# State of Vermont
# Agency of Education

## Handbook for Financial Accounting of Vermont School Systems (Handbook II)

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# 1 Introduction

## 1.1 Background

The Vermont Agency of Education (AOE) has been working with Vermont's Local Education Agencies (LEAs), reflected by a diversity of governance structures. The State recognizes these various education structures, including town school districts, city school districts, incorporated school districts, union school districts, unified union school districts, joint contract schools, tech centers, regional educational districts, modified unified union school districts, interstate school districts, etc. Collectively, Vermont's education structures will be referred to as Local Education Agencies (LEAs) in this document.

Vermont statutes (16 V.S.A §242(4) (B) & (C)) require LEAs to follow the definitions, instructions, and procedures as presented in the **Handbook for Financial and Accounting for Vermont School Systems (Handbook II)**. This edition of the handbook provides accounting policies and procedures, as well as guidance in implementing those policies and procedures, which include:

- Overview of the Uniform Chart of Accounts (UCOA)
- Design and Structure of the UCOA
- Definitions and Information on Using the UCOA Segments
- Allowable Account Combinations
- How to account for common school finance transactions
- State Performed Allocation Policies and Procedures
- Glossary of Basic Accounting Terms

The purpose of the Handbook for Financial Accounting of Vermont School Systems is to provide the Vermont's elementary and secondary education community a single source document for the governmental financial accounting and reporting guidance provided by the AOE. This guidance should be used by LEAs when reporting financial information to the AOE. We hope this handbook provides the reader with an understanding of the accounting and reporting objectives and underlying principles, thus enabling the user to apply them to any situation encountered when recording or reporting financial data.

In 2018, the General Assembly of the State of Vermont required LEAs to use the same school financial management system, as selected by the state (2018 Spec. Sess. Acts and Resolves No. 11, Sec, E.500.1). The State has chosen Power School's eFinancePlus as the Shared School District Data Management System (SSDDMS) platform.

The SSDDMS is a shared financial and human resources data management system for Vermont LEAs. SSDDMS supports implementation of a Uniform Chart of Accounts (UCOA). The platform supports continued UCOA compliance through a centrally managed chart of accounts. The system also includes mechanisms for more efficient reporting to the state. The AOE has contracted for the SSDDMS as a fully vendor-hosted service (eFinancePLUS).

The SSDDMS project website is available at:

https://education.vermont.gov/vermont-schools/school-finance/ssddms

Handbook II was developed with a post-implementation focus including an in-depth look at the UCOA. Any accounting and reporting guidance provided in this handbook was developed under the same assumption.

## 1.2 Glossary of Acronyms

**Table 1: Glossary of Acronyms**

| Acronym | Definition |
|---|---|
| AICPA | American Institute of Certified Public Accountants |
| AOE | Vermont Agency of Education |
| CAFR | Comprehensive Annual Financial Report |
| CFDA | Catalog of Federal Directed Assistance |
| COA | Chart of Accounts |
| COSO | Committee of Sponsoring Organizations of the Treadway Commission |
| EEE | Essential Early Education |
| EFP or eFinance | eFinancePLUS |
| FAQ | Frequently Asked Questions |
| GAAP | Generally Accepted Accounting Principles |
| GAAS | Generally Accepted Accounting Standards |
| GASB | Government Account Standards Board |
| LEA | Local Education Agency |
| LEAID | Local Education Agency Identification |
| NCES | National Center for Educational Statistics |
| PS | Public School |
| State | State of Vermont, Agency of Education |
| SU | Supervisory Union |
| UCOA | Uniform Chart of Accounts |
| VASBO | Vermont Association of School Business Officials |

## 1.3 Governmental Accounting Standards Board

Accounting personnel should be familiar with the principles and statements issued by the Governmental Accounting Standards Board (GASB), which is recognized nationally as the primary standard-setting body for governmental accounting. The principles and statements of

GASB are available in its publication titled Codification of Governmental Accounting and Financial Reporting Standards, available from:

Governmental Accounting Standards Board

Telephone: 800-748-0659

website: http://www.gasb.org

In addition, the Government Finance Officers Association publishes *Governmental Accounting, Auditing, and Financial Reporting*, which provides detailed guidance in applying the principles and statements of GASB. It is available from:

Government Finance Officers Association

Telephone: 312-977-9700

website: http://www.gfoa.org

This handbook does not provide guidance on every possible transaction. LEA's encountering accounting and reporting issues not addressed in the manual should consult GASB's publications or contact their independent auditors, or the AOE for technical assistance.

## 1.4 Uniform Guidance

The Office of Management and Budget (OMB) issued Uniform Administrative Requirements, Cost principles and Audit Requirements, known as the Uniform Guidance. The Uniform Guidance provides a government-wide framework for grants management and is an authoritative set of rules and requirements for Federal awards.

A Uniform Guidance audit is a compliance audit of federal expenditures, above and beyond the financial statement audit, to be performed by an Independent Auditor and submitted to the Federal Clearinghouse (see also 4.4 for additional information).

## 1.5 Governmental Accounting, Auditing & Financial Reporting

The number of programs and services provided by federal, state, and local governments has multiplied significantly since the early 1960's. This tremendous growth resulted in a significant increase in the amount of money governments spend and in turn, has resulted in a demand by the citizenry for greater accountability of public funds.

Accounting is the discipline expected to satisfy this demand for such accountability. When the expansion began in the early 1960's, Generally Accepted Accounting Principles (GAAP) used in the United States was oriented to the needs of the business community. However, it soon became evident the information and reports required to establish public accountability for a governmental unit differ markedly from those required for a commercial organization. A new set of accounting rules which provided greater accountability of public funds was necessary.

Today, governmental accounting is a separate but integral branch of the accounting profession. Reaching this point was an evolutionary process culminating in April 1984 with the designation of the Governmental Accounting Standards Board (GASB) as the authoritative body for governmental accounting in the United States. In the formal structure of the accounting profession, GASB is recognized as one of the two equal standard setting boards of the Financial Accounting Foundation (FAF). Prior to 1984, the Financial Accounting Standards Board (FASB) was the sole authoritative body for financial accounting and reporting in the United States. FAF assigned GASB the responsibility for establishing standards for the financial accounting and reporting of State and Local governments. FASB retained responsibility for all other organizations.

All Vermont LEAs are considered elements of a State or Local government. As such, they must meet GASB standards if their financial accounting, auditing, and reporting procedures are to be universally accepted.

The Government Finance Officers Association (GFOA) was founded in 1906. It publishes Governmental Accounting, Auditing and Financial Reporting (GAAFR), known throughout the accounting profession as "The Blue Book". The GAAFR provide detailed professional guidance on practical applications of GAAP. The 2012 edition of GAAFR is the latest edition available, thought a supplemental update was published in 2014. It is not considered an authoritative document by GASB, but it is still considered to be the model for State and Local governments to use when establishing their financial accounting system, and in producing their financial reports.

## 1.6 Financial Accounting for Local Education Agencies (LEAs)

The National Center for Education Statistics (NCES) is the division of the U. S. Department of Education responsible for providing and interpreting comprehensive statistics concerning the condition of education in the United States. To accomplish this, the NCES develops, revises, and updates handbooks on standardized reports and terminology. The adoption of NCES guidelines is not required by federal law. But their use by State and Local school systems is encouraged by many of the professional organizations in the governmental accounting field.

*Financial Accounting for Local and State School Systems,* is published by the NCES and updated periodically. Their latest version, published in 2014, establishes a common Account Code Classification system. The Code is designed to be the national standard for use by State Departments of Education when reporting financial data to the U. S. Department of Education.

## 1.7 Internal Controls and Structure

An integral part of proper accounting and reporting is the design and maintenance of internal controls over financial reporting. Internal control is a process—affected by those charged with governance, management, and other personnel—designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting;
- Effectiveness and efficiency of operations; and
- Compliance with applicable laws and regulations.

LEAs should have an adequate system of internal controls in place to support these objectives.

AICPA auditing standards indicate that the elaborateness of the system of internal controls established within an organization is a matter of judgment on the part of management, with careful consideration for circumstances, such as the size of the organization and the number of personnel available, and the relationship between the costs and benefits of designing and implementing controls.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) developed an integrated internal control framework for use by organizations. The latest version of the framework, Internal Control – Integrated Update, was published in 2013 and is available on their website www.coso.org.

## 1.8 How to Use This Handbook

The Handbook for Financial Accounting of Vermont School Systems (Handbook II) is a comprehensive accounting and reporting manual that provides the Uniform Chart of Accounts in extensive detail and also addresses certain technical accounting issues common to Vermont LEAs.

The key accounting personnel in each LEA should read the manual in its entirety to become familiar with all of the requirements and rules. Handbook II is a continual work in progress and is periodically updated to maintain its accuracy and usefulness as the UCOA is updated/modified and as new technical accounting and reporting issues arise.

Several ways to find information in Handbook II are noted below.

Table of Contents. By searching the table of contents and clicking on the desired page number, it will direct the document to that page.

Bookmarks. Bookmarks will also take you directly to the topic you select. To access "Bookmarks" locate the Bookmarks menu; from there you can view a list of bookmarks that matches the table of contents.

Search Function. Performing a word or phrase search using the "Find" tool under the "Edit" menu. This tool can also be activated by pressing Control F.

## 1.9 Updates to This Handbook

Updates to Handbook II will be made at periodically, resulting from changes in State and/or Federal reporting requirements, or as a result of insights generated out of the collaboration between AOE and Vermont Association of School Business Officials (VASBO) vis-a-vis the SSDDMS/UCOA Governance Board. The document will be updated once a year and the updated document published in late summer or early fall, ahead of next year's budget cycle.

# 2 Governmental Financial Accounting and Reporting

## 2.1 Definition

A Governmental Financial Accounting and Reporting System is a combination of methods and procedures organized to record the financial activity of a governmental entity, and to display that activity in financial reports. The primary purpose of the system is to produce financial information useful to a myriad of users.

## 2.2 Users/Uses

The groups most interested in the financial status of a LEA are school administrators, the general public, legislative bodies and school boards, investors and creditors. A sound financial accounting and reporting system must meet the basic informational needs of all of these interested parties.

### 2.2.1 School Administrators

School Administrators need a Financial Accounting and Reporting System that records financial transactions in an organized manner. They must also have quick access to this financial data in manner that supports their decision making process. Timely and complete financial information allows them to evaluate present and past performance, identify trends, determine compliance with regulatory requirements, and prepare budgets. These are all essential to operating a modern school system. While this handbook concentrates on standardized reporting produced for the three groups of external users listed below, its flexibility allows school administrators to design reports to meet their own needs.

### 2.2.2 The General Public

The ultimate check on a School Board is its constituents. As the resource providers, taxpayers want to know where their money is going and how efficiently and effectively it is used. They want to be able to compare their LEA with neighboring organizations, and with state and national norms. The financial reports covered in this handbook are the national standard. They are designed by GASB and the AICPA to provide maximum financial information in a standardized format. LEAs using these reports will be able to provide their constituents the information needed to meet their requirements.

### 2.2.3 School Boards and Legislative Bodies

School Boards

The School Boards of the LEAs in the State of Vermont have supervisory and fiduciary responsibilities for their elementary and secondary school systems. Within the LEAs they are equivalent to a Board of Directors found in the business community. They are elected by the voters (shareholders) and are ultimately responsible to them. To do this they need similar but more detailed financial information than both the General Public or the different Legislatures. The accounting and reporting guidance described in this handbook provides the different levels of detail required in a comparable manner.

Legislative Bodies

The U.S. Congress and the Vermont Legislature provide a significant portion of the financial resources required to operate the LEAs in the State of Vermont. To meet their responsibilities these Legislative Bodies need present and cumulative fiscal information in a comparable format. They are normally interested in:

- The ways in which Local, State, and Federal programs interact in the operational arena.
- Profiles of school financial structures as they relate to tax resources.
- The impact and cost of programs resulting from specific legislative proposals.

The accounting and reporting guidance described in this handbook can provide legislators with this information at Site, LEA, State, and National level.

### 2.2.4 Investors and Creditors

Investors and Creditors are the bondholders, commercial banks, vendors, and other individuals and institutions that extend credit. These groups are interested in both the present and the future financial status of the school organization they are considering extending credit to. The standard financial statement reporting described in this handbook are designed by GASB and the AICPA to include the financial information required by investors and creditors to support their decision making.

### 2.2.5 Financial Reporting Objectives

The basic objectives of financial reporting for LEAs are:

- To determine if current year revenues are sufficient to pay for current year expenditures.
- To demonstrate if resources were obtained and used in accordance with a legally adopted budget.
- To demonstrate compliance with financially related legal or contractual requirements.
- To provide information that will assist users in assessing the efforts, costs, and accomplishments of the school system.
- To provide information on the source and use of financial resources.
- To provide information on how the school system financed its activities and met its cash requirements.
- To provide information on the financial position of the school system including information necessary to determine whether the school system's financial position improved or deteriorated as a result of the prior period's operation.
- To provide data on the school system's physical and other nonfinancial resources that have useful lives extending beyond the current period, and the service potential of these resources.
- To disclose legal or contractual restrictions on resources and the risk of a potential loss of resources.

The accounting and reporting guidance in this handbook is aimed at meeting these objectives.

### 2.2.6 Independent Audit Requirements

Vermont law requires that LEAs account for the monies entrusted to them and that these records be audited (see 24 V.S.A. §§ 1681-1686 and 16 V.S.A. § 323).

Annually, every LEA, must arrange for and undergo an independent audit of its financial records under *Governmental Auditing Standards* and submit the reports of this audit to the AOE.

The AOE may, at its discretion, audit all or any part of a LEA's records to ascertain whether the student, personnel and financial data reported by a school district are accurate, to ensure that the school district is complying with the applicable laws and regulations governing school district expenditures and operations, and to determine whether the school district is maintaining effective controls over revenues, expenditures, assets, and liabilities.

In addition to the Independent Audit Requirements, A non-Federal entity that expends $750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single audit conducted in accordance with § 200.514. Citation 2 C.F.R. 200.501(b).

# 3 Fund and Budgetary Accounting

There are three characteristics unique to governmental accounting and financial reporting:

- A special measurement focus and basis of accounting for governmental activities
- The use of fund accounting
- Budgetary reporting

## 3.1 Fund and Budgetary Accounting

A LEA is not considered to be a single entity for accounting and financial reporting purposes, but rather a collection of separate accounting entities made up of legally constituted Funds. GASB Statement No. 34, applicable to state and local governments, changed the way budget information is reported in the year-end audited financial statements. Previously, governments reported only the final budget along with the actual results of financial operations.
GASB Statement 34 requires a budgetary comparison to include the original budget, the final budget, and the actual results of financial operations for the General and major Special Revenue Funds.

## 3.2 Accounting and Reporting Capabilities

GAAP require a LEA to present fairly, with full disclosure, the financial position of the LEA at the time of the annual report. The LEA must present the results of the financial operations during the reporting period in accordance with GAAP.

## 3.3 Fund Accounting System

LEA's, like all types of organizations, use accounting systems to record, analyze and summarize their financial activities and status. LEAs must demonstrate compliance with the finance-related legal, budgetary, and contractual provisions and restrictions on the use of public resources. Accounting for LEAs is often referred to as fund accounting. The authoritative definition of a fund according to GAAP is:

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

The principal role of funds is to demonstrate fiscal accountability. The financial transactions of LEAs are separated into various funds in order to permit administrators to ensure, and report on, compliance with laws and regulations that affect LEAs.

## 3.4 Fund Categories

There are 11 fund types defined by GAAP, broken down into three categories. Accounting differs for each of the three categories; governmental funds, proprietary funds and fiduciary funds. Only the minimum number of funds consistent with legal and operating requirements should be established; unnecessary funds results in inflexibility, undue complexity and inefficient financial administration.

### 3.4.1 Governmental Funds

The governmental fund includes most activities of the LEA's operations. Accounting in governmental funds focuses on inflows and outflows of current financial resources, with an emphasis on near-term increases in decreases of spendable resources consistent with the focus of the annual operating budget. The operating statement of a governmental fund, therefore, includes transactions and events that affect the fund's current financial resources, even though these transactions and events may have no effect on net position. Such transactions include debt issuance, debt repayment and capital outlay expenditures.

The governmental fund types are:

- General fund
- Special revenue fund
- Capital projects fund
- Debt service fund
- Permanent fund

The general fund is the main operating fund of the LEA. It is used to account for all activities not accounted for in another fund. GASB guidance states that governmental units (including LEAs) should establish and maintain those funds required by law and sound financial administration. Only the number of funds consistent with legal and operating requirements should be established, however, because unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration. In keeping with the number of funds principle, all of an LEA's activities are reported in the general fund unless there is a compelling reason to account for an activity in another fund. The eFinancePLUS system allows for multiple general fund sub-funds to roll up into one general fund. An LEA may have only one general fund for reporting purposes.

<u>Special Revenue Funds</u>

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than for debt service or major capital projects. LEAs should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the general fund, if the LEA no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue source.

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition, construction, or rehabilitation of major capital facilities other than those financed by Proprietary Funds and Trust Funds. The LEA's use of a capital projects fund does not mean that the LEA should account for all capital acquisition in that fund; routine purchases of capitalizable items are commonly reported in the general fund. A capital projects fund is typically used for major capital acquisition or construction activities that would distort trend data if not reported separately from a LEA's operating activities.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for and the payment of principal and interest on general long-term debt (the debt itself should not be carried debt service funds). Debt service funds are used when financial resources are being accumulated for principal and interest payments maturing in future years (for example when required by a creditor) or when required by law.

Permanent Funds

Permanent funds are used to report resources that cannot be expended, but must be held in perpetuity. Generally, these resources are invested and a LEA may spend the earnings or a portion of the earnings, for a purpose specified by the provider of the resources.

### 3.4.2 Proprietary Funds

Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the LEA, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting. Accounting in proprietary funds focuses on increases and decreases in economic resources, much like accounting in private-sector businesses. It emphasizes the long-term effects of operations on the fund's overall resources. The operating statement of a proprietary fund includes on transactions and events that increase or decrease the fund's net position. The operating statement therefore does not include debt issuance, debt repayment of capital outlay expenditures because these do not increase or decrease net position. Changes to asset and liability accounts resulting from these transactions are, however, reflected in the proprietary fund's statement of net position (or balance sheet).

The proprietary fund types defined by GAAP are:

- Enterprise funds
- Internal service funds

Enterprise funds may be used to account for activities for which fees are charged to external users for goods or services. An enterprise fund must be used for any activity for which issued debt is backed solely by fees and charges and for any activity for which there is a legal requirement or a policy decision that the cost of providing services, including capital costs such as depreciation or debt service, be recovered through fees or charges. In practice, enterprise funds are sometimes used to account for activities that are only partially funded through user fees and charges, to highlight the costs of the services provided by the activity, and to highlight the portion of costs borne by taxpayers.

Internal service funds are used to account for goods or services provided on a cost reimbursement basis to other funds or departments within the LEA and, occasionally, to other agencies. If other agencies are involved, the use of an internal service fund is appropriate only if the LEA is the predominant participant; otherwise, an enterprise fund should be used. The goal of an internal service fund is to measure and recover the full cost of providing goods or services through user fees or charges, normally on a break-even basis, including the cost of capital assets used in providing the service.

### 3.4.3 Fiduciary Funds

Fiduciary funds are used to account for assets held by the LEA in a trustee or agency capacity for others that cannot be used to support the LEA's own programs. Like with proprietary funds, accounting in fiduciary funds focuses on increases and decreases in economic resources, much like accounting in private-sector businesses. It emphasizes the long-term effects of operations on the fund's overall resources. The operating statement of a fiduciary fund includes transactions and events that increase or decrease the fund's net position. The operating statement therefore does not include debt issuance, debt repayment of capital outlay expenditures because these do not increase or decrease net position. Changes to asset and liability accounts resulting from these transactions are, however, reflected in the proprietary fund's statement of net position.

