.

American Institute of Certified Public Accountants. Accounting Principles Bulletin. Opinions.

American Institute of Certified Public Accountants. AICPA Accounting Standards Executive Committee (AcSEC) Practice Bulletins.

American Institute of Certified Public Accountants. AICPA Issues Papers.

American Institute of Certified Public Accountants. AICPA Professional Standards.

Code of Federal Regulations

Financial Accounting Standards Board. FASB Interpretation.

Government Finance Officers Association. GAAFR Review.

Governmental Accounting Standards Board. GASB pronouncements, implementation guides and concepts statements.

Texas Administrative Code (TAC)

Texas Education Code (TEC)

Texas Government Code (TGC)

Texas Local Government Code (TLGC)

Comptroller General of the Unites States. Generally Accepted Government Auditing Standards.

United States Code

Index

A

B

C

D

E

F

G

H

I

L

M

N

O

P

R

S

T

U