The fiduciary fund types defined by GAAP are:

- Pension (and other employee benefit) trust funds
- Investment trust funds
- Private purpose trust funds
- Custodial funds

Pension (and other employee benefit) trust funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

Investment trust funds are used by governmental agencies such as the county treasurer to report external investment pools of mingles resources.

Private-purpose trust funds are used to report formal trust arrangements under which the trust (principle and interest) benefit other individuals, private organizations or other governments.

Custodial funds are used to account for resources in which the LEA's role is purely custodial, such as the receipt and remittance of fiduciary resources to individuals or other governments. All assets reported in a custodial fund are offset by a corresponding liability to the party on whose behalf they are held.

## 3.5 Basis of Accounting

The basis of accounting refers to the time at which various financial transactions including revenues, expenditures, transfers, and related assets, deferred outflows of resources, liabilities, and deferred inflows of resources are recognized in the accounts and are reported in the financial statements.

### 3.5.1 Cash Basis of Accounting

Under the cash basis accounting, revenues are recorded when cash is received, and expenditures are recorded when cash is disbursed. LEAs are not permitted to use the cash basis of accounting.

### 3.5.2 Accrual Basis of Accounting

Under the accrual basis of accounting, revenues are recorded when earned, and expenditures are recorded when incurred, regardless of when the receipt or payment of cash takes place. LEAs use the accrual basis of accounting in proprietary and fiduciary funds.

### 3.5.3 Modified Accrual Basis of Accounting

With modified accrual basis accounting, revenues are recognized in the period when they become available and measureable, and expenditures are recognized when a liability is incurred, regardless of when the receipt or payment of cash takes place. An exception is unmatured interest on general long-term debt, which is recorded when it is due. LEAs use the modified accrual basis of accounting in governmental funds.

| Fund Category | Fund Type | Measurement Focus | Basis of Accounting |
|---|---|---|---|
| Governmental Funds | General Fund<br>Special Revenue Fund<br>Capital Projects Fund<br>Debt Service Fund<br>Permanent Fund | Current Financial Resources | Modified Accrual |

| Fund Category | Fund Type | Measurement Focus | Basis of Accounting |
|---|---|---|---|
| Proprietary Funds | Enterprise Fund<br>Internal Service Fund | Economic Resources | Accrual |
| Fiduciary Funds | Pension (and other employee benefit) Trust Fund<br>Private-Purpose Trust Fund<br>Custodial Fund | Economic Resources | Accrual |

## 3.6 Budgeting, Budgetary Control and Budgetary Accounting

Each LEA should prepare a comprehensive budget, covering all governmental funds for the financial period. Budgets can be developed using a number of budgetary approaches. At a minimum, budgetary comparisons should be presented in the general purpose financial statements for all governmental funds with annual approved budgets. The comparison should be presented using the basis under which the budget was prepared.

## 3.7 Exchanges between Funds

Exchanges between funds can take several forms. It is recommended that separate accounts be maintained for each type of interfund receivable or payable.

### 3.7.1 Interfund Transactions

Interfund transfers represent money that is taken from one fund under the control of the governing board and added to another fund under the board's control, without the expectation of repayment. Interfund transfers are not revenues or expenditures. They do not increase the resources of the LEA as a whole, but they do effect the fund balance of both funds. Interfund transactions other than loans and reimbursements represent interfund transfers.

Interfund borrowing represents the movement of cash from one fund to another with the expectation that the borrowing is temporary and will be repaid. Interfund borrowing does not affect the fund balance of either the borrowing fund or the lending fund.

## 3.8 Common Terminology and Classification

The use of common terminology and classification is key in any financial accounting and reporting system used by a governmental entity. In addition to the data dictionary, the account structure is described in greater detail later in this handbook.

# 4 Financial Reporting

## 4.1 Introduction

A LEA communicates its financial status to a wide variety of interested parties by means of financial reports. Therefore, it is incumbent on LEAs to ensure these reports are understandable, accurate, and comparable with reports from other LEAs. The simplest way to accomplish this is to use standardized format in presenting the LEA's financial position and to have those reports attested to.

The Governmental Accounting Standards Board (GASB) prescribes generally accepted accounting principles (GAAP). The GASB standardized format for financial reporting, known as the Comprehensive Annual Financial Report (CAFR), consists of three sections.

In addition, the OMB Uniform Administrative Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), found in Title 2 of the CFR, Part 200, provides guidance for the administration and audit of federal grants. External financial audits are required for LEA’s that expend more than $750,000 in federal funds (a Single Audit).

This chapter introduces the statements, schedules, and reports required under GASB for the CAFR and by the OMB for Single Audit.

## 4.2 Comprehensive Annual Financial Report

The CAFR consists of three distinct sections:

- Introductory section, which contains general information about the LEA’s structure, services, and environment
- Financial section, which contains basic financial statements and required supplementary information
- Statistical section, which contains trend and non-financial data useful in interpreting the basic financial statements

### 4.2.1 Introductory Section

The purpose of the Introductory Section in the CAFR is to familiarize readers with the organizational structure of the LEA. In addition, this section includes a summary of the financial activities and the factors influencing them. The material in this section may be more subjective than the information found in the financial and statistical sections. The Introductory Section includes some predictive information, such as economic forecasts and discussions of future initiatives. Because of its subjective nature, this Section, is excluded from the independent auditor’s report. Information in this Section should not contradict information that is within the scope of the auditor’s report.

The recommended organization of the introductory section is:

- Report Cover
- Title Page
- Table of Contents
- Transmittal Letter
- Organizational Chart
- List of Principal Officials

#### *4.2.1.1 Report Cover*

The report cover should state the document includes the Comprehensive Annual Financial Report of the LEA (using the full legal name of the LEA), the location (city and state), and the date the fiscal reporting period ended.

#### *4.2.1.2 Title Page*

The first page of the CAFR is the title page. The title page should include all of the information on the report cover as well as the name of the official and the department issuing the report.

#### *4.2.1.3 Table of Contents*

The table of contents should, at a minimum, clearly indicate the LEA's three distinct sections, any supplementary information and reports required under the Single Audit (as applicable).

#### *4.2.1.4 Transmittal Letter*

The transmittal letter provides an opportunity to communicate the financial message in a less technical narrative. The letter should be comprehensive, yet concise, and must be interesting. It is recommended the LEA organize the letter in five sections:

- Introduction
- Describe the economic conditions in the LEA
- Describe major initiatives and the effect the economic conditions are expected to have on those initiatives, as well as other LEA programs
- An overview of the financial information provided in greater detail later in the report
- Other information the Board deems necessary

The transmittal letter is an opportunity to discuss new programs, trends, and solutions to identified problems. The letter should have a proactive and positive tone. The letter should be addressed to the citizens of the LEA. Either the President of the School Board, the Superintendent, or the Chief Financial Officer should sign the letter. The letter should be on official stationary and date to the approximate date it will be available to the public.

#### *4.2.1.5 Organizational Chart*

The organizational chart should graphically portray the assignment of responsibilities within the LEA at the end of the reporting period.

#### *4.2.1.6 List of Principal Officers*

This list normally includes the members of the LEA's Board (with elected term noted), Superintendent, Business Manager, Accounting Staff, and other LEA members with financial responsibilities.

### 4.2.2 Financial Section

The financial section is used to present the independent auditor's report on the financial statements, management's discussion and analysis, the basic financial statements (including the related notes to the financial statements), required supplementary information, combining statements, individual fund statements and schedules, and supplementary information, as needed. The combining statements should present (a) the nonmajor governmental and enterprise funds, internal service funds, and fiduciary funds of the primary government (including its blended component units) — all by fund type, (b) the nonmajor discretely presented component units, and (c) the fund financial statements of individual component units if the information is not available in separately issued financial statements of the individual component units. Any additional schedules presented should be used to demonstrate compliance with finance-related legal and contractual provisions, present information spread throughout the statements that can be brought together and shown in greater detail, and present greater detail for information reported in the statements.

### 4.2.3 Management's Discussion and Analysis

Management's discussion and analysis (MD&A) is required supplementary information that introduces the basic financial statements by presenting management's insights and certain financial information. MD&A should provide an objective and easily readable analysis of the LEAs financial activities based on currently known facts, decisions or conditions. The MD&A should include topics such as:

- A brief discussion of the basic financial statement, including the relationships of the statements to each other, and the significant differences in the information they provide.
- Condensed financial information derived from the government-wide financial statements comparing the current year to prior year.
- An analysis of the overall financial position and results of operations with the aim of assisting users in determining whether financial position has improved or declined over the year.
- A description of significant capital asset and long-term debt activity during the year.

- A description of facts (as of the date of the auditor's report), decisions or conditions that are expected to have a significant effect on the financial position or results of operations.
- An analysis of significant variations between original and final budget amounts and final budget and actual results for the general fund.

The MD&A should not discuss potential future events or decisions.

#### *4.2.3.1 Independent Auditor's Report*

The independent auditor's report is the only report in the CAFR not prepared by management, but by the independent auditor. The auditor's report includes an auditor's opinion as to whether or not the LEA's financial statements are fairly presented in all material respects in accordance with GAAP.

#### *4.2.3.2 Statement of Net Position (Government-Wide)*

The Government-Wide Statement of Net Position (GWSNP) is a highly aggregated financial statement that reports all assets, deferred inflows and outflows of resources, liabilities and net position of the LEA and its component units. The GWSNP should use separate rows and columns to distinguish between the primary government and business-type activities.

#### *4.2.3.3 Statement of Activities (Government-Wide)*

The Government-Wide Statement of Activities (GWSA) is a highly aggregated financial statement that presents the activities by function and activity. The GWSA should present the net cost of its individual functions. Net cost is the difference between functional expenses and program revenues.

#### *4.2.3.4 Balance Sheet (Combined Governmental)*

The governmental balance sheet should report information about the current financial resources for each major governmental fund, with nonmajor governmental funds in the aggregate, with a total for all governmental funds. The format should be assets, plus deferred outflows of resources equal liabilities, plus deferred inflows of resources, plus fund balances. Fund balances should be segregated into nonspendable, restricted, committed, assigned or unassigned amounts.

#### *4.2.3.5 Balance Sheet (Proprietary Funds)*

Accounting in proprietary funds focuses on increases and decreases in economic resources, much like accounting in private-sector businesses with an emphasis on the long-term effects of the fund's overall assets and liabilities. The proprietary fund statement of net position presents the same type of information as the GWSFP, only in more detail specific to those funds. LEA's are encouraged to us a net position format, although a balance sheet format is allowed (assets equal liabilities plus fund balance).

Unlike in governmental activities, capital assets of business-type activities are recorded both in the respective funds in the government-wide financial statements. Propriety funds reflect their capital assets for the following reasons:

- Capital assets are used in the production of the funds' services or products.
    - Depreciation of the capital assets is an essential element in determining the funds' total expenses, net income and changes in fund equity.

Capital assets may serve as security for the issuance of debt

#### *4.2.3.6 Statement of Revenues, Expenditures and Changes in Fund Balance (Combined Governmental)*

Financial reporting for governmental funds focuses on inflows and outflows of current financial resources. The governmental statement of revenues, expenditures and changes in fund balance includes transactions and events that may have no effect on net position. Such transactions include debt issuance, debt repayment and capital outlay expenditures.

#### *4.2.3.7 Statement of Revenues, Expenditures and Changes in Fund Balance (Proprietary Funds)*

As proprietary funds focus on increases and decreases in economic resources, the statement of revenue, expenditures and changes in fund balance for proprietary funds includes only items that increase or decrease the fund's net position. Therefore, the statement does not include debt issuance, debt repayment or capital outlay expenditures (these changes are reflected in the proprietary funds balance sheet).

#### *4.2.3.8 Statement of Cash Flows (Proprietary Funds)*

LEA's should present a statement of cash flows for proprietary funds. The statement requires cash receipts and payments be classified according to whether they stem from operating, noncapital financing, capital and related financing or investing activities. In addition, all investing, capital and financing activities that affect assets and liabilities that do not result in cash receipts or payments should also be reported.

#### *4.2.3.9 Statement of Net Position (Fiduciary Funds)*

The fiduciary funds statement of net position should use a net position format (assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources equal net position); using a balance-sheet format is not an alternative. The statements should provide a separate column for each fund type. Unlike with proprietary funds, the capital assets of fiduciary funds are reported in the funds financial statements, but not in the government-wide statements because fiduciary funds are not included in those statements. Fiduciary fund capital assets should be accounted for to allow for compliance with trust agreement terms, discourages mismanagement of trust assets and facilitates the depreciation calculation as necessary.

#### *4.2.3.10 Statement of Changes in Net Position (Fiduciary Funds)*

The fiduciary funds statement of changes in net position should include information about the additions to, deductions from, and net increase (or decrease) for the year in net position for each type of fiduciary fund, providing information about significant year-to-year changes in net position. The statement should disaggregate deductions by type and, if applicable, should separately display administrative costs.

#### *4.2.3.11 Notes to the Financial Statements*

The notes to the financial statements are an integral part of the financial statements. The notes to the financial statements communicate information needed for the fair presentation of the basic financial statements that is not displayed on the face of the financial statements.

#### *4.2.3.12 Budgetary Comparison Schedule (General Fund)*

The budgetary comparison schedule is to be presented for the general fund and for each major special revenue fund that has a legally adopted annual budget. This schedule will illustrated whether budgeted resources were obtained and used in accordance with the adopted budget. LEAs are encouraged the present the budgetary comparison information as part of the RSI, rather than as a basic financial statement. The schedule should present both the original and the final appropriated budgets for the reporting period as well as the actual inflows, outflows, and balances stated on the LEA’s budgetary basis.

#### *4.2.3.13 Combining Balance Sheet (Non-Major Funds)*

The combining balance sheet for non-major funds is reported subsequent to the required supplementary information. The combining balance sheet for non-major funds includes a breakdown of the non-major funds and is similar to the propriety fund balance sheet, with assets equal to liabilities plus fund balance.

#### *4.2.3.14 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Non-Major Funds)*

The combining schedule of revenues, expenditures and changes in fund balances for non-major funds is reported subsequent to the required supplementary information. This schedule disaggregates the financial results for the non-major funds and details the increases and decreases in the fund balance of the non-major funds.

## 4.3 Statistical Section

The statistical section of the CAFR contains data useful in interpreting the basic financial statements. This section is intended to give the user of the financial statements a broader understanding of the LEA and it's financial affairs than is possible from the financial statements alone. The statistical section is required to present detailed information, typically in ten-year trends, in five categories:

- Financial trends
- Revenue capacity
- Debt capacity
- Demographic and economic
- Operating information

The independent auditors are not typically engaged to provide an "in relation to" opinion on the statistical section.

## 4.4 Uniform Guidance

The Uniform Guidance provides a uniform approach for auditing nonfederal entities that expend federal awards. Title 2 of the U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) outlines the requirements of the Single Audit. LEAs with federal expenditures of $750,000 or more in a fiscal year are required to have a single or program-specific audit under the Uniform Guidance and in accordance with *Government Auditing Standards*.

### 4.4.1 Overview

The Uniform Guidance is contained in six subparts of 2 CFR Part 200:

- Subpart A, "Acronyms and Definitions," contains acronyms and definitions used throughout the Uniform Guidance.
- Subpart B, "General Provisions," discusses general provisions including the purpose of the Uniform Guidance, its applicability, and effective date.
- Subpart C, "Pre-Federal Award Requirements and Contents of Federal Awards," covers administrative requirements directed primarily at federal agencies including pre-award activities and requirements for the contents of federal awards.
- Subpart D, "Post Federal Award Requirements," covers administrative requirements including procurement, internal control, and subrecipient monitoring.
- Subpart E, "Cost Principles," includes uniform cost principles for federal awards.
- Subpart F, "Audit Requirements," includes the single audit requirements.

The objective of the single audit under the Uniform Guidance is to audit and report on the schedule of expenditures of federal awards, to obtain an understanding of internal control over federal programs sufficient to plan the audit to support a low assessed level of control risk of noncompliance with major programs and to determine whether the LEA has complied with federal statutes, regulations and the terms and conditions of federal awards that may have a direct and material effect on each of its major programs.

### 4.4.2 Reporting Requirements

The Single Audit reporting package must include the following:

- Financial statements and a supplementary SEFA
- Auditor's reports
- A summary schedule of prior audit findings
- A corrective action plan (see subsequent detail)

The audit reports and schedule required under the single audit are as follows:

- A report on the financial statements and on the supplementary schedule of expenditures of federal awards
- A 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*
- A report on compliance with requirements that could have a direct and material effect on each major federal program and on internal control over compliance in accordance with the Uniform Guidance
- A schedule of findings and question costs

Data Collection Form – the LEA is required to submit a data collection form (SF-SAC) at the conclusion of the audit. This form is not a part of the reporting package, instead, represents a summary of information from the reporting package. The auditor is required to complete certain sections and electronically sign the data collection form. The LEA must electronically submit to the Federal Audit Clearinghouse (FAC) the data collection form and reporting package, including the auditor's report, within the earlier of 30 days after the receipt of the auditor's reports or 9 months after the end of the audit period.

### 4.4.3 Plan for Corrective Action

At the completion of the audit, the LEA must prepare a corrective action plan to address any audit findings included in the auditor's report. This includes findings related to the financial statements that are required to be reported under *Government Auditing Standards* as well as a result of additional testing under the Single Audit. The plan must include the reference numbers the auditor assigns to audit findings in the schedule of findings and questioned costs. The plan for corrective action must be on the LEA's letterhead.

### 4.4.4 Appeals – 34 CFR Part 76.401(d)(3-5)

As outlined in 34 CFR Part 76.401(d )(3-5), should the LEA appeal the result of a Vermont subgrant of certain federal fund, the LEA should request a hearing within 30 days of the action of the State Education Agency. Within 30 days of this request, AOE shall hold a hearing on the record to review the actions, No later than 10 days from that hearing, a written ruling will be issued, and if the action was found to be contrary to statutes, AOE will rescind the action. If AOE does not rescind the action, the LEA may appeal to the Secretary of United States Department of Education within 20 days after the LEA was notified on the results of AOE's review.

### 4.4.5 Schedule of Expenditures of Federal Awards (SEFA)

The LEA must prepare a schedule of expenditures of federal awards (SEFA) for the period in order for the auditor to complete a single audit. The Uniform Guidance requires certain elements for the SEFA, including total awards expended for each individual federal program. The auditor will determine whether the LEA's SEFA is materially fairly stated in relation to the financial statements as a whole. The auditor uses the SEFA for major program determination, therefore, an accurate and complete SEFA is integral to the audit.

Expenditures reports on the SEFA should be on the same basis as the LEA's financial statements (for example, accrual basis). In addition, there are other events in addition to traditional expenditures that represent federal expenditures for SEFA purposes. These include:

- Grants, cost reimbursement contracts, cooperative agreements under the Federal Acquisition Regulations, direct appropriations, and compacts with Indian tribes – considered an expenditure when the expense transaction occurs
- Loan and loan guarantees – considered an expenditure when the loan proceeds are used by the LEA (if there are continuing compliance requirements, loans or loan guarantees may continue to be listed on the SEFA for multiple years until those requirements have been met)
- Amounts provided to sub recipients – expenditures on the SEFA when the disbursement to the sub recipient is made
- Donated property, including donated surplus property – expenditure when the property is received
- Food commodities – expenditure when the food commodities are distributed or consumed
- Interest subsidies – expenditure when amounts are disbursed entitling the entity to the subsidy
- Insurance – expenditure when the insurance is in force
- Endowments – expenditure when federally restricted amounts are held
- Program – expenditure when received or used

The SEFA should include the following elements for the identified expenditures:

- List individual federal programs by federal agency. For clusters of programs (as identified in part 5 of the OMB compliance supplement), list individual federal programs within the cluster and provide the applicable federal agency name.
- The list should include awards expended by Catalog of Federal Domestic Assistance (CFDA) number.
- For federal awards received as a sub recipient, include the name of the pass-through entity and the identifying number assigned by the pass-through entity.
- Include total awards expended for loan or loan guarantee programs.
- Include the total amount provided to sub recipients from each federal program.

## 4.5 Contract for an Audit

Due to the complexity of the Uniform Guidance, it is important the selected external auditor be well-versed in the Uniform Guidance. As such, the external auditor should be selected based on a competitive request for proposal (RFP) process, requested from multiple audit firms. Further, qualifications as well as price shall be used in the procurement process. A formal contract will be entered into in writing with the selected audit firm.

# 5 State and Federal Reporting Requirements

This section provides a summary of State and Federal reporting requirements of LEAs.

## 5.1 State Requirements and Uses

Vermont state reporting requirements for LEAs are identified within the following sections.

### 5.1.1 Allowable Tuition – Title 16 V.S.A. § 164, 165, 825 & 836; State Board of Education (SBE) Rule Series 9100

The allowable tuition report lists, by school district and grade level, the actual rate school districts may charge for tuition. This is calculated by dividing actual allowable expenditures by the full-time equivalency of students. Vermont statute requires publication of this data, on or before, November 1 of each year.

SBE rule Series 9100 includes information on calculating the allowable tuition report. This section summarizes how AOE performs the calculations for allowed tuition. The following sections are identified within this series, which consist of the following:

- 9101 Statutory Authority
- 16 V.S.A. § 825 defines the maximum tuition rate, calculated net cost per pupil as – calculated net cost per pupil is defined by the Secretary. Expenditures shall include those for equipment and school building construction, additions or renovations. Excluded expenditures include:
    - Transportation costs incurred by the receiving LEA for its resident pupils
    - Transportation costs for which the receiving LEA receives reimbursement
    - That the portion of the total cost which is provided by direct grants from State or Federal sources for salaries or other specific expenses
    - Expenditures for maintenance, and payments of principal and interest for buildings use exclusively for boarding students, if any
    - Expenditures for special education
    - Tuition payments for technical education

In no case shall the tuition charged be such that the ratio of the total tuition received to the total cost of operation of the receiving LEA exceeds the ratio of the number of tuition paying pupils to the total number of pupils enrolled in the receiving LEA. The Secretary shall investigate complaints by a school board regarding tuition and may, within the limits of funds appropriated for this specific purpose, contract for limited scope audits of the annual statistical reports submitted by LEAs for the purpose of determining the accuracy of the allocation of revenues and expenditures to elementary and secondary tuition rates.

- 9102 Federal and State Handbooks: Incorporated by Reference

Includes definitions and classifications of revenues, expenditures, and programs contain in financial accounting for local and state school systems at the Federal and State level publishing's.

- 9103 General Rule

Net allowable tuition for purposes of regular education elementary and secondary tuition is calculated as the sum of net regular education elementary/secondary current instruction cost per pupil and the net regular education elementary/secondary facility acquisition and construction cost per pupil.

- 9104 Definitions

**9104.1** - Net Regular Education Elementary/Secondary Current Instructional Cost per Pupil – Calculated as net regular education elementary/secondary current instructional cost divided by the average annual full-time equivalent (FTE) student membership in the regular education program.

**9104.2** - Net Regular Education Elementary/Secondary Current Instructional Cost – Calculated as elementary/secondary current instructional expenditures less: special education expenditures eligible for reimbursement or recovery through the special education funding formula or other means, are vocational/technical center expenditures, and expenditures for transportation to-and-from school for resident students. This is reduced by revenues from local sources that serve to offset some or all of the cost of providing a service and from state and federal sources that must be used for a categorical or restricted purpose.

**9104.3** - Elementary/Secondary Current Instructional Expenditures – Calculated as all current operational expenditures in the current fiscal year to provide direct instructional programs and supporting services for students.

**9104.4** - Current Operating Expenditures – Calculated as all expenditures in the current fiscal year for salaries, wages, employee benefits, purchased services, supplies, materials, and equipment.

**9104.5** - Net Regular Education Elementary/Secondary Long-Term Facility Cost per Pupil – Calculated as net regular education elementary/secondary long-term facility cost divided by the average annual FTE student membership in the regular education program.

**9104.6** - Net Regular Education Elementary/Secondary Long-Term Facility Cost – Calculated as elementary/secondary long-term facility cost less expenditures for area vocational/technical centers and maintenance of principal and interest for buildings used exclusively for boarding students. This is reduced by revenues that serve to offset some or all of the cost of providing a school facility from local, state, or federal sources or proceeds from long-term or short-term borrowings.

9104.7 - Elementary/Secondary Long-Term Facility Cost – Calculated as all current fiscal year expenditures for acquisition of land and buildings, remodeling buildings, constructing buildings or building additions, installing or extending service systems or built-in equipment, site improvements, principal and interest payments on long-term debt, and secondary grades (7-12).

Following the completion of the school year, AOE collects school finance data (revenues and expenditures) (Statbook) from LEA's. This data is used to calculate the net cost per pupil and total maximum allowable tuition rate. This data is due to AOE by August 15th each year. If assistance is required with the data entry application, please contact the AOE help desk at (802) 828-1017. If assistance is required with data or data issues are encountered, please contact Sean Cousino, AOE Education Finance Manager, at (802) 828-2905.

### 5.1.2 Announced Tuition – Title 16 V.S.A. § 823, 824 & 826

In accordance with 16 V.S.A. § 823 and 824, average announced elementary/high school tuition shall be paid by the district in which the student is a resident. The district shall pay full tuition charged to its students attending a public elementary/high school. If a payment made to a public elementary/high school is three percent more or less than the calculated net cost per elementary/secondary pupil in the receiving school district for the year of attendance, the district shall be reimbursed, credited, or refunded pursuant to 16 V.S.A. § 836. The tuition paid to an approved independent elementary/high school meeting education quality standards shall not exceed the least of: (1) the average announced tuition of Vermont union elementary/high schools for the year of attendance; (2) the tuition charged by the approved independent school for the year of attendance; or (3) the average per-pupil tuition the district pays for its other resident elementary/secondary students in the year in which the student is enrolled in the approved independent school. See subchapter 10.54 for further details on allowable and announced tuition.

#### *5.1.2.1 Regular Education – Title 16 V.S.A. § 826*

In accordance with 16 V.S.A. § 826, a school board that proposes to increase tuition charges shall notify the school board of the school district from which its nonresident students come, and the Secretary, of the proposed increase on or before January 15th in any year; such increases shall not become effective without the notification and not until the following school year.

#### *5.1.2.2 Special Education – Title 16 V.S.A. § 826 and State Board of Education (SBE) Rule Series 9100*

In accordance with 16 V.S.A. § 826, a school board may establish a separate tuition for one or more special education programs. No such tuition shall be established unless the State Board has, by rule, defined the program as of a type that may be funded by a separate tuition. Any such tuition shall be announced in accordance with the provisions of the above outline requirements (see "regular education" section). The amount of tuition shall reflect the net cost per pupil in the program. The announcement of tuition shall describe the special education services included or excluded from coverage. Tuition for part-time students shall be reduced proportionally. Excess special education costs incurred by a supervisory union in providing special education services to a student beyond those covered by tuition may be charged to the student's supervisory union for the district of residence. Only actual costs or actual proportionate costs attributable to the student may be charged. The State Board shall adopt rules relating to the types of special education programs that may establish tuition charges and relating methods and times of calculating excess charges.

SBE rule series 9100 includes information on calculating the announced tuition report. This section summarizes how AOE performs the calculations for announced tuition. The following sections can be identified within this series. See section 5.1.1 Allowable Tuition for further breakdown of SBE rule series 9100.

### 5.1.3 Budgets

#### *5.1.3.1 Tax Rate Calculation – Title 16 V.S.A. § 4001*

In accordance with 16 V.S.A. § 4001 average daily membership of a school district are needed in order to calculate the appropriate homestead tax rate of the municipality, as defined in 32 V.S.A. § 5401(9).

The preliminary budget collection by AOE is performed to collect the necessary data to calculate education spending for LEA's. LEA's should only submit budget figures which have been approved by the School Board by February 1st of each year. The data submission should include best estimates of state (codes 3200-3799), federal, and Medicaid revenues and associated expenditures. This data is used to provide spending estimates to the Legislature for determining both the property and income yields, the non-residential education tax rate, and the education spending appropriation. The data is also used to provide estimates of tax rates and tax liabilities to LEA's prior to budget votes. The preliminary budget template provides AOE with five necessary numbers, which is used to create sheets for town meetings that estimate individual education property taxes paid after accounting for tax adjustments, as edit checks for the June 1st approved budget collection, and to estimate the Education Fund reserve for future years.

The final budget collection application by AOE is required to obtain all budgeted revenues and expenditures to calculate education spending for each town and union school district. School district budget data is used to determine education spending for determining homestead property tax rates. In accordance with 16 V.S.A. § 4001 (6), education spending means the amount of the school district budget, any assessment for a joint contract school, career technical center payments made on behalf of the district, and any amount added to pay a deficit that is paid for by the school district, excluding any portion of the budget paid from any other sources. Completed applications should contain all anticipated education revenues and expenditures in the general and capital project(s) funds. The final budget collections is due to AOE by June 1st each year.

#### *5.1.3.2 Education Spending Grant*

### 5.1.4 Medicaid Reports – Title 16 V.S.A. § 2959(a)(e)

In accordance with 16 V.S.A. § 2959a, it is the intent of the General Assembly that the State of Vermont shall maximize its receipt of federal Medicaid dollars available for the reimbursement of medically related services provided to students who are eligible. Furthermore, the intent is that each supervisory union identify special education and other students eligible for Medicaid reimbursement and submit Medicaid bills and services for reimbursement. The Agencies of Education and Human Services work with local school districts to maximize reimbursements, including services to non-IEP students.

In accordance with 16 V.S.A. § 2959e, supervisory unions shall use funds received under this section to pay for reasonable costs of administering the Medicaid claims process, and school districts or supervisory unions shall use funds received under this section for prevention and intervention programs in prekindergarten through grade 12. The programs shall be designed to facilitate early identification of an intervention with children with disabilities and to ensure all students achieve rigorous and challenging standards approved and adopted by the State Board or locally adopted standards. A supervisory union shall provide annual written justification to the Secretary of Education on how it or its member districts used the funds (Reinvestment Report, see below). Such annual submission shall show how the funds' use is expressly linked to those provisions of the supervisory union's action plan that directly relates to improving student performance. A supervisory union shall include in its annual report the amount of the prior year's Medicaid reimbursement revenues and the Use of Medicaid funds consistent with the purposes set forth in this subsection.

#### *5.1.4.1 Reinvestment Report*

AOE requires that each year, LEA's submit the Medicaid Reinvestment Report each year by August 17th. LEA's are required to report on the expenditures of Medicaid Reinvestment dollars. 16 V.S.A. § 2959a(e) details how Medicaid Reinvestment dollars may be spent.

Examples of allowable expenditures include salary, benefits, and program supply costs to implement a reading recovery, anti-bullying, or for after school homework club programs. The Medicaid Reinvestment Report is made up of three forms: Part 1 – Summary for Supervisory Union; Part 2 – Expenditure Detail by Reporting Entity and; Part 3 – Justification of Expenditures by Reporting Entity. The first part is strictly financial information. The second part requests expenditures to be grouped by the purpose of the expenditures, which may require the assistance of program staff to complete. The third and final part requires justification of how the expenditure improves student performance, which will primarily fall to program staff for completion. Vermont statute allows supervisory unions to use Medicaid funds for the reasonable cost of program administration. The cost of administering the Medicaid claims process varies by supervisory union. The AOE requires the submission of time documentation to support administration costs that are greater than 25% of the grant funds received for the fiscal year.

#### *5.1.4.2 Report on Expenditure of School Health Services*

The Medicaid School Based Health Services Program is used by AOE to generate Medicaid reimbursement for medically related services provided in accordance with an Individual Education Plan (IEP). LEA's bill Medicaid directly for services and receive a monthly grant award from the AOE based on the claims submission to Medicaid. AOE requires that each year, LEA's submit the Report on Expenditures of School Health Services.

This report documents the amount of health services that are provided by LEAs that are not currently being billed to Medicaid. Under the Global Health Waiver, Vermont is able to count the amount spent on providing health services outside those currently being billed. AOE must certify the actual amount spent during each fiscal year to count toward the allowed Global Commitment total. While this does not generate any funds for LEA's, it does keep the Medicaid program funding at a level that will protect the ability to draw funds for the IEP Medicaid program.

This report requires the cost of school nursing services for the LEA be provided. The cost of school nursing services is the only information required to be provided within this report. Any costs billed to Medicaid should be excluded. It is also beneficial to AOE if LEA's also provide cost information available for other health services, including: occupational therapy, physical therapy, mental health counseling/psychological services, personal care aides, and dental/medical services.

### 5.1.5 Special Education Extraordinary Costs – Title 16 V.S.A. § 2974

In accordance with 16 V.S.A. § 2974 an annual special education fiscal review will be conducted and the Secretary shall report to the State Board regarding the following: special education expenditures by LEA; the rate of growth/decrease in special education costs, including the identity of high and low-spending LEAs; results for special education students; the availability of special education staff; the consistency of special education program implementation statewide; that status of the education support systems in LEAs; and a statewide summary of the special education student count. Information required to be included in the Secretary's report for LEAs are: LEAs special education staff-to-child count ratios as compared to the State average, including a breakdown of ratios by staffing categories; the LEA's percentage of students in day programs and residential placements as compared to the State average of students in those placements and information about the categories of disabilities for the students in such placements; whether the LEA was in compliance with section 2901 of this title; any unusual community characteristics in each LEA relevant to special education placements; a review of high and low spending LEAs special education student count patterns over time; a review of the LEA's compliance with Federal and State requirements to provide a free, appropriate public education to eligible students; and any other factors affecting its spending.

Legislature is currently in the process of being formed/adopted for Act 173. AOE will make updates to this handbook at the time in which Act 173, or other pertinent legislature, were to pass and adoption was imminent.

### 5.1.6 Special Education Extraordinary Reimbursements – Title 16 V.S.A. § 2963

In accordance with 16 V.S.A. § 2963 special education expenditure reimbursements are based on where the related cost is incurred, each LEA shall receive a special education expenditure reimbursement grant each school year. The amount of a LEA's special education expenditure reimbursements shall be equal to the total of its special education expenditures multiplied by the reimbursement rate for that year. Special education expenditures are allowable expenditures, as defined by rule of the State Board, less: revenue from federal aid for special education; mainstream service costs; extraordinary special education expenditures; any transportation expenditures already reimbursed; special education cost for a student eligible for aid; and other State funds used for special education costs.

Legislature is currently in the process of being formed/adopted for Act 173. AOE will make updates to this handbook at the time in which Act 173, or other pertinent legislature, were to pass and adoption was imminent.

### 5.1.7 Annual Statistical Report (Statbook) – Title 16 V.S.A § 242(4)(B)&(C)

In accordance with 16 V.S.A. § 242(4)(A) the duties of the Superintendent is to:

- Report budgetary data for the subsequent school year and fiscal year.
- Report all financial operations within the supervisory union to the Secretary and State Board for the preceding school year on or before August 15 of each year.
- Report all financial operations for each member school district to the Secretary and State Board for the preceding school year on or before August 15 of each year.

The Annual Statistical Report (Statbook) enables LEAs to comply with 16 V.S.A. § 242(4)(A). The collection provides data on expenditures incurred and revenues received by LEAs. For fiscal years 2019 and prior, LEAs are required to crosswalk the chart of accounts to AOE's COA. For fiscal year 2020 AOE will start collecting the Statbook data in the new UCOA, but 2020 will be a transition year since the UCOA is now not required until fiscal year 2021, AOE will work with districts not on the UCOA in fiscal year 2020 to crosswalk their COA to the UCOA. For fiscal years 2021 and forward, the UCOA will replace LEAs current COAs. The COA and UCOA are conceptually indifferent – allowable tuition, transportation calculation, SASRS, and federal surveys are used in both systems. The data being used will be the same, with the only difference being that the AOE will conduct the extraction of data for fiscal years 2020 and forward, with the exception of LEAs not on eFinancePlus (EFP). LEAs that have not implemented EFP will need to provide PowerSchool with expense and revenue data (crosswalked to UCOA) for PowerSchool to import into the PowerSchool ODS.

The due date for a LEA's Statbook is no later than August 15st. Upon receipt of information required for the Statbook, AOE conducts a review process, including numerous edit checks, of the data provided by each individual LEA. It is required that LEAs provide support for why edit checks that were made by the AOE are inaccurate. The LEA's support feedback needs to include why the edit checks were revised, or why they were left unchanged.

### 5.1.8 State and Federal Grants Passed-through the Agency of Education (AOE)

This section outlines the State and the Federal grant budgeting, application review, reporting requirements, and reimbursement requests. The AOE manages grant programs through a few processes. Out of the large number of grant programs, many are small and managed through a manual process. A significant amount of the grant disbursements are managed through GMS, the grant management system.

#### *5.1.8.1 Budgets for Application Review*

When a grant application is initially submitted, the GMS completes a thorough sweep, to verify that the application is complete and passes all validation tests. Any indicated errors require correction by the LEA prior to the application being reviewed by an authorized representative. After the authorized representative has completed their review of the application on GMS, the application is sent to AOE. Grant budgets should be prepared in accordance with their respective grant agreements. The State is responsible for approval and allocation of the budgets. Pass-through grants are usually passed through without submission of a grant application, or other competitive awarding process, with a few exceptions.

#### *5.1.8.2 Reimbursement Requests*

With the submission of a reimbursement request, LEAs are required to include a detailed report for all reimbursements. This rule is effective beginning in fiscal year 2020. LEAs also have the ability to upload supporting documentation to provide confirmation that expenditures have occurred. Expenditure and Revenues Detail Report in eFinancePLUS system should be used in this submission.

Upon the LEA's reimbursement request, and as long as a LEA can demonstrate that the funds have been properly expended, AOE will authorize a reimbursement. Funds from pass-through grants may be designated to a LEA, or a group of LEAs, by the General Assembly or via a federal award.

#### *5.1.8.3 Fiscal*

In accordance with Bulletin no. 5 – Policy for Grant Issuance and Monitoring, it is the policy of the State of Vermont that all distributions of funds classified in law as grants be issued, tracked and monitored by the State. AOE's fiscal services staff is responsible for monitoring and auditing all state and federal grants received. Staff review for compliance with administrative and financial statutes and regulations. Staff also evaluate administrative and record keeping requirements for state and federal grants. Additionally, staff are responsible for the administration of federal indirect cost rates for subrecipients.

#### *5.1.8.4 Programmatic*

In accordance with Bulletin no. 5 – Policy for Grant Issuance and Monitoring, it is the policy of the State of Vermont that all distributions of funds classified in law as grants be issued, tracked and monitored by the State. Each programmatic division issuing grants in the Agency will conduct a risk assessment annually, the results of which will determine which subrecipients will be monitored for that program that year. In some cases, the programmatic division is also responsible for fiscal monitoring. Divisions may opt to either use the pre-award risk assessment or a more customized risk assessment to determine their subrecipient monitoring list.

### 5.1.9 State Placed Reimbursement

AOE to add in future version.

### 5.1.10 Summary of the Annual Statistical Report of Schools (SASRS) Report

The SASRS report shows LEA statbook data reported in the federal format used when submitting data to the National Center for Education (NCES) by the AOE. NCES uses this information to identify issues and trends in school finances, and assesses the condition of school finances in each state, while also making comparisons among states. The data submitted by AOE to NCES is used as a determiner for state allocation of various federal programs. LEAs are required to submit an Annual Statistical Report to AOE by August 15th.

### 5.1.11 Supplement Not Supplant – 34 CFR 299.2(b)

In accordance with 34 CFR § 299.9(b) Federal Title I funds must not be used for general expenditures required to carry out other responsibilities of State or local governments. A LEA is authorized to use program funds only to supplement and, to the extent practical, increase the level of funds that would, in the absence of the Federal funds, be made available from non-federal sources for the education of participating students. In no case may a LEA or school use federal program funds to supplant funds from non-Federal sources. Supplanting is presumed to have occurred in the following instances:

- The LEA used Federal funds to provide services that the State or LEA was required to make available under other Federal State or local laws
- The LEA used Federal funds to provide services that the LEA or school provided with non-Federal funds in the prior year
- The LEA used Title I funds to provide services for participating children that the LEA or school provided with non-Federal funds for nonparticipating children

A LEA can refute supplanting claims by demonstrating they would not have provided the services in question with non-Federal funds had the Federal funds not been available.

#### *5.1.11.1 Individuals with Disabilities Education Act (IDEA)*

AOE to add in future version.

#### *5.1.11.2 Title I*

In a Title I school-wide program, LEAs are not required to provide supplemental services to identified children. LEAs operating a school-wide program are not required to (1) show that Federal funds used within the school are paying for additional services that would otherwise be provided; or (2) demonstrate that Federal funds are used only for specific target populations.

A LEA in a Title I school-wide program is required to use funds available under Title I and any other Federal programs to supplement the total amount of funds that would, in the absence of the Federal funds, be made available from non-Federal sources for that school, including funds needed to provide services that are required by law for children with disabilities and children with limited English proficiency.

To demonstrate compliance with the supplement requirement for Title I, LEAs must demonstrate the methodology used to budget State and local funds.

### 5.1.12 Teacher Staff/Ratio

AOE has implemented a staff management system consisting of three different ratios. LEAs are required to report their total staff to the AOE. With the information provided by the LEAs, AOE then produces ratios – showing the quantitative relationship between students-to-teachers, students-to-staff, and students-to-paraprofessionals. AOE reports this information to the Federal Department of Education as needed. These ratios are also used as a tool for LEAs to better manage staff attrition with demographic trends.

### 5.1.13 Technical Education Tuition – State Board of Education (SBE) Rule Series 2391

SBE Rule Series 2391 provides guidance for calculating technical education tuition. The tuition rule provides the following necessary requirements for technical centers to calculate tuition:

1. Technical centers are required to segregate the costs of secondary technical education programs.

   a. In accordance with rules 2390.1A income and expenditures for adult education, postsecondary education and other programs and activates shall be separately tacked and reported from secondary programming.
   b. Income and expenditures for programs and services that are not state-approved, and are provided by the technical centers to students and schools, shall be determined through agreements that are developed between the technical center and the school(s) that benefit and that are approved by the regional board. Such agreements shall not result in an increase in the costs of providing technical education programs.
   c. Sending school districts and receiving school districts may develop agreements that allow students from sending schools to take courses outside their technical education program at the receiving school district in order to facilitate access to technical education. Such agreements shall specify how costs for these enrollments will be covered. If all sending school districts and the receiving school district are in agreement, these costs may be included in the technical education tuitions. If not in agreement, the sending school districts may be billed for these costs. In no instance will enrollments in courses that are not part of the course of studies of a technical education program be reported as enrollment in a technical education program.

2. The technical center shall identify the actual costs of secondary technical education programming that includes all costs associated with that programming.

3. The technical center shall calculate tuition by:

   a. Subtracting from the actual costs all income through federal funds that support secondary technical education programming; the state grants for overhead, salary assistance and equipment; and local sources of income that was generated by activities funded by the actual costs or use of the facility.
   b. If out-of-state students attend a technical center, the net costs after subtracting the above income are divided into two parts – an amount to be covered through tuition for out-of-state students and an amount to be covered through funding for Vermont students. This allocation is calculated by adding [the (anticipated) number of full-time equivalent out-of-state student] + [the average of the full-time equivalent Vermont students for the prior three years] and then establishing the percentage of the total for each group. Net costs are divided into two parts based on these percentages.

4. Out-of-state tuition is calculated by dividing the costs to be covered by out-of-state enrollment by the anticipated number of out-of-state full time equivalent students.
5. The amount to be collected through tuition for Vermont students is identified by taking the net costs for Vermont enrollment and subtracting:

   a. An amount that results from multiplying the number of full-time equivalent students time the projected equalized pupil general state support grant, and
   b. An amount that results from multiplying the number of full-time equivalent students time the projected state tuition reduction grant.

6. Tuition is calculated by dividing the amount to be collected by the average number of full-time equivalent students over the last six semesters.
7. Vermont sending districts shall be assessed their share of the costs of technical education by multiplying the tuition per student by the number of average full-time equivalent students they enrolled in the technical center over the prior six months.

With each LEA's technical education tuition calculated, AOE is able to use this data to produce allowable tuition from the Statbook information, and publish the allowable tuition report.

### 5.1.14 Transportation – State Board of Education (SBE) Rule Series 9300

SBE Rule Series 9300 outlines the allowable and extraordinary transportation expenditures. This rule series includes the following sub-sections:

**9301 Statutory Authority – Subsection 22(c) and (d) of Act 60 of the 1997 Session.** This section defines allowable reimbursement for transportation expenditures, as follows:

- "Allowable transportation expenditures" means the costs of transporting students to and from school for regular classroom services and shall not include expenditures for transporting students participating in curricular activities that take place off the school grounds nor for transporting students participating in cocurricular activities. The SBE shall further define allowable transportation expenditures by rule.
- LEAs may apply, and the Secretary may pay for, extraordinary transportation expenditures incurred due to geographic or other conditions out of the school district to attend another school because the district does not maintain a public school. The SBE shall define extraordinary transportation expenditures by rule.

**9302 -** Definition of Allowable Transportation Expenditures:

**9302.1 –** For the purpose of 9301, "allowable transportation expenditures" means the cost of transporting students on one trip per school day to and from the school of enrollment. Allowable transportation expenditures are net of any revenues received for transporting students to and from school. Allowable transportation expenditures do not include expenditures for:

- Transporting students participating in such curricular activities that take place off the school grounds as work placement or technical education programs, or
- For transporting students participating in such cocurricular or extracurricular activities as field trips or athletic competitions, and
- Any expenditures which are eligible for reimbursement or payment elsewhere.

**9302.2 –** Depreciation of school buses is an allowable transportation expenditure, and equals one-seventh of the purchase price of a bus for seven years. Only the portion attributable to the transportation of students on one trip per school day to and from school may be claimed as an allowable transportation expenditure.

**9302.3 –** Depreciation of a school bus begins in the year a bus was purchased new. A bus more than seven years old is considered fully depreciated.

**9302.4 –** In a bus leasing arrangement concluding with the LEA owning the buses at the end of the lease, the portion of the lease applied to the purchase price is considered an installment purchase rather than a rental. The LEA must establish the Fair Market Value (FMV) of the buses at the time of the lease. Depreciation is calculated as one-seventh of the FMV per year for seven years.

**9303 – Application**

LEAs shall be reimbursed under this section based on a completed transportation reimbursement worksheet from prescribed by the Secretary and submitted to the Secretary as part of the Budget Collection Form on or before June 1 of the previous fiscal year.

**9304 -** Definition of Extraordinary Transportation Expenditures:

**9304.1 –** For the purposes of Subsection 22 ( d) of Act 60 of the 1997 Session, "extraordinary transportation expenditures" are those reimbursable transportation expenditures reported in the Annual Statistical Report of Schools which for any school district:

a. exceed the threshold percentage, and
b. are due to unavoidable and unusual circumstances related to the location of the school building within the district; the topographical features of the district; the need to transport tuitioned students outside the district; the condition of the roads; or other unusual circumstances.

**9304.2 –** For the purposes of this rule, the "threshold percentage" is determined by calculating each district's allowable transportation expenditures as a percentage of that district's General State Support Grant (GSSG) net any GSSG funds contributed directly to a technical center on that district's behalf. The threshold percentage is the percentage at the 96thpercentile of districts included in the calculation. Only districts with allowable transportation expenditures are included in the calculation.

**9305 –** Application and Award

**9305.1 –** The Commissioner shall announce the threshold percentage on or before November 1 of the reporting fiscal year based on the reported transportation figures. The threshold percentage may be adjusted based on data corrections submitted through January 15 of the reporting fiscal year as provided for in 16 V.S.A. Sec. 4030 (b).

**9305.2 –** A district with reimbursable transportation expenditures exceeding the announced threshold percentage may apply to the Commissioner by December 15 of the reporting fiscal year. The application shall describe the extraordinary nature of the expenditures in relation to Rule 9304.1 (b ). The Commissioner of Education shall inform districts of the amount determined to be extraordinary transportation expenditures by February 1. Reimbursement shall be made in the fiscal year following the Commissioner's determination.

**9305.3 –** The Commissioner shall award an amount equal to transportation expenditures in excess of the threshold percentage determined to be extraordinary transportation expenditures. If the amount of expenditures eligible for reimbursement statewide exceeds the funds appropriated for this purpose, funds shall be distributed proportionally.

### 5.1.15 allowable transportation expenditures are included in the calculation.Other Legislative Requests

The previous sections describe some of the more commonly known State requirements and uses of information. AOE reserves the right to make additional requests based on legislative or other requirements. All questions regarding other requests not described in the aforementioned sections should be directed to: Sean Cousino, AOE Education Finance Manager, at (802) 828-2905.

## 5.2 Federal Requirements and Uses

Federal reporting requirements are identified within this section, as well as why the State/Federal Government requires this information, and what the information is used for.

### 5.2.1 Current Expenditures

The U.S. Department of Labor defines current expenditures as the operating expenditures for day-to-day operations of LEAs. These expenditures include salaries and benefits paid to teachers and staff as well as supplies and purchased services. Items excluded from current expenditures include: capital outlays for school construction, equipment, debt services, and expenditures for programs outside elementary and secondary education, such as adult education and community services.

In the Statbook, current expenditures are calculated based on the federal definition. Current expenditures are reviewed and analyzed to make comparisons between money spent on public education across the United States.

### 5.2.2 Current Expenditures per Student

Current expenditures per student can be calculated as total current expenditures, as defined above, divided by the total number of students. 1111(h)(1)(C)(x) - (x) The per-pupil expenditures of Federal, State, and local funds, including actual personnel expenditures and actual non-personnel expenditures of Federal, State, and local funds, disaggregated by source of funds, for each local educational agency and each school in the State for the preceding fiscal year.

Current expenditures per student are reviewed and analyzed to make comparisons between money spent on public education per student across the United States. The School District Finance Survey is a study that is part of the Common Core of Data program. It is designed to provide finance data for all LEAs that provide free public elementary and secondary education in the United States. The data file contains records representing public elementary and secondary education agencies in the United States.

### 5.2.3 Every Student Succeeds Act (ESSA)

The Federal Every Student Succeeds Act (ESSA) was signed into law on December 10, 2015 as the reauthorization of the Elementary and Secondary Education Act. Its goal is to ensure equitable outcomes for historically marginalized students nationwide. ESSA outlines expectations of states concerning school accountability and distribution of federal funding for student supports.

In response to ESSA, as well as the 2014 adoption of Vermont's Education Quality Standards (EQS), AOE drafted the Vermont State Plan. AOE was largely driven by the core tenets of EQS: personalization, proficiency, and a commitment to providing high quality, equitable learning opportunities for all of Vermont's students.

ESSA required State governments to start reporting expenditures by source and by school. The law required that State governments revamp their Chart of Accounts to accommodate this, which was a large undertaking for the State of Vermont. Vermont's snapshot website (www.schoolsnapshot.vermont.gov) provides information and data down to the school level in accordance with the requirements of ESSA.

The supplement not supplant requirement is also indicated under ESSA, and was amended by the No Child Left Behind (NCLB) Act of 2001. This changes allows LEAs to demonstrate supplement not supplant compliance in a less burdensome and restrictive way, while still making clear that Federal dollars are supplemental to State and local dollars, and are not use to replace them. Thus, allowing more flexibility for schools to utilize Title I funds to implement comprehensive and innovative programs. ESSA further clarifies that LEAs receiving Title I, Part A funds must continue to use these funds only to supplement, and not supplant, the funds that would be made available from State and local sources in the absence of such Federal funds, and is largely unchanged from NCLB. LEAs can demonstrate compliance with this requirement by presenting the allocation of State and local funds as a whole. LEAs are no longer required to identify individual costs or services supporting with Title I, Part A funds is supplemental.

### 5.2.4 State and Federal Fiscal Monitoring

AOE's fiscal services staff is responsible for monitoring and auditing all State and Federal grants received through the AOE for compliance with administrative and financial statutes and regulations, administrative and record keeping requirements for State and Federal grants. This includes whether or not expenditures can be charged to a grant. The staff is also responsible for the administration of Federal indirect cost rates for subrecipients.

In accordance with 2 CFR § 200.205 – Federal awarding agency review of risk posed by applicants, review of OMB-designated repositories of government-wide data is required. AOE's School Finance Team conducts an annual risk assessment, the results of which subrecipients will be fiscally monitored for that year.

In accordance with Subpart D 2 CFR §200.300 TO §200.345 /34 CFR §76.707 / Subpart E 2 CFR §200.400 to §200.475, it is the responsibility of the AOE to monitor the fiscal practices, involving Federal and state grant funds, of each supervisory union, supervisory district, interstate district, or other sub-grantee. The purpose of the monitoring visit is to review grants management processes and spending to verify the allowable use of funds and minimize non-compliance.

In accordance with Subpart F Audit Requirements 2 CFR §200.500 to §200.521 and State of Vermont Bulletin 5, AOE is responsible for tracking and reviewing federal single audit findings and overseeing the implementation of necessary changes to improve regulatory compliance. Uniform Guidance Audits are required if an entity expends $750,000 or more in federal grant funds in a fiscal year. Uniform Guidance must be completed and uploaded to the Federal Audit Clearinghouse within nine (9) months of the end of the entity's fiscal year.

### 5.2.5 Finance Survey

The School District Finance Survey was part of a study as part of the Common Core of Data (CCD) program. The School District Finance Survey, also referred to as the F-33, is a universe survey that is designed to provide finance data for all LEAs that provide free public elementary and secondary education in the United States. Information provided by LEAs is used by AOE to create the Statbook. AOE takes the Statbook data and recodes information to the Federal coding structure and submits to the US Department of Education. LEAs are required to provide the necessary financial information to AOE to complete the Statbook, which is due annually in August. The data for F-33 contains records representing the public education agencies in the US. Key statistics produced from F-33 are expenditures by object and function, indebtedness, and revenues by source.

### 5.2.6 Indirect Rate – Restricted and Nonrestricted

An indirect cost rate is a means of determining, in a reasonable manner, the percentage of allowable general management costs that benefit each federal program or activity. Indirect costs are generally administrative costs such as the salaries and expenditures for staff engaged in organization-wide (general) activities.

LEAs must apply annually for a Federal Indirect Cost Rate. The application will result in two rates: Restricted Rates 34 CFR §75.563 through §75.569 and Unrestricted Rates 34 CFR §75.560.

AOE receives authority from the US Department of Education to approve LEA rates through a delegation agreement. AOE uses information from the Statbook to provide required information to the US Department of Education.

### 5.2.7 Individuals with Disabilities Education Act (IDEA) Maintenance of Effort (MOE)

Generally, an LEA may not reduce the amount of local, or State and local, funds that it spends for the education of children with disabilities below the amount it spent for the preceding fiscal year. There are two components to the LEA MOE requirement – the eligibility standard and the compliance standard.

The eligibility standard describes the MOE requirement that an LEA must meet as a condition of receiving an IDEA Part B subgrant. When reviewing an LEA's application for an IDEA Part B subgrant, the AOE must determine that the LEA budgets, for the education of children with disabilities, is at least the same amount as the LEA spent for that purpose from the same source in the most recent fiscal year for which information is available, subject to the subsequent years rule.

The compliance standard is an expenditure test to determine whether an LEA, in fact, met the requirement to maintain effort in a particular fiscal year. The compliance standard prohibits LEAs from reducing the level of expenditures from local, or State and local, funds for the education of children with disabilities below the level of those expenditures made by the LEA for that purpose from the same source for the preceding fiscal year. In other words, an LEA must maintain (or increase) the amount of local, or State and local funds, it spends for the education of children with disabilities when compared to the preceding fiscal year.

An LEA may use the following four methods to meet both the eligibility and compliance standards:

- Local funds only
- The combination of State and local funds
- Local funds only on a per capita basis
- The combination of State and local funds on a per capita basis.

### 5.2.8 National Public Education Financial Survey (NPEFS)

The Primary purpose of the National Public Education Finance Survey is to make available to the public an annual state-level collection of revenues and expenditures for public education of grades pre-kindergarten through grade 12. State Education Agencies have one year to revise this data. Each year, the Federal government puts out a revised file approximately one year after the original file is released. Revenues and expenditures are audited after the close of the fiscal year and are then submitted to NCES by each State Education Agency. During this process, detailed fiscal data on all public revenues and expenditures within States for regular pre-kindergarten to grade 12 education is collected.

The report AOE is required to submit is similar to the F-33, with different allocation buckets. Statbook data is rolled up and reported to the US Department of Education.

### 5.2.9 Title I Maintenance of Effort (MOE)

An LEA may receive funds under a covered program for any fiscal year only if the AOE finds that either the combined fiscal effort per student, or the aggregate expenditures of State and local funds with respect to the provision of free public education by the LEA meet certain standards.

If an LEA fails to maintain effort by falling below 90 percent of both the combined fiscal effort per student and aggregate expenditures (using the measure most favorable to the LEA), the AOE must reduce the LEA's allocation under a covered program in the exact proportion by which the LEA failed to maintain effort.

The U.S. Department of Education may waive the maintenance of effort requirement for an LEA if it determines that a waiver would be equitable due to exceptional or uncontrollable circumstances, or a steep decline in the financial resources of the LEA.

The ESEA, as amended by the ESSA, made several updates to the maintenance of effort provision. Please note that provisions that did not change, including the information on expenditures to be included, expenditures to be excluded, and the definition of preceding fiscal year, are still available from the 2008 Title I fiscal guidance (available at: http://www.ed.gov/programs/titleiparta/fiscalguid.doc ) and remain applicable.

Updated Title I programs to which the MOE requirement applies are Title, I Part A – improving basic programs operation by LEAs; and Title I, Part D – prevention and intervention programs for children and youth who are neglected, delinquent or at risk.

The AOE must reduce an LEA's allocation under a covered program if the LEA fails to maintain effort. Prior to the ESSA, the reduction was made based on failing to maintain effort compared to the preceding fiscal year only. Under the ESSA, the AOE has added flexibility and the reduction will be made based on the new requirement.

The new requirement is titled New Flexibility regarding Reduction of an LEA's Allocation for Failing to Maintain Effort. The new requirement states that the AOE must reduce an LEA's allocation under a covered program if the LEA fails to maintain effort in a given fiscal year and also failed to maintain effort in on or more of the five immediately preceding fiscal years.

The statute provides two bases (an exceptional or uncontrollable circumstances or a rapid decline in the financial resources of an LEA) to warrant the Secretary's granting a waiver of maintenance of effort. With respect to exceptional or uncontrollable circumstances, prior to the ESSA, the statute included the example of a natural disaster. Under the ESSA, a new example was inserted so that exceptional or uncontrollable circumstances also include a change in the organizational structure of the LEA. In addition to these two examples listed in the statute, there can be other instances of exceptional or uncontrollable circumstances that might warrant when a waiver request will be considered.

Changes in the organizational structure of an LEA may include when an LEA merges with another LEA, an LEA divides into two or more LEAs, an LEA eliminates grade levels (e.g., previously served grades K-12 and now serves grades K-8). Additionally, changes in the organizational structure of an LEA may include when an LEA changes its management or operations structure to create economies of scale to be more efficient. For example, each school in the LEA employs budget and fiscal management staff. The LEA makes the decision to consolidate budget and fiscal management staff into a single team located in the central office.

If an LEA receives a waiver of the maintenance of effort requirement from the U.S. Department of Education for a given fiscal year, the LEA has effectively maintained effort for that fiscal year. Accordingly, in determining whether the LEA had failed to maintain effort for one or more of the five immediately preceding fiscal years, the SEA would count the year in which the LEA received a waiver as a year of maintaining effort.

In requesting a waiver based on a change in its organizational structure, an LEA would need to provide evidence of that change and the reasons why the change caused the LEA to fail to maintain effort. To explain the change in its organizational structure, the LEA might provide a narrative description of the change or a visual, organizational chart or map, if relevant. The LEA would also need to explain why the change caused the LEA to fail to maintain effort. In doing so, the LEA might show its expenditures related to its organizational structure before and after the change to demonstrate that the change resulted in lower expenditures.

### 5.2.10 Other Federal Fiscal Reporting

The previous sections describe some of the more commonly known Federal requirements and uses of information. AOE reserves the right to make additional requests based on Federal legislative or other requirements. All questions regarding other requests not described in the aforementioned sections should be directed to: Sean Cousino, AOE Education Finance Manager, at (802) 828-2905.

# 6 Overview of the Uniform Chart of Accounts (UCOA)

This chapter defines the UCOA, its global attributes, objectives of use, as well as the steps performed to develop the UCOA including its key principles.

## 6.1 What Is the UCOA?

The UCOA is a uniform system of account numbers used to categorize LEA's revenues, expenditures, assets, liabilities, and fund equity. The eFinancePLUS accounting system utilizes an account structure with three components; budget unit, account and project code. The terms "account" or "account number" used in this handbook referring to the UCOA, refer to all three components. See chapter 7 for futher discussion on the UCOA account structure.

Defined generally, a Chart of Accounts (COA) provides the framework to capture original transactions, organize that data logically, and provide a robust basis for reporting on the results. A well-designed COA satisfies these requirements by providing the ability to isolate the data into segmented "buckets" and by using tools to combine data from selected buckets to allow for meaningful analysis and reporting.

For effective analysis, accounting data must be recorded and reported in a consistent and comparable method. These business rules and the UCOA support this effort by producing standardized processes and categories for budgeting and accounting of school finance transactions. For example, with a UCOA in place, a user can determine what is being spent (and or budgeted) on health benefits in any district across the State by utilizing the specific account number assigned to health benefits.

The UCOA provides these global attributes:

***Transparency*** *– Clear, detectable view of how dollars are invested in logical, granular detail*

***Uniformity*** *– Conformity to the same principles, standards, or rules used from district to district to ensure consistency*

***Accountability*** *– Precise rules for capturing and reporting data aligned to specific goals and objectives*

***Comparability*** *– Uniformity of method and content to allow comparison between different LEAs*

The benefits include:

1. Uniformity of format and application
2. Isolation of data in segments creating granularity of data
3. Power of combining segments to address specific questions
4. Comparability of data
5. Numbering methodology enhances ad hoc and management reporting
6. Allows for more effective analysis when combined with non-accounting data

## 6.2 Objectives of the UCOA

The primary objective of the UCOA is to meet both the internal and external reporting needs of the LEAs and the State by providing consistency in both the detail in the general ledger and in the application of accounting methods. This will render Vermont's LEA's school finance data more consistent and comparable, thus providing a more reliable basis for legislative decision-making, for local stakeholders, and more accountability to the public.

## 6.3 Development of the UCOA

The following guiding scope of work was adhered to in the development of the UCOA:

1. The UCOA must provide the data required by the Federal government, State policy makers, and local boards. The UCOA must require established business rules to ensure data comparability and uniform financial reporting in accordance with Generally Accepted Accounting Principles (GAAP).
2. AOE-established revenue codes must be reviewed and matched to enabling legislation. Obsolete codes must be disregarded from ongoing use and new codes established, if necessary, while maintaining history of data.
3. A comprehensive review of Federal financial requirements was necessary to ensure LEA compliance with Federal statute, rules, and regulations. [General and grant specific].
4. A comprehensive review of State financial requirements was necessary to ensure LEA compliance with State statute, rules, and regulations. [General and grant specific].
5. A comprehensive review of GASB accounting and reporting requirements was necessary to ensure LEA compliance with GAAP.

## 6.4 Acknowledgements

Enabling partnerships in this development process included AOE, VASBO, Vermont Auditor's Office, private auditors engaged in LEA audits, and the Federal Department of Education, as necessary.

## 6.5 Key Principles

Design, development, and modification of the UCOA will be based on the following key principles:

- The National Center for Educational Statistics (NCES) Financial Accounting for Local and State School Systems, 2014 Edition, served as a guideline for structure and methodology; however, the UCOA may differ from these guidelines if the UCOA design, structure, and methodologies are better supportive of the reporting requirements and other Vermont-specific needs.
- VT AOE will continue to retain financial data as currently reported to AOE by LEAs.
- The UCOA will allow for expanding reporting capabilities.
- The UCOA will allow for more efficient reporting of School Finances by LEAs to the AOE.
- Codes from existing data systems within AOE will be reviewed for capabilities and will be used wherever possible and practical.
- The structure will provide for future expansion for additional codes.
- Standardized location codes will be included in the structure to provide comparative reporting capabilities by location.
- Standardized fund sources will be identified and standard codes established.
- Standardized level codes will be included in the structure to provide comparative reporting capabilities by level.
- Standardized type codes will be included in the structure to provide comparative reporting capabilities by type.
- Standardized program codes will be included in the structure to provide program reporting.
- Standardized function codes will be included in the structure to provide comparative reporting capabilities by function.
- Standardized object codes will be included in the structure to provide consistent object reporting.
- Standardized revenue codes will be included in the structure to provide revenue reporting.
- Flexibility will be provided to allow LEAs to employ lower levels of detail where practical.
- The proposed structure will support compliance with Generally Accepted Accounting Principles (GAAP).
- The proposed structure will support compliance with GASB accounting guidance.

# 7 Design and Structure of the UCOA

The UCOA is designed to give LEAs the ability to report accurately and effectively on financial activities for use by multiple stakeholders. The structure presented below provides the data required by the Federal government, State policy makers, and Local boards. The UCOA is supported by established business rules that ensure uniformity in financial reporting in compliance with Generally Accepted Accounting Principles (GAAP). This chapter provides an overview of the UCOA structure, numbering methodology, key design considerations, and account use rules.

## 7.1 Overview

The UCOA structure is composed of 8 required segments. All UCOA change requests submitted must be reviewed and approved by the AOE to ensure that any additional segments or codes do not compromise the integrity of the UCOA and its purpose. The formal process to request additional segments or codes will be outlined later in this document. The SSDDMS is advised by the Governance and Change Advisory Board (GCAB). The function of the GCAB is to act as a liaison between PowerSchool and LEAs to review and coordinate PowerSchool requested eFinancePLUS system-wide enhancements, system updates, version upgrades including reviewing and coordinating AOE requested UCOA updates. Major updates and changes to the UCOA will be timed to coincide with the fiscal budget building process, to the extent practicable.

The eFinancePLUS accounting system utilizes an account structure with following three components:

1. Budget unit (required)
2. Account (reguired)
3. Project code (optional)

The terms "account" or "account number" used in this handbook referring to the UCOA, refer to all three components.

The eight required account segments by account component are as follows:

Budget Unit

| Fund | Location | Level | Program | RevSource | Function |
|---|---|---|---|---|---|
| XXXX | XXX | XX | XX | X | XXXX |

Account

| Type | Account (Object, Revenue, Balance Sheet) |
|---|---|
| X | XXXX |

The two optional segments of the **project code** account component are:

| AOE_Code (Not is use) | LEA_Code (Local Use) |
|---|---|
| XXXXXXXX | XXXXXXXX |

**Expense Transactions**

Expense transactions will utilize the following segments: Fund, Location, Level, Program, RevSource, Function, Type, Object, and optionally LEACode. While the State may not require the use of all codes within a segment, the AOE has noted those codes that are required, and those codes that are available for use but not required, as well as those codes that are available for local specification and use. This practice will ensure current and future consistency of accounting methods. The Project code called LEA_Code is for local use and is discretionary.

### Revenue Transactions

Revenue transactions will utilize a subset of the aforementioned segments including: Fund, Location, Level, Program, RevSource, Type, Revenue, and where deemed appropriate by the LEA Project (LEA_Code). When recording revenue transactions, the function segment (reflected below in gray) should not be used, but instead the code "0000" should be used as shown below.

Budget Unit

| Fund | Location | Level | Program | RevSource | Function |
|---|---|---|---|---|---|
| XXXX | XXX | XX | XX | X | 0000 |

Account

| Type | Account (Balance Sheet) |
|---|---|
| X | XXXX |

### Balance Sheet Transactions

Balance sheet transactions will utilize a subset of the UCOA segments including: Fund, Type, Balance Sheet Code and where deemed appropriate by the LEA Project (LEA_Code). When recording balance sheet transactions the following segments are not used; Location, Level, Program, RevSource, and Function.

Budget Unit

| Fund |
|---|
| XXXX |

Account

| Type | Account (Balance Sheet) |
|---|---|
| X | XXX |

## 7.2 Numbering Methodology

Each segment within the UCOA has a specified number of components (length) within the segment. Some segments also maintain several numbering methodologies and logical hierarchy structures. One or more of the following Number Methodology Rules apply to each segment as specified in the table below.

Number Methodology Rules

1. Fixed Code (Fixed): codes that are defined in the UCOA and cannot be changed unless mandated by the AOE.
2. User-defined Flexible (User-defined): Codes that can be defined for local use at the LEA's discretion.

**Table 2: Segment Details**

| Segment | Description | Requirement Source | Numbering Methodology Rules | Length | Reportable (by AOE) |
|---|---|---|---|---|---|
| 1 | Fund | Federal/Local | Fixed/User-defined Flexible | 4 | 1 |
| 2 | Location | State | Fixed | 3 | 3 |
| 3 | Level | Federal | Fixed | 2 | 2 |
| 4 | Program | Federal | Fixed | 2 | 2 |
| 5 | Function | Federal | Fixed/User-defined Flexible | 4 | 4 |
| 6 | RevSource | Federal | Fixed | 1 | 1 |
| 7 | Type | Federal | Fixed | 1 | 1 |
| 8a | Account – Object | Federal | Fixed/User-defined Flexible | 3 | 3 |
| 8b | Account – Revenue | Federal/State | Fixed/User-defined Flexible | 4 | 4 |
| 8c | Account – BS | Local | Fixed/User-defined Flexible | 4 | N/A |

| Segment | Description | Requirement Source | Numbering Methodology Rules | Length | Reportable (by AOE) |
|---|---|---|---|---|---|
| 1 | Project (AOE) | Not in use | Fixed | 8 | N/A |
| 2 | Project (LEA) | Federal/State/Local | User-defined Flexible | 8 | N/A |

### 7.3 Key Design Considerations

There were a number of considerations made when designing the UCOA.

1. Must be in line with Federal Handbook to ensure federal reporting compliance.
2. Meets Vermont-specific reporting requirements (e.g. tuitionining, assessment, grant tracking).
3. Must provide means for fund accounting.
4. Maintains integrity of a uniform system while allowing for local flexibility.
5. Meets aforementioned needs with the shortest overall account string.

### 7.4 UCOA Account Use Rules

The proper and effective use of the UCOA is dependent on adherence to the various rules that have been created for specific accounts and for intersection of accounts from various segments of the UCOA. Several types of rules have been identified and *must* be followed in following ***Order of Precedence:***

- ***Object Intersection Rules*** – These are rules that have been designed for *each* Object Expenditure account. These rules take precedence over all other rules should there be a conflict between another rule and an Object Intersection Rule. The Object Intersection Rules can be found in the Expenditures section of this document, within the description of each account.
- ***Rollup Account Rule*** – Those specified rollup accounts that contain this rule are used for aggregate reporting purposes only. Rollup account rules may be applicable to a number of account segments, or even to a portion of codes within a single account segment, or even to a portion of codes within a single account segment, or even to a portion of codes within a single account segment.

- ***Mandatory Method Rules*** – These rules identify specific accounting methods or procedures to be applied to various segments in the UCOA. Mandatory Method Rules must be followed unless the application of the rule would violate an Object Intersection Rule.
- ***Allocation Rules*** – These rules are defined in the Object Expenditure accounts and used in the other segments.
- ***General Rules*** – There are several types of General Rules, which are secondary to the above rules. These rules provide guidance on selecting the proper segment accounts to match Expenditure Object accounts where specificity has not been provided by an Object Intersection Rule. A General Rule must be followed unless it is inconsistent with an Object Intersection Rule or a Mandatory Method Rule. The following types of General Rules are included: General Program/Job Classification Rule, General Function/Subject Rule, and General Program/Subject Rule.
- ***Optional Use Rules*** – These rules specify accounts where flexibility and options have been provided. The first, Optional Use Rules, specifies that the use of an identified account with the Expenditure Object accounts is not required to be used, but may be. The second, Optional Detail Account Use Rules, specifies that use of the detail level accounts (lowest level in the Numbering Hierarchy for each segment) can be used at the option of the user and is not required. If not thus specified, the use of the lowest level account in each segment is required.
- ***Guidelines*** – Guidelines are items like the Function/Job Classification Matrix, which was developed to assist districts in the preparation of account strings pursuant to the UCOA. The Matrix is designed to provide guidance for the most common or frequent intersections of the Function and Job Classification segment. The Matrix does not preclude other intersections not affirmed by the Matrix if the intersection in question does not violate a General Rule or an Object Intersection Rule. This holds true for other Guidelines. The matrix is presented as a tab on the UCOA spreadsheet available on the VT AOE website.

# 8 Chart of Accounts

The Chart of Accounts (UCOA) is to specify the uniform accounting code structure to be used by LEA's to ensure the accuracy of the individual LEA's financial reporting.

## 8.1 Fund Description

### 8.1.1 Overview

A fund is a fiscal and accounting entity, with a self-balancing set of accounts recording cash and other resources, together with all related liabilities and residual equities or balances, or changes therein. The intent of the Fund segment is to segregate or isolate types of funding and activities that are associated with the various fund types. LEA accounting systems must be organized and operated on a fund basis. See Chapter 3 for more information on fund accounting.

The classifications of funds included here are similar to those used by other state and local government units and follow the reporting structure required by Generally Accepted Accounting Principles (GAAP). Different funds are established to account for financing of specific activities of a school district's operation. Each LEA is expected to report all revenues and expenditures under the proper fund type. Each of the nine fund types are categorized as either a Governmental Type, Proprietary Type, or Fiduciary Type.

The table below outlines the type classifications and corresponding definitions.

**Table 2: Fund Types**

| Type | Definition | No. | Description |
|---|---|---|---|
| **Governmental Type** | Funds generally used to account for tax-supported activities | 1000 | General Fund |
| | | 2000 | Special Revenue Funds |
| | | 3000 | Capital Projects Funds |
| | | 4000 | Debt Service Funds |
| | | 5000 | Permanent Funds |
| **Proprietary Type** | Funds that focus on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows | 6000 | Enterprise Funds |
| | | 7000 | Internal Service Funds |
| **Fiduciary Type** | Funds used to report assets held in a trustee or agency capacity for others and which therefore cannot be used to support the government's own programs | 8000 | Trust Funds |
| | | 9000 | Custodial Funds |

The fund is the first segment in the UCOA, and is federally required. While fund codes are four digits in length, for reporting purposes the code will "roll up" to the first digit.

The fund structure is composed of four digits; the first digit provides the fund type definition. The second and third and fourth digit may be sub-funds assigned by local user, with the exception of some special fund series that have been assigned by AOE for restricted sources. AOE has assigned the X001 of each fund which may be used if no subfunds are created locally. X002-X799 are available for local use in each fund. X800-X999 are reserved for future potential state-determined use.

**Table 3: Fund Segment**

| Description | Structure | Number Methodology Rule | Length | Reportable |
|---|---|---|---|---|
| Fund | X _ _ _ | Fixed/User-defined Flexible | 4 | 1 |

### 8.1.2 How the Fund Segment Is Used

The funds noted herein and subsequently authorized by AOE are designated for use by districts. Certain Funds are required when an LEA conducts certain activities that meet the criteria for using those funds.

Only the minimum number of funds consistent with legal and operating requirements should be established; using unnecessary funds results in inflexibility, undue complexity, and inefficient financial administration.

**Mandatory Method Rule:** The fund segment is used when recording any accounting transaction. It applies to all revenue, expenditure, and balance sheet accounts. Subfunds, reported in the fund segment, are further divisions of fund types that directly align with *only one* fund type.

Funds are the primary component for accumulating and reporting financial results. Subfunds, may be established for the local user to separate and track restricted grant funding. Another example is a district that includes a tech center may choose to use 1001 for the district general fund and 1002 for the Tech center general fund to keep them separate.

### 8.1.3 Code Definitions and Rules – Funds

**1000 – General Fund**

**Definition**: This fund is the chief operating fund of the school district. It is used to account for all financial resources of the school district except those accounted for and reported in another fund.

**Rules**: An LEA has only one general fund, though subfunds can be used. No assets provided by the Federal government may be accounted for in the general fund.

**2000 – Special Revenue Fund**

**Definition**: These funds account for the proceeds of specific revenue sources (other than trusts or major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects A separate fund must be used for each identified restricted source.

**Rules**: The rollup account rule requires that all restricted funds be accounted for in one or more special funds. 2000 is a roll-up code and may not be used, see AOE's UCOA excel file's Special Fund Detail Tab for specific funds used for each restricted fund.

**3000 – Capital Projects Fund**

**Definition**: These funds account for financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those of proprietary funds and trust funds). The most common source of capital projects funding is the sale of bonds or other capital financing instruments. A separate fund may be used for each capital project, or one fund may be used, supplemented by the classification project/reporting code.

**Rules**: Expenditures or outlays associated with an acquisition or construction of a facility must be associated with a capital projects fund. If a single fund is used for multiple capital projects, each capital project must be distinguished by a unique project or other reporting code within the chart.

**4000 – Debt Service Fund**

**Definition**: These funds account for financial resources that are restricted, committed, or assigned to expenditure for principal and interest (not the debt itself). Debt Service Funds should be used if legally mandated, as well as for the accumulation of resources for and the payment of, general long-term debt principal and interest (the debt itself should not be carried in this fund) maturing in future years (when required).

**Rules:** Funds accumulated for the purpose of principal and interest payments against general long-term debt obligations (e.g., as associated with a capital project) should be associated with a specific Debt Service Fund.

**5000 – Permanent Fund**

**Definition**: These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the school district's programs (e.g., an endowment for an athletic program).

**Rules:** Assets for which earnings; and not principal, are used for school district programs must be associated with a Permanent Fund.

**6000 – Enterprise Fund**

**Definition**: These funds account for any activity for which a fee is charged to external users for goods or services.

**Rules:** Enterprise Funds are required to be used to account for any activity whose principal revenue sources meet any of the following criteria: debt backed solely by revenues from fees and charges (thus, not debt that is backed by the full faith and credit of the school district);

legal requirement to recover costs through fees and charges; or policy decision of the governing board of management to recover the costs of providing services through fees or charges. Any fee charged to external users for goods or services must be associated with an enterprise fund. Examples include (1) community service programs that are self-sustaining, where fees are charged to users that cover all costs, there is no direct use of governmental funds or transfer of governmental funds, and no burden on the State Education Fund, and (2) special education collaborative programs.

**7000 – Internal Service Fund**

**Definition**: These funds account for any activity within the school district that provides goods or services to other funds, school district departments, component units, or other governments on a cost-reimbursement basis. Do not use Internal Service Fund revenues or expenditures in Federal surveys—unless the revenues are generated from outside the school district or education entity.

**Rules:** The use of an Internal Service Fund is appropriate only for activities in which the school district is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund. Examples of the use of internal service funds are for activities such as central warehousing and purchasing, central data processing, and central printing and duplicating. Any transaction associated with the provision of goods or services to other funds, school district departments, component units, or other governments on a cost-reimbursement basis must be associated with an Internal Service Fund.

**8000 – Trust Fund**

**Definition**: These funds account for assets held by a school district in a trustee capacity for others (e.g., members and beneficiaries of pension plans and other post-employment benefit [OPEB] plans, external investment pools, or private-purpose trust arrangements) and therefore cannot be used to support the school district's own programs. Trust Funds are generally accounted for using the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain post-employment healthcare plans. Trust Funds include Pension Trust Funds (including OPEB plans), Investment Trust Funds, and Private-Purpose Trust Funds (as described below).

**Pension Trust Funds**: These funds account for resources that are required to be held in trust for members and beneficiaries of defined benefit pension plans, defined contribution plans, OPEB plans, or other benefit plans. Typically, these funds account for local pension and other employee benefit funds that are provided by a school district in lieu of or in addition to any State retirement system.

**Investment Trust Funds:** These funds account for the external portion (i.e., the portion that does not belong to the school district) of investment pools operated by the school district.

**Private-Purpose Trust Funds:** These funds account for other trust arrangements under which the principal and income benefit individuals, private organizations, or other governments.

**Rules:** Any trustee capacity for others (e.g., members and beneficiaries of pension plans) must be associated with a Trust Fund and may not be used to support school district programs.

**9000 – Custodial Fund**

**Definition**: These funds account for funds that are held in a custodial capacity by a school district for individuals, private organizations, or other governments. This includes some student activity funds, employee pension withholdings, and taxes collected on behalf of the State and Federal government.

**Rules:** Student Activity Funds are custodial funds and must be recorded using a 9000 fund. Any transaction associated with an individual, private organization (e.g., some student activities), or other government organization must be associated with a Custodial Fund.

## 8.2 Location Description

### 8.2.1 Overview

The location code is state-assigned and identifies an individual school, town district, union district, supervisory union, vocational school, alternative program, or campus serving as the base reporting unit within the UCOA. The location segment will identify where (physical or shared location) funds are being used. The intent of the location segment is to isolate certain costs associated with a specific school, or shared amount schools or districts. Each location can align with multiple funds/sub funds.

**Table 4: Location**

| Description | Structure | Number Methodology Rule | Length | Reportable |
|---|---|---|---|---|
| Schools and Other | XXX | Fixed | 3 | 3 |

### 8.2.2 How the Location Segment Is Used

The codes noted herein and subsequently authorized by AOE are designated for use by LEAs. Specific location codes are required when an LEA conducts certain activities that meet the criteria for using those locations. Only the minimum number of locations consistent with legal and operating requirements should be established; using unnecessary accounts results in inflexibility, undue complexity, and inefficient financial administration.

**Location Type**

The location code is three digits in length and is entirely numeric. The first component will be the location type identifier, composed of one character that specifies the location type. The numbering methodology and content for this component will be uniform in the UCOA.

The following is a list of the location types, along with the assigned account number:

**Table 5: List of Location Types**

| UCOA Location Code | Location Type | Description |
|---|---|---|
| 1XX | School | Public School, (i.e., Town/City School, Union School, and Joint Contract School) |
| 2XX | District | Town School District |
| 3XX | District | Union School District |
| 4XX | SU | Supervisory Union/LEA |
| 5XX | School | Technical Center |
| 6XX | School | Alternative Program |
| 7XX | Campus | Campus of multiple schools within the same Town/Union District |
| 8XX | Unassigned | |
| 9XX | Unassigned | |

The location segment is used to track the location a transaction is recorded at. Transactions should be recorded at the lowest level whenever reasonable. Some transaction will be required to be recorded a certain location. Collecting location level information will allow AOE to comply with the new federal ESSA requirements that require per pupil expenditures reporting by school.

### 8.2.3 Code Definitions and Rules – Location

Business process rules to guide the use of the Location segment will require additional discussion amongst AOE and LEAs. These discussions should focus around the mandatory methods involved in collecting and reporting Location information, as well as best practice processes across the State.

**Table 6: Code Definitions and Rules**

| Location Code | Rule |
|---|---|
| **1XX – School** | Use this code for building-specific transactions (e.g., utilities, staff). |
| **2XX – Town** | Use this code for district-specific transactions and costs for resources shared across schools. If school-level analyses are required for reporting/financial calculation, these costs may be allocated by the State to the school-level using average daily membership (ADM) or other student count metrics as necessary. If ADM or other student counts are an inappropriate method of allocation, then the transaction should be recorded at each school location by an allocation deemed appropriate by the LEA (e.g., staff works 40% at school 1 and 60% at school 2, but 0% at school 3, all within the same district). |
| **3XX – Union** | Same as for "2XX – Town". |
| **4XX – SU** | Use this code for supervisory union-specific transactions and costs of resources shared across school districts. If school or district-level analyses are required for reporting/financial calculation, these costs may be allocated by the State to the district or school-level using average daily membership (ADM) or other student count metrics as necessary. If ADM or other student counts are an inappropriate method of allocation, then the transaction should be recorded at each district or school location by an allocation deemed appropriate by the LEA (e.g., staff works 40% at school 1 and 60% at school 2, but 0% at remaining schools within the SU). Supervisory Districts and Unified Union districts will not code any transactions to their 4XX series code; they are only available for AOE reporting purposes. |
| **5XX – VC** | Use this code for transactions related to the operation of a vocational program (i.e., Career and Technical Education program). |
| **6XX – Alternative Program** | Use this code for transactions related to the operation of an alternative program. Alternative programs may be assigned their own location code within the 600 Series. These location codes will need to be set-up through the AOE. In order to set-up a code for an alternative program, the AOE will need to know the following: description of services provided, name of program, State ID number (if applicable), location |

| Location Code | Rule |
|---|---|
| | of operations and if the program is only available for students in the LEA or if outside tuition is accepted. |
| **7XX – Campus** | Use this code for transactions where there are shared costs among schools that are part of a single campus. Similar to with district and SU locations, should campus-level transactions require allocation to the school level for reporting or financial calculation, these costs may be allocated by the State to the school-level using average daily membership (ADM) or other student count metrics as necessary. If ADM or other student counts are an inappropriate method of allocation, then the transaction should be recorded at each school location by an allocation deemed appropriate by the LEA (e.g., staff works 40% at school 1 and 60% at school 2, but 0% school 3, within the same campus). |
| **8XX – Unassigned** | TBD. |
| **9XX – Unassigned** | TBD. |

## 8.3 Level Description

### 8.3.1 Overview

The level code permits expenditures to be segregated by instructional level. Vermont has identified five instructional levels, accounting for public programs and schools providing services to students, ranging from birth through adulthood. The level segment is comprised of two digits.

**Table 6: Level**

| Description | Structure | Number Methodology Rule | Length | Reportable |
|---|---|---|---|---|
| Instructional Level | XX | Fixed | 2 | 2 |

### 8.3.2 How the Level Segment Is Used

The codes noted herein and subsequently authorized by AOE are required when an LEA conducts certain activities that meet the criteria for use of each level.

Only the minimum number of levels consistent with legal and operating requirements should be established; using unnecessary accounts results in inflexibility, undue complexity, and inefficient financial administration.

### 8.3.3 Code Definitions and Rules – Level

**01 – Pre-school**

**Definition:** Pre-school or pre-kindergarten services designed to provide developmentally appropriate early development and learning experiences based on Vermont's early learning standards to children who are three to four years of age and to five-year-old children who are not eligible for or enrolled in kindergarten.

**Rules:** All pre-K and pre-K related transactions (regular education and special education) should be coded to the Pre-school level. The portion of shared costs at a particular location attributable to pre-K should be booked to the pre-K level directly, as location-wide transactions will only be allocated among relevant K-12 grades.

**11 – Elementary**

**Definition:** A program of public school education adapted to the needs of pupils in kindergarten and the first six grades.

**Rules:** LEAs can either report total elementary in Level Code 11 or in a disaggregated method using Level Codes 12 – 18, representing K-6 respectively. If following the latter methodology, the state will aggregate K-6 level codes to produce elementary totals for reporting purposes.

**31 – Secondary**

**Definition:** A program of public school education of six years adapted to the needs of pupils who have completed their elementary education, beginning with Grade 7 and ending with Grade 12.

**Rules:** LEAs can either report total secondary directly in Level Code 31 or in a disaggregated method using Level Codes 32 – 37, representing 7-12 respectively.

**41 – Adult/Continuing Education**

**Definition**: A program of public education adapted to the needs of persons who are beyond the compulsory school age, and who have not completed high school education. These include adult basic education programs and other programs for the pursuit of special interests or enrichment.

**Rules:** All adult and adult-related transactions should be coded to the adult/continuing education level. The portion of shared costs at a particular location attributable to adult education should be booked to the adult education level directly, as location-wide transactions will only be allocated among relevant K-12 grades.

**51 – Location-wide**

**Definition:** For coding expenditures that cannot be clearly assigned to a specific instructional level. For example, an electrical bill would be allocated to the school site. Location-wide may also use for school locations that do not align with Elementary and Secondary levels. For example a K-8 school. Level 51 may be used and the data will be allocated for statbook reporting by AOE based on enrollment, or other appropriate student count metric.

**Rules:** When using the location-wide code, be sure to pull out any pre-K or adult-education transactions. For reporting purposes, location-wide will be allocated by enrollment or other student count metrics, as necessary.

## 8.4 Program Description

### 8.4.1 Overview

A program is a plan of activities and procedures designed to accomplish a predetermined objective or set of objectives. Nine broad program areas are identified in this guide that are intended to capture similar instructional services delivered to public schools: regular education, special education, vocational education, other instructional (pre-kindergarten through grade 12), non-public school, adult/continuing education, community/junior college education, community services, and co-curricular/extra-curricular activities.

The program classification provides the school district with a framework to classify instructional and other expenditures by program to determine cost. For the purposes of designating program codes for non-instructional expenditures, it may be necessary to create a designation for those costs that cannot be attributed to a specific program. Many state departments of education use a function/object matrix only, for reporting financial information from the school district to the state. Under this system, the function is subclassified to gather instructional program information. This results in only direct instructional costs being classified to the instruction function. Those support costs, which provide support to specific instructional programs, are classified as a general or other support function. Each classification is presented by a code number, followed by a description.

The program segment is used when recording any accounting transaction, and is comprised of two digits.

**Table 7: Program**

| Description | Structure | Number Methodology Rule | Length | Reportable |
|---|---|---|---|---|
| Program | XX | Fixed | 2 | 2 |

### 8.4.2 How the Program Segment Is Used

The programs noted herein and subsequently authorized by AOE are required when an LEA conducts activities that meet the criteria for use of each program.

Only the minimum number of programs consistent with legal and operating requirements should be established; using unnecessary accounts results in inflexibility, undue complexity, and inefficient financial administration.

### 8.4.3 Code Definitions and Rules – Program

**10 – Regular Elementary/Secondary Education**

**Definition:** Activities that provide students in prekindergarten (prekindergarten refers to all programs and ages preceding kindergarten, including infant and early childhood programs) through Grade 12 with learning experiences to prepare them for further education or training and for responsibilities as citizens, family members, and workers. Regular programs should be distinguished from special education programs that focus on adapting curriculum or instruction to accommodate a specific disability; from vocational/technical programs that focus on career skills; and from alternative education programs that focus on the specific educational needs of students at risk of failing or dropping out of school because of academic, behavioral, or situational factors.

**Rules:** This is a rollup code. Do not book anything to this program code directly. However all transactions associated with a 10-series program code must be associated with the aforementioned definition.

**11 – Regular Education**

**Definition:** Activities that provide students in prekindergarten through Grade 12 with learning experiences to prepare them for further education or training and for responsibilities as citizens, family members, and workers.

**Rules:** Regular Programs must be distinguished from Special Education Programs that focus on adapting curriculum or instruction to accommodate a specific disability; from Vocational/Technical Programs that focus on career skills; and from alternative education programs that focus on the educational needs of students at risk of failing or dropping out of school because of academic, behavioral, or situational factors.

**12 – Academic Summer Programs**

**Definition:** Summer school conducted on a tuition or fee-for-service basis.

**Rules:** Transactions associated with summer school conducted on a tuition- or fee-for-service basis must be classified as Program 12.

**13 – 21st Century Program**

**Definition:** After-school and summer learning programs delivered through schools and community partnerships for grades K-12, where 40% or more of the students are from low-income families (free/reduced lunch assistance) and/or are eligible for Title 1 School wide program status, and where the need for improved student performance is well documented. Programs complement, but do not duplicate the school day.

**Rules:** Use this program code to track all revenues and expenditures associated with the 21st century program, including those inflows and uses of funds from local sources. The project code will be used to note those grant-specific expenditures and revenues.

**14 – Other After School Programs**

**Definition:** Non-21st Century afterschool programs. Programs complement, but do not duplicated the school day.

**15 – Food Service**

**Definition:** Activities concerned with providing food service to students and staff.

**Rules**: Use this program code to track all revenues and expenditures associated with food service. Direct costs of this program must be coded to Function 3100.

**20 – Special Education**

**Definition:** Special Programs include activities for elementary and secondary students (pre-kindergarten through Grade 12) with disabilities. These services are related to mental retardation, orthopedic impairment, emotional disturbance, developmental delay, specific learning disabilities, multiple disabilities, hearing impairment, other health impairments, visual impairments (including blindness), autism, deaf-blindness, traumatic brain injury, and speech or language impairments.

**Rules:** This is a roll up code. Do not book anything to Program 20 directly. However all transactions associated with a 20-series program code must be associated with serving students with disabilities.

**21 – K-12 Special Education Eligible for Reimbursement**:

**Definition**: Services primarily for students eligible for special education reimbursement. The Special Education Program includes elementary and secondary (kindergarten through Grade 12) services eligible for reimbursement under the Special Education Formula as defined in State Board rules (2366.2).

**Rules**: Expenditures associated with services provided primarily for students eligible for special education should be classified as Program 21. The Special Education Program includes elementary and secondary (K – 12) services reimbursable under the Special Education Funding Formula as defined in State Board rules.

**22 – K-12 Special Education Ineligible for Reimbursement:**

**Definition:** Services primarily for students eligible for special education funding. This special education program includes elementary and secondary services not reimbursable under the Special Education Formula as defined in State Board rules (2366.2.6).

**Rules:** Transactions associated with services provided primarily for students eligible for special education funding. This special education program includes elementary and secondary services not reimbursable under the Special Education Formula as defined in State Board rules.

**23 – K-12 Special Education Collaborative**

**Definition**: K – 12 Special Education Collaborative. A collaborative program is a program created pursuant to an agreement between two or more supervisory districts/unions in accordance with 16 V.S.A. Section 267, for the purpose of cooperatively providing special education services. A collaborative program may offer one or more component programs (e.g., multi-handicapped, emotionally disturbed, diversified occupations).

**Rules:** Code 23 is restricted to SU and SD accounting. Transactions associated with a collaborative program between one or more supervisory districts or unions to provide one or more component programs (e.g., multi-handicapped, emotionally disturbed, diversified occupations) should be classified as Program 23.

**24 – Early Childhood Special Education (ECSE)**

**Definition:** Expenditures and revenues associated with the provision of a free and appropriate public education (FAPE) to students' ages 3 to 6, with disabilities.

**Rules:** This program should be used to track expenditures and revenues from local, state, and federal sources and is only used with level 01.

**25 – Coordinated Early Intervening Services (CEIS)**

**Definition:** Services to help children who need additional academic or behavioral support to be successful in school. Services may include professional development and educational and behavioral evaluations, services, and supports. Under IDEA, the provision of CEIS can be voluntary or mandatory (comprehensive). Voluntary CEIS may be provided to children without a disability in grades K–12, with a particular emphasis on students in kindergarten through Grade 3. Comprehensive CEIS may be provided to children with or without disabilities Age 3 through Grade 12; particularly, but not exclusively, children in those groups who were significantly over identified. Comprehensive CEIS activities cannot be limited to only children with disabilities.

**Rules:** This program should only be used to track expenditures (or revenues) associated with the CEIS allocation taken as a part of IDEA-B grants.

### 26 – Proportionate Share

**Definition:** Revenues and expenditures associated with the provision of a free and appropriate public education (FAPE) to students enrolled by their parents in private schools, including religious schools.

**Rules:** This program should only be used to track expenditures (or revenues) associated with the Proportionate Share allocation taken as part of IDEA-B grants.

### 29 – Other Special Education Programs

**Definition:** Any other program that primarily serves students with disabilities that does not appropriately associate with any of the other 20-Series program codes.

**Rule:** All other expenditures associated with activities primarily for students with special needs not reported in Programs 21 or 22 should be classified as Program 29.

### 30 – Vocational and Technical Programs

**Definition:** Activities delivered through traditional comprehensive and vocational-technical high schools and Independent Technical Centers that prepare students to meet challenging academic standards as well as industry skill standards, while preparing them for broad-based careers and further education beyond high school. Vocational and technical programs may include: agriculture and natural resources, architecture and construction, arts and communication technology, business and administration, education and training, finance, public administration, health science, hospitality and tourism, human services, information technology, law and public safety, manufacturing, retail/wholesale sales and service, scientific research and engineering, and transportation.

**Rules:** This is a roll up code. Do not book anything to Program 30 directly. However, all transactions associated with a 30-Series program code must be associated with serving students enrolled in vocational or technical centers.

**31 – Vocational Education**

**Definition:** Activities delivered through traditional comprehensive and vocational-technical high schools and Independent Technical Centers that prepare students to meet challenging academic standards as well as industry skill standards, while preparing them for broad-based careers and further education beyond high school. Vocational and technical programs may include: agriculture and natural resources, architecture and construction, arts and communication technology, business and administration, education and training, finance, public administration, health science, hospitality and tourism, human services, information technology, law and public safety, manufacturing, retail/wholesale sales and service, scientific research and engineering, and transportation.

**Rules:** Financial transactions within technical centers and the technical/vocational portion of comprehensive high schools that are associated with activities providing students an opportunity to develop the knowledge, skills, and attitudes needed for employment in an occupational area should be classified as Program 31.

**32 – Vocational Special Education**

AOE to add in future version.

**40 – Other Instructional – Elementary/Secondary:**

**Definition:** Activities that provide students in prekindergarten through Grade 12 with learning experiences not included in Program Codes 10–30 or 50–90.

**Rules:** This is a roll up code. Do not book anything to Program 40 directly. However, all transactions associated with a 40-Series program code must be associated with providing students instructional opportunities.

**41 – English Language Learners**

**Definition:** Activities for students from homes where English is not the primary language spoken.

**42 – Non-Special Ed Alternative (at risk) Education Program**

**Definition:** Activities for students assigned to alternative campuses, centers, or classrooms designed to improve behavior and/or provide an enhanced learning experience. Typically, alternative education programs are designed to meet the needs of students that cannot be addressed in a traditional classroom setting.

**43 – Gifted and Talented Programs**

**Definition:** Activities for students with gifted and talented abilities, which consist of behaviors that reflect an interaction among three basic clusters of human traits: above-average general and/or specific abilities, high levels of task commitment, and high levels of creativity. Individuals capable of developing gifted behavior are those possessing or capable of developing this composite set of traits and applying them to any potentially valuable area of human performance. Persons who manifest or are capable of developing an interaction among the three clusters require a wide variety of educational opportunities and services that are not ordinarily provided through regular instructional programs (Renzulli and Reis 1997).

**49 – All Other Elementary/Secondary Instructional Programs**

**Definition:** Activities that provide students with learning experiences not included in the 10 through 40-Series program codes.

**50 – Non-Public School**

**Definition**: Activities for students attending a school established by an agency other than the State, a subdivision of the State, or the Federal government, which usually is supported primarily by other than public funds. The services consist of such activities as those involved in providing instructional services, attendance and social work services, health services, and transportation services for nonpublic school students. For example, Title 1 funds for services delivered at non-public schools.

**60 – Adult/Continuing Education**

**Definition**: Activities that develop knowledge and skills to meet immediate and long-range educational objectives of adults who, having completed or interrupted formal schooling, have accepted adult roles and responsibilities. Programs include activities to foster the development of fundamental tools of learning; prepare students for a postsecondary career; prepare students for postsecondary education programs; upgrade occupational competence; prepare students for a new or different career; develop skills and appreciation for special interests; or enrich the aesthetic qualities of life. Adult basic education programs are included in this category.

**Rules:** Transactions associated with Activities that develop knowledge and skills to meet immediate and long-range educational objectives of adults who, having completed or interrupted formal schooling, have accepted adult roles and responsibilities should be classified as Program 60.

**70 – Community/Junior College**:

**Definition**: Activities for students attending an institution of higher education that usually offers the first two years of college instruction. If the school district is responsible for providing these programs, all costs of the programs should be coded here.

**Rules:** This program accounts for costs associated with students attending institutions of higher education who are eligible for college credit upon completion.

**80 – Community Services**

**Definition:** Same as for Program Code 81.

**Rules:** This is a roll up code. Do not book anything to Program 80 directly. However, all transactions associated with an 80-Series program code must be associated with community services.

**81 – Community Services**

**Definition:** Activities which are not directly related to the provision of educational services in an LEA. These include services such as community recreation programs (playgrounds and swimming pools), civic activities (parent-teacher association meetings and public forums), public libraries, programs of custody and care of children (where attendance of children is not included in the district figures), and community welfare activities (i.e., clothing, food, etc.) provided by the LEA either for the community as a whole or for some segment of the community.

**Community Recreation:** Activities concerned with providing recreation for the community as a whole or for some segment of the community. Included are such staff activities as organizing and supervising playgrounds, swimming pools, and similar programs.

**Civic Services:** Activities concerned with providing services for civic affairs or to civic affairs organizations. This program area includes services to parent-teacher association meetings (PTA), public forums, lectures, and civil defense planning.

**Public Library Services:** Activities pertaining to the operation of public libraries by a school district or the provision of library services to the general public through the school library. Included are such activities as budgeting, planning, and augmenting the library's collection in relation to the community, and informing the community of public library resources and services.

**Custody and Child Care Services:** Activities pertaining to the provision of programs for the custodial care of children in residential day schools or child care centers that are not part of, or directly related to, the instructional program and where the attendance of the children is not included in the attendance figures for the district.

**Welfare Activities:** Activities addressing the personal needs of individuals who have been designated as needy by an appropriate governmental entity. These needs include salaries paid to students for work performed (whether for the school district or for an outside concern) and funds for clothing, food, or other personal needs.

**Other Community Services:** Activities provided to the community that cannot be classified under the other Program 800 codes (e.g., example, Community Recreation Programs (Essex/Montpelier), after-school programs, and summer recreation programs).

**Rules:** Transactions associated with activities which are not directly related to the provision of educational services in an LEA (e.g., community recreation programs (playgrounds and swimming pools), civic activities (Parent Teacher Association meetings and public forums), public libraries, programs of custody and care of children (where attendance of children is not included in the district figures), and community welfare activities (i.e., clothing, food, etc.) provided by the LEA either for the community as a whole or for some segment of the community should be classified as Program 80.

**90 – Co-Curricular and Extra-Curricular and Other**

**Definition:** Activities that add to a student's educational experience but are not related to educational activities. These activities typically include events and activities that take place outside the traditional classroom. Some examples of such activities are student government, band, choir, clubs, and honors societies. Example: Math Club. Other programs are also included in the 90 Series.

**Rules:** This is a roll up code. Do not book anything to Program 90 directly. However, all transactions associated with a 90-Series program code must be associated co- or extra-curricular, or other enterprise activities.

**91 – Athletic Activities**

**Definition:** Transactions associated with the operations and activities of the Athletics department and teams. Example: Hockey Team.

**92 – Non-Athletic Co-Curricular Activities**

**Definition:** Transactions associated with the operations of non-athletic co-curricular activities such as student government, band, choir, clubs, and honors societies.

**98– Other Enterprise**

**Definition**: Enterprise programs that are not already identified in programs listed above. An Enterprise program is used for activity for which a fee is charged to external users for goods or services.

**Rules:** Transactions associated with all other programs intended to be self-supporting should be classified as Program 98.

**99 – Other Curricular and Extracurricular Programs**

**Definition:** Activities that add to a student's educational experience but are not related to educational activities. These activities typically include events and activities that take place outside the traditional classroom. Some examples of such activities are student government, band, choir, clubs, and honors societies. Example: Math Club. Other programs are also included in the 90 Series.

**Rules:** Expenditures associated with activities that add to a student's educational experience but are not related to educational activities (e.g., activities that take place outside the traditional classroom, such as student government, athletics, band, choir, clubs, and honor societies) should be classified as Program 90.

## 8.5 RevSource Description

### 8.5.1 Overview

Indicates the source of funding being spent or received and also determines if the funding is restricted. The RevSource is made up of four types, Local, State, Federal, and Other. There are also mixed source RevSources to record expenditures. The numbering methodology and content for this segment will be uniform in the UCOA.

**Table 8: RevSource**

| Description | Structure | Number Methodology Rule | Length | Reportable |
|---|---|---|---|---|
| RevSource | X | Fixed | 1 | 1 |

### 8.5.2 How the RevSource Segment Is Used

The RevSource codes noted herein and subsequently authorized by AOE are designated for use by LEAs. Specific RevSource codes are required when an LEA is using restricted funding.

Only the minimum number of functions consistent with legal and operating requirements should be established; using unnecessary accounts results in inflexibility, undue complexity, and inefficient financial administration.

### 8.5.3 Code Definitions and Rules - RevSource

- 0 - Local/State
- 1 - Local-Restricted
- 2 - Other-Restricted
- 3 - State-Restricted
- 4 - Federal-Restricted
- 5 - Local
- 6 - Other
- 7 - State
- 8 - Federal
- 9 - Local/State/Federal

Mandatory Method Rule: Two sets of RevSource codes have been created to track restricted and not restricted funding. When receiving or spending restricted funding RevSource Codes 1-4 must be used depending on the fund source. When receiving and spending unrestricted funding RevSource Codes 5-8 need to be used.

Mandatory Method Rule: Mixed source RevSource Codes (0&9) may be used on expenditure transactions and for only two reasons.

1. When spending unrestricted funding where no tracking or reporting of the funds are necessary or required beyond what is already included in the UCOA.
2. When spending funding where it is difficult to determine the type of money being spent. Currently we have identified only two times this is necessary, when you may be spending Local, State, or Federal funds:

- Food Service expenditures
- 21st Century programs

## 8.6 Function Description

### 8.6.1 Overview

Describes the activity for which an expenditure is made. The functions of an LEA are classified in broad areas, such as: Direct Instruction, Support Services, and Facilities Acquisition and Construction. The numbering methodology and content for this segment will be uniform in the UCOA.

**Table 9: Function**

| Description | Structure | Number Methodology Rule | Length | Reportable |
|---|---|---|---|---|
| Function | XXXX | Fixed | 4 | 4 |

### 8.6.2 How the Function Segment Is Used

The function codes noted herein and subsequently authorized by AOE are designated for use by LEAs. Specific Function codes are required when an LEA conducts certain activities that meet the criteria for using those functions.

Only the minimum number of functions consistent with legal and operating requirements should be established; using unnecessary accounts results in inflexibility, undue complexity, and inefficient financial administration.

### 8.6.3 Code Definitions and Rules – Function

**1000 – Instruction**

**1101 – Direct Instruction:** Instruction includes the activities dealing directly with the interaction between teachers and students. Teaching may be provided for students in a school classroom; in another location, such as a home or hospital; and in other learning situations, such as those involving curricular activities. It may also be provided through some other approved medium—such as television, radio, computer, the internet, multimedia, telephone, and correspondence—that is delivered inside or outside the classroom or in other teacher-student settings. Included here are the activities of aides or classroom assistants of any type (graders, teaching machines, etc.) who assist in the instructional process. If proration of expenditures is not possible for department chairpersons who also teach, include department chairpersons who also teach in instruction.

**1101 – Direct Instruction Function Rule:** Mandatory Method Rule: Stipends for department chairpersons should be reported in Function 2290 Other Support Services – School Administration (used with all programs 10 – 90).

**1201 – Special Education:** Special Education Instruction includes the activities dealing directly with the interaction between students and teachers in the special education program. This includes classroom teachers, aides, assistants, substitute teachers, and speech, occupational and physical therapy.

**1301 – Vocational Education**: Vocational Education Instruction includes the activities dealing directly with the interaction between students and teacher vocational program. This includes classroom teachers, aides, assistants, and substitute teacher.

**1401 – Athletics:** Transactions associated with the operations and activities of the Athletics department and teams. Example: Hockey Team (used with program 91).

**1501 – Co-Curricular:** Transactions associated with the operations of non-athletic co-curricular activities such as student government, band, choir, clubs, and honors societies (used with program 92).

**1601 – Adult Education:** Activities that develop knowledge and skills to meet immediate and long-range educational objectives of adults who, having completed or interrupted formal schooling, have accepted adult roles and responsibilities. Programs include activities to foster the development of fundamental tools of learning; prepare students for a postsecondary career; prepare students for postsecondary education programs; upgrade occupational competence; prepare students for a new or different career; develop skills and appreciation for special interests; or enrich the aesthetic qualities of life. Adult basic education programs are included in this category (Used mainly with Program 60).

**2000 – Support Services:** Support services provide administrative, technical (such as guidance and health), and logistical support to facilitate and enhance instruction. These services exist as adjuncts for fulfilling the objectives of instruction, community services, and enterprise programs, rather than as entities within themselves.

**2100 – Support Services – Students**: Activities designed to assess and improve the well-being of students and to supplement the teaching process.

**2110 – Attendance and Social Work Services:** Activities designed to improve student attendance at school that attempt to prevent or solve student problems involving the home, the school, and the community. Registration activities for adult education programs are included here. Some examples of other services to be reported within this function code are supervision services, attendance services, and student accounting services. (Used with all Programs 10–90.)

- **2120 – Guidance Services:** Activities involving counseling with students and parents; consulting with other staff members on learning problems; evaluating the abilities of students; assisting students as they make their own educational and career plans and choices; assisting students in personal and social development; providing referral assistance; and working with other staff members in planning and conducting guidance programs for students. Guidance services may include supervision services, counseling services, appraisal services, student record services, and placement services. (Used with all Programs 10–90.)
- **2131 – Health Services:** Physical and mental health services that are not direct instruction. Included are activities that provide students with appropriate medical, dental, and nursing services. (Used with all Programs 10–90.)
- 2132 – School Nurse
- **2140 – Psychological Services:** Activities concerned with administering psychological tests and interpreting the results; gathering and interpreting information about student behavior; working with other staff members in planning school programs to meet the special needs of students as indicated by psychological tests and behavioral evaluation; and planning and managing a program of psychological services, including psychological counseling for students, staff, and parents. This function includes the supervision of psychological services, related testing, and counseling services, and psychotherapy services. (Used with all Programs 10–90.)
- **2151 – Speech Pathology and Audiology Services:** Activities that identify, assess, and treat children with speech, hearing, and language impairments. (Usually used with program 20.)
- 2152 - Speech Pathology
- 2153 – Audiology Services

- **2160 – Occupational Therapy – Related Services:** Activities that assess, diagnose, or treat students for all conditions requiring the services of an occupational therapist. (Usually used with Program 20.)
- 2170 Physical Therapy – Related Services
- 2180 Visually Impaired/Vision Services
- **2190 - Other Supporting Services – Students:** Other support services to students not classified elsewhere in the 2100 Series.

**2200 – Support Services - Instruction:** Activities associated with assisting the instructional staff with the content and process of providing learning experiences for students.

- **2210 – Improvement of Instruction:** Activities primarily for assisting instructional staff in planning, developing, and evaluating the process of providing learning experiences for students. These activities include curriculum development, techniques of instruction, child development and understanding, and staff training. (Used with all Programs 10–90)
- **2212 – Instruction and Curriculum Development:** Activities that aid teachers in developing the curriculum, preparing and using special curriculum materials, and understanding and appreciating the various techniques that stimulate and motivate students.
- **2213 – Instructional Staff Training:** Activities associated with the professional development and training of instructional personnel. These include such activities as in-service training (including mentor teachers), workshops, conferences, demonstrations, courses for college credit (tuition reimbursement), and other activities related to the ongoing growth and development of instructional personnel. Training that supports the use of technology for instruction should be included in this code (states may establish a sub-object code for specific tracking of technology-related training costs). The incremental costs associated with providing substitute teachers in the classroom (while regular teachers attend training) should be captured in this function code. All costs should be charged to this code regardless of whether training services are provided internally or purchased from external vendors.
- **2219 – Other Improvement of Instruction Services:** Activities for improving instruction other than those classified above.

- **2220 – Library/Media Services:** Activities concerned with directing, managing, and supervising educational media services (e.g., supervisory personnel), as well as such activities as selecting, acquiring, preparing, cataloging, and circulating books and other printed materials; planning for the use of the library by students, teachers, and other members of the instructional staff; and guiding individuals in their use of library books, reference guides and materials, catalog materials, special collections, and other materials, whether maintained separately or as a part of an instructional materials center. These activities include developing and acquiring library materials and operating library facilities.
- **2220 – Library/Media Services Function Rule: Mandatory Method Rule:** Textbooks are not charged to this function, but rather to the instruction function (used with all Programs 10 – 90).

**2230 – Instruction-Related Technology:** This function category encompasses all technology activities and services for the purpose of supporting instruction. These activities include expenditures for internal technology support, as well as support provided by external vendors using operating funds. These activities include costs associated with the administration and supervision of technology personnel, systems planning and analysis, systems application development, systems operations, network support services, hardware maintenance and support services, and other technology-related costs that relate to the support of instructional activities. Specifically, costs associated with the operation and support of computer learning labs, media center computer labs, instructional technology centers, instructional networks, and similar operations should be captured in this code.
It should be noted that E-Rate is not specifically addressed with the accounting codes for technology, as GASB has not issued applicable accounting and financial reporting guidance.

- Student Computer Centers. Activities concerned with supporting and maintaining computer centers (outside the classroom) that are established to support the instructional environment. These centers may be located in the library or in other locations but are not primarily dedicated to student-teacher learning. Computer centers that are primarily dedicated to instruction should be coded to instruction.
- Technology Service Supervision and Administration. Activities concerned with directing, managing, and supervising data-processing services.
- Systems Analysis and Planning. Activities concerned with searching for and evaluating alternatives for achieving defined objectives, based on judgment and, wherever possible, on quantitative methods. Where applicable, these activities pertain to the development of data-processing procedures or application to electronic data-processing equipment.
- Systems Application Development. Activities concerned with the preparation of a logical sequence of operations to be performed, either manually or electronically, in solving problems or processing data. These activities also involve preparing coded instructions and data for such sequences.

- Systems Operations. Activities concerned with scheduling, maintaining, and producing data. These activities include operating business machines, data preparation devices, and data-processing machines.
- Network Support. Services that support the networks used for instruction-related activities.
- Hardware Maintenance and Support.

**2230 – Instruction-related Technology Function Rule:** Mandatory Method Rule: Technology that is used by students in the classroom or that has a student instruction focus should be coded to 1000 (used with all programs 10 – 90).

**2240 – Academic Student Assessment:** Expenditures for the academic assessment of students that are not initiated by the teacher, but by the school district or State education agency (used with Programs 10 – 70).

**2290 – Other Support Services – Instructional Staff:** Services supporting the instructional staff not properly classified elsewhere in the 2200 series, including stipends for department chairs. (Used with all programs 10–90.)

**2300 – Support Service – General Administration:** Activities concerned with establishing and administering policy for operating the school district.

- **2310 – Board of Education:** Activities of the elected body that has been created according to state law and vested with responsibilities for educational activities in a given administrative unit. Some examples of services to be included here are board secretary and clerk service if they primarily provide services to the board. (Used with all programs 10–90.) Supervision of Board of Education Services. Activities concerned with directing and managing the general operation of the board of education. These include the activities of the members of the board of education, but do not include any special activities defined in the other areas of responsibility described below. They also include any activities of the district performed in support of school district meetings. Legal activities to interpret the laws and statutes and general liability situations are charged here, as are the activities of external auditors.
- **2311 – School Board:** Activities concerned with directing and managing the general operation of the board of education. These include the activities of the members of the board of education, but do not include any special activities defined in the other areas of responsibility described below. They also include any activities of the district performed in support of school district meetings. Legal activities to interpret the laws and statutes and general liability situations are charged here, as are the activities of external auditors.
- **2313 – School Treasurer:** The activities required to perform the duties of the treasurer of the board of education.
- 2314 - Audit

- **2315 – Legal Services:** All legal service expenditures should be reported here. See Object 820 for guidance on judgments against the school district**.**
- **2317 – Negotiations:** Activities concerned with staff relations system wide and the responsibilities for contractual negotiations with both instructional and non-instructional personnel.

**2320 – Executive Administration:** Activities associated with the overall general administration or executive responsibility of the entire school district (used with all programs 100–900). Some typical services included in this function code are as follows:

Activities performed by the superintendent and such assistants as deputy, associate, and assistant superintendents in generally directing and managing all affairs of the school district. These include all personnel and materials in the office of the chief executive officer. Activities of the offices of the deputy superintendents should be charged here, unless the activities can be placed properly into a service area. In this case, they would be charged to service area direction in that service area.

- **2320 – Executive Administration Function Rule: Mandatory Method Rule:** SU assessment object code [593] must be itemized so that districts can use this function code.

**2400 – Support Service – School Administration:** Activities concerned with overall administrative responsibility for a school.

- **2410 – Office of the Principal:** Activities concerned with directing and managing the operation of a particular school. They include the activities performed by the principal, assistant principals, and other assistants while they supervise all operations of the school, evaluate the staff members of the school, assign duties to staff members, supervise and maintain the records of the school, and coordinate school instructional activities with those of the school district. These activities also include the work of clerical staff in support of teaching and administrative duties at the school building level. (Used with all Programs 10–90.)
- **2490 – Other Support Services – School Administration:** Other school administration services. This function includes graduation expenditures and expenses and full-time department chairpersons. (Used with all Programs 10–90.)
- **2495 – Administration of Grants:** This function was created to track admin funds for grants applications and should be used to record transactions for admins costs for each grant.

**2500 – Central Services:** Activities that support other administrative and instructional functions, including fiscal services, human resources, planning, and administrative information technology.

- **2510 – Fiscal Services:** Activities concerned with the fiscal operations of the school district. This function includes budgeting, receiving and disbursing, financial and property accounting, payroll, inventory control, internal auditing, and investments and funds management. Fiscal services are inclusive of supervision of fiscal services, budgeting services, and payroll, internal audit, and general accounting functions (used with all Programs 10 – 90).
- **2520 – Purchasing, Warehousing & Distributing Services:** Activities concerned with purchasing, receiving, storing, and distributing supplies, furniture, equipment, and materials used in schools or school system operations. (Used with all Programs 10–90.)
- **2530 – Printing, Publishing, & Duplicating Services:** The activities of printing and publishing administrative publications such as annual reports, school directories, and manuals. Activities here also include centralized services for duplicating school materials and instruments such as school bulletins, newsletters, and notices. (Duplicating services directly related to instruction should be reported in 1000.) (Used with all Programs 10–90.)
- **2540 – Planning, Research, Development, and Evaluation Services:** Activities associated with conducting and managing system wide programs of planning, research, development, and evaluation for a school system. (Used with all Programs 10–90.)

    - Planning services include activities concerned with selecting or identifying the overall, long-range goals and priorities of the organization or program. They also involve formulating various courses of action needed to achieve these goals by identifying needs and the relative costs and benefits of each course of action.
    - Research services include activities concerned with the systematic study and investigation of the various aspects of education, undertaken to establish facts and principles.

- **2560 – Public Information Services:** Activities concerned with writing, editing, and other preparation necessary to disseminate educational and administrative information to students, staff, managers, and the general public through direct mailing, the various news media, e-mail, the Internet and websites, and personal contact. The information services function code includes related supervision and internal and public information services. Technology that supports this code is included in Function 2580. (Used with all Programs 10–90.)
- **2570 – Personnel Services:** Activities concerned with maintaining efficient personnel for the school system. This code includes such activities as recruitment and placement, non-instructional staff training, staff transfers, in-service training, health services, and staff accounting. (Used with all Programs 10–90.)

    - Supervision of Personnel Services. The activities of directing, managing, and supervising staff services.

- Recruitment and Placement. Activities concerned with employing and assigning personnel for the school district.
- Personnel Information. Services rendered in connection with the systematic recording and summarizing of information relating to staff members employed by the school district.

- **2580 – Administrative Technology Services:** Activities concerned with supporting the school district's information technology systems, including supporting administrative networks, maintaining administrative information systems, and processing data for administrative and managerial purposes. These activities include expenditures for internal technology support, as well as support provided by external vendors using operating funds. These activities include costs associated with the administration and supervision of technology personnel, systems planning and analysis, systems application development, systems operations, network support services, hardware maintenance and support services, and other technology-related administrative costs (used with all Programs 10 – 90).
- **2590 – Other Support Services – Central Services:** Other support services to business not classified elsewhere in the 2500 Series. (Used with all Programs 10–90.)

**2600 – Operation and Maintenance of Plant:** Activities concerned with keeping the physical plant open, comfortable, and safe for use and with keeping the grounds, buildings, and equipment in effective working condition and state of repair. These include the activities of maintaining safety in buildings, on the grounds, and in the vicinity of schools. In-service training related to operations and maintenance, including safety and security, should be reported in 2570 Personnel Services.

- **2610 – Operation of Buildings:** Activities concerned with keeping the physical plant clean and ready for daily use. They include operating lighting and heating, ventilating, and air conditioning (HVAC) systems and doing minor repairs. Also included are the costs of building rental and property insurance. (Used with all Programs 10–90.)
- **2620 – Maintenance of Buildings:** Activities associated with keeping buildings at an acceptable level of efficiency through repairs and preventative maintenance. (Used with all Programs 10–90.)
- **2630 – Care and Upkeep of Grounds:** Activities involved in maintaining and improving the land (but not the buildings). These include snow removal, landscaping, and grounds maintenance. (Used with all Programs 10–90.)
- **2640 – Care and Upkeep of Equipment:** Activities involved in maintaining equipment owned or used by the school district. They include such activities as servicing and repairing furniture, machines, and movable equipment. (Used with all Programs 10–90.)

- **2650 – Vehicle Operation and Maintenance (other than student transportation vehicles):** Activities involved in maintaining general-purpose vehicles such as trucks, tractors, graders, and staff vehicles. These include such activities as repairing vehicles; replacing vehicle parts; and cleaning, painting, greasing, fueling, and inspecting vehicles for safety (i.e., preventive maintenance). Expenditures for driver's education programs should be coded to 1000 Instruction. (Used with all Programs 10–90.)
- **2660 – Security:** Procedures followed or measures taken to protect or not be exposed to danger. These include costs associated with security plan development and implementation, installation of security monitoring devices (e.g., cameras, metal detectors), security personnel (e.g., campus police, security guards), purchase of security vehicles and communication equipment, and related costs. (Used with all Programs 10–90.)
- **2670 – Safety:** Activities designed to prevent injury or damage to students and staff, whether they are in transit to or from school, on a campus or in an administrative facility, or participating in school-sponsored events. These include costs associated with installing and monitoring school fire alarm systems and providing school crossing guards, as well as other costs incurred in an effort to ensure the basic safety of students and staff. (Used with all Programs 10–90.)
- **2680 – Other Operation and Maintenance of Plant:** Operation and maintenance of plant services that cannot be classified elsewhere in the 2600 Series. (Used with all Programs 10–90.)

**2700 – Student Transportation:** Activities concerned with conveying students to and from school, as provided by state and federal law. These include trips between home and school and trips to school activities. The Transportation Director should be coded here. Expenditures for driver's education programs should be coded to 1000 Instruction.

- **2710 – Vehicle Operation:** Activities involved in operating vehicles for student transportation, from the time the vehicles leave the point of storage until they return to the point of storage. These include driving buses or other student transportation vehicles. (Used with all Programs 10–90.)
- **2711- Resident Student:** includes all activities associated with conveying students who reside in the school district to and from school only. Do not include expenditures for transportation related to conveying non-resident students or expenditures to transport resident students to and from co-curricular and extra-curricular activities. Those are reported under Functions 2712 and 2716 respectively. Note that crossing guards are reported in Function 2670 Safety.

- **2712 - Non-Resident Student:** Includes all activities associated with conveying students who reside outside the school district to and from school only. Do not include expenditures for transportation related to conveying resident students or expenditures to transport non-resident students to and from co-curricular and extra-curricular activities. Those are reported under Functions 2711 and 2716 respectively.
- **2713 - Tech Transportation:** Includes all activities associated with conveying students who are transported to a tech center or their programs and satellite sites. These costs should be coded to program 11 for sending school districts and to program 31 for tech centers**.**
- **2715 - Field Trips (Education Related):** Student transportation for Function 2715 includes all activities associated with conveying students to and from education related field trips.
- **2716 - Extra/Co-Curricular:** Student transportation for Function 2716 includes all activities associated with conveying students to and from non-education related field trips, athletic or club transportation.

**2720 – Monitoring Services:** Activities concerned with supervising students in the process of being transported between home and school and between school and school activities. Such supervision can occur while students are in transit and while they are being loaded and unloaded, and it includes directing traffic at the loading stations. (Used with all Programs 10–90.)
**2730 – Vehicle Servicing and Maintenance:** Activities involved in maintaining student transportation vehicles. These include repairing vehicle parts; replacing vehicle parts; and cleaning, painting, fueling, and inspecting vehicles for safety. (Used with Programs 10–40, 90.)
**2790 – Other Student Transportation Services:** Student transportation services that cannot be classified elsewhere in the 2700 Series. (Used with Programs 10–40, 90.)

**2900 – Other Support Services:**

- **2901 – Other Support Services:** All other support services not classified elsewhere in the 2000 Series. (Used with all Programs (10-90)
- **2999 – Family Engagement:** Records costs associated with the family engagement set-aside of federal grants.
- Examples of family engagement spending:
    - Supporting schools in teaching engagement strategies to school staff;
    - Supporting programs that reach families at home, in the community, and at school;
    - Disseminating information on best practices focused on engagement, especially for increasing engagement of economically disadvantaged families;

- Subgranting to schools to collaborate with community-based organizations or businesses that have a track record of improving family engagement; or
- Engaging in any other activities that the district believes are appropriate for increasing engagement

**3000 – Operation and Non-Instructional Services:** Activities concerned with providing non-instructional services to students, staff, or the community.

- **3100 – Food Service Operations:** Activities concerned with providing food to students and staff in a school or school district. This service area includes preparing and serving regular and incidental meals, lunches, or snacks in connection with school activities and food delivery (used mainly with Program 15 but can also be used with Programs 12, 13, and 14).
- **3200 – Enterprise Operations:** Activities that are financed and operated in a manner similar to private business enterprises, where the stated intent is to finance or recover the costs primarily through user charges. The school district bookstore, for example, could be charged to this code. Instruction should not be charged here, but rather to Function 1000. Food services should not be charged here, but rather to Function 3100. (Used with all Programs 10–90.)
- **3300 – Community Services Operations:** Activities concerned with providing services to the community. Examples of this function would be offering parental training or operating a community swimming pool, a recreation program for the elderly, or a child care center for working parents. Counseling for the parents of students, where the objective is to improve the education and well-being of the student, should be reported in Function 2120 Guidance Services. (Used only with Program 81.)

**4000 – Facilities Acquisition and Construction:** Activities concerned with acquiring land and buildings; remodeling buildings; constructing buildings and additions to buildings; initially installing or extending service systems and other built-in equipment; and improving sites. (Used with all Programs 10–90.)

- **4100 – Land Acquisition:** Activities concerned with initially acquiring and improving land.
- **4200 – Land Improvement:** Activities concerned with making permanent improvements to land, such as grading, fill, and environmental remediation.
- **4300 – Architecture and Engineering:** The activities of architects and engineers related to acquiring and improving sites and improving buildings. Charges are made to this function only for those preliminary activities that may or may not result in additions to the school district's property. Otherwise, charge these services to Function 4100, 4200, 4500, or 4600, as appropriate.

- **4400 – Educational Specifications Development:** Activities concerned with preparing and interpreting descriptions of specific space requirements to be accommodated in a building. These specifications are interpreted to the architects and engineers in the early stages of blueprint development.
- **4500 – Building Acquisition and Construction:** Activities concerned with buying or constructing buildings.
- **4600 – Site Improvement:** Activities concerned with making nonpermanent improvements or enhancements to building sites. These improvements include fencing, walkways, tunnels, and temporary landscaping.
- **4700 – Building Improvements:** Activities concerned with building additions, reconstruction, and remodeling, as well as with installing or extending service systems and other built-in equipment.
- **4900 – Other Facilities Acquisition and Construction:** Facilities acquisition and construction activities that cannot be classified above.

**5000 – Debt Service and Other:** Activities related to servicing the long-term debt of the school district, including payments of both principal and interest. This function should be used to account for bond interest payments, retirement of bonded debt (including current and advance refundings), capital lease payments, and other long-term notes. Interest on short-term notes or loans (repayable within 1 year of receiving the obligation) is charged to function 2510. The receipt and payment of principal on those loans are treated as adjustments to the balance sheet account 451. (Used with all Programs 10–90.)

- **5010 – Debt Service – School Bus Purchase**: Includes all debt service payments (principal and interest) for obligations exceeding one year to repay a loan or bond used to purchase a school bus. Interest on current loans repayable within one year of receiving the obligation is charged to Function 2590 (Support Services - Business). Only two objects are used to record long-term debt service: interest (Object 832) and principal (Object 831).
- **5020 – Debt Service – Capital Construction:** Used with object code 911 on capital construction projects.
- **5090 – Debt Service – Other**: Loan payments on vehicles.
- **5210 – Adjustment to Prior Year:** Include any adjustments to prior year expenditures resulting from an audit or other financial review. The primary purpose of this Function is to provide a place to record repayments of amounts that were received in prior years. Expenditures for adjustments to prior year tuition paid are reported here. The refund of unexpended grant funds over two years old is reported here. Include any refunds made to the state as a result of an overpayment. Many payments to the State are more properly classified as a reduction of the appropriate revenue, and should be recorded in Revenue Code 5400 rather than here.

- **5390 – Fund Transfers:** Record any transfer of fund assets under this function, and the appropriate program. Fund transfers are identified by using object codes 911,912,913, and 919.
- **5510 – Subgrants to member districts:** Includes any transfers from the Supervisory Union to public Vermont LEAs. Normally, subgrants are state or federal funds that are sent to the Supervisory Union and then distributed from that level. Under the federal single audit act, Supervisory Unions must record the receipt of such funds, as well as their distribution. Districts report receiving subgrants under revenue codes in the 2000 series. Object code 892 must be used with subgrants to member districts. Funds moving from districts to supervisory unions are not subgrants. These transactions may be included in assessments (Object 593) or reported as purchased services (Object 591).
- **5520 – Subgrants Other:** Includes any transfers from the Supervisory Union or Supervisory District to independent or out-of-state schools or other entities except for Vermont public LEAs. Normally, these subgrants are state or federal funds that are sent to the Supervisory Union and then distributed by the Supervisory Union. Under the federal single audit act, Supervisory Unions must record the receipt of such funds, as well as their distribution. Object 893 must be used with this function.

## 8.7 Type Description

### 8.7.1 Overview

A type is the segment that contains the specific balance sheet, revenue, or expenditure accounts for which transactions are classified.

Balance Sheet accounts track the assets, liabilities, and equity of each fund and subfund.

Revenue accounts are segregated by source and specific category, also by each fund and subfund.

The purpose of an expenditure type is to classify in detail the services or commodities bought from the financial resources in the fund source from which the expenditure is being made.

The type number is composed of one digit, which is used to designate one of the six account types used in this segment. Account types are: Assets, Liabilities, Equity/Net Assets, Revenue, Expenditure, and Other Financing Sources.

**Table 10: Type**

| Description | Structure | Number Methodology Rule | Length | Reportable |
|---|---|---|---|---|
| Type | X | Fixed | 1 | 1 |

### 8.7.2 How the Type Segment Is Used

The numbering methodology and content for this component will be uniform in the UCOA. The first digit in this component is used to designate the type of items.

The type accounts noted herein and subsequently authorized by AOE are designated for use by districts. Specific type accounts are required when an LEA conducts activities that meet the criteria for use of each type.

Only the minimum number of type accounts consistent with legal and operating requirements should be established; using unnecessary accounts results in inflexibility, undue complexity, and inefficient financial administration.

- 1 - Assets
- 2 - Liabilities
- 3 - Fund Balance/Net Assets
- 4 - Revenue
- 5 - Expenditure

### 8.7.3 Code Definitions and Rules – Type

**1 – Assets:** Assets are defined as a probable future economic benefit obtained or controlled by a particular entity as a result of past transactions or events. Major asset categories may include: cash and investments, receivables, prepaid items, inventory, and capital assets.

**2 – Liabilities:** Represent financial obligations of an entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. Governments are required to record liabilities in the period in which they are incurred. As such, it is necessary to distinguish obligations that represent fund liabilities, which are amounts that are due and payable, from unmatured long-term indebtedness, which represents a general long-term liability.

**3 – Fund Balance/Net Assets:** These accounts represent the difference between the assets and liabilities of a fund and funds restricted for a specific purpose.

**4 – Revenue:** The increases in a fund's financial resources other than from interfund transfers or debt issue proceeds. Revenues are the primary financial resource of a fund. Revenues are recognized when assets are increased without increasing liabilities or incurring an expenditure reimbursement.

**4 – Revenue Type Rules:**

Mandatory Method Rule: Revenues may not be negative, except for Revenue Code 5400 (Adjustments).

**5 – Expenditure:** The costs of goods delivered or services rendered, whether paid or unpaid, including expenses, provision for debt retirement not reported as a liability of the fund from which retired, and capital outlay.

**5 – Expenditure Type Rules:**

Mandatory Method Rule: Capital construction financed through the sale of bonds or other long-term borrowing is not technically classified as an expenditure, but still requires budgetary control. This category may be reported under Expenditure Function 4000 – Facilities Acquisition & Construction.

Mandatory Method Rule: In governmental funds, the recognition of expenditures occurs in accordance with the modified accrual basis of accounting. Expenses incurred in proprietary funds are recognized using the accrual basis of accounting. Therefore, significant differences exist between the recognition of expenditures in governmental funds and the recognition of expenses in proprietary funds.

## 8.8 Object Description

### 8.8.1 Overview

The type of service or commodity purchased. Each classification is presented by a code number, followed by a description. The nine major object categories are further subdivided.

**Table 11: Object**

| Description | Structure | Number Methodology Rule | Length | Reportable |
|---|---|---|---|---|
| Object | XXX | Fixed | 3 | 3 |

### 8.8.2 Code Definitions and Rules– Object

**100 – Salaries:** Amounts paid to permanent or temporary employees of the LEA, including personnel substituting for those in permanent positions. Gross salary includes supplemental amounts for additional duties, such as coaching or extracurricular activities, bus and lunch supervision, summer school, and overtime. Employee benefits should not be reported here.

**100 – Salaries Object Rule:**

- Mandatory Method Rule: Gross salary, including supplemental payments for permanent and temporary employees, including substitutes for permanent positions, should be recorded using the appropriate Object Code from the Master UCOA excel workbook. All Salaries Object codes may be further broken down locally assigning the xx2-xx9 codes in each series.

**200 – Benefits:** Amounts paid by the LEA on behalf of employees (amounts not included in gross salary, but in addition to that amount). This includes life, health, dental or other group insurance; social security contributions; retirement contributions paid by the LEA; employee tuition reimbursement; unemployment compensation; worker's compensation; and any other paid employee benefits. See the Master UCOA excel workbook for the appropriate object code to be used.

**200 – Employee Benefits Object Rule:**

Mandatory Method Rule: Amounts not included in (but provided in addition to) gross salary for payment of life, health, dental or other group insurance, social security contributions, retirement contributions paid by the LEA, employee tuition reimbursement, unemployment compensation, worker's compensation, and any other paid employee benefits should be recorded under object code 200.

**300 – Purchased Professional and Technical Services:** Payments for services which by their nature can be performed only by persons or firms with specialized skills and knowledge. These services are performed by organizations or individuals who are *not* employees of the LEA. Included are payments to architects, engineers, dentists, medical doctors, lawyers, consultants, accountants, etc. See the Master UCOA excel workbook for the appropriate object code to be used.

**300 – Purchased Professional and Technical Services Object Rule:**

Mandatory Method Rule: Payments for services purchased from nurses and guidance personnel would be recorded here *unless* these services are purchased from another Vermont public LEA or an independent or out-of-state school. In this case, report the expenditures under Objects 591 or 592. If you employ nurses or guidance personnel, rather than purchasing services from them, report expenditures in Objects 100 and 200 and other objects as appropriate.

**342 – Audit Services Object Rule:**

Mandatory Method Rule: Audit services purchased by a supervisory union/district for itself and its member districts in conjunction with Function Code 2311 should use Object Code 342.

**349 – Professional/Technical Services Not Purchased from a Supervisory Union Object Rule:**

Mandatory Method Rule: Professional/technical services purchased *other than* from another public Vermont LEA, from an independent Vermont school, or an out-of-state public or private school; special education excess cost payments; services reported for teen parent education; and audit services should use Object 349.

**400 – Purchased Property Services:** Payments for services purchased to operate, repair, maintain, or rent property which is either owned or used by the LEA. These services are performed by organizations or individuals who are not employees of the LEA. Included are payments for water and sewage services, garbage disposal, snow plowing, custodial and other cleaning services, and repairs and maintenance, where the service is not provided by LEA personnel. See the Master UCOA excel workbook for the appropriate object code to be used.

**400 – Purchased Property Services Object Rule:**

Mandatory Method Rule: Expenditures to operate, repair, maintain, or rent property which is either owned or used by the LEA should use the 400 Object Code series.

**450 – Construction Services Object Rule:**

Mandatory Method Rule: Expenditures to contractors for constructing, renovating, and remodeling should use Object Code 450.

**500 – Other Purchased Services:** Payments for services other than Professional and Technical Services and Property Services, provided by organizations or individuals who are not employees of the LEA. This includes: Payments to other LEAs or private contractors for the transportation of students; property, liability, fidelity, transportation, and casualty insurance; telephone, and postal services; advertising; printing and binding; student tuition payments; contracted services for food service; and travel expenditures. See the Master UCOA excel workbook for the appropriate object code to be used.

**500 – Other Purchased Services Object Rule:**

Mandatory Method Rule: Expenditures associated with services other than Professional and Technical Services and Property Services, provided by organizations or individuals who are not employees of the LEA, including those for transportation of students; property, liability, fidelity, transportation, and casualty insurance; telephone, and postal services; advertising; printing and binding; student tuition payments; and contracted services for food service and travel expenditures, should be recorded in Object Code 500.

**510 – Student Transportation Services Object Rule:**

Mandatory Method Rule: Expenditures for transporting students to/from school and other activities should be recorded in Object Code 510.

**511 – Student Transportation Services Purchased from a Public Vermont LEA Object Rule:**

Mandatory Method Rule: Expenditures directed to other Public LEAs in Vermont for the purpose of transporting children to school and school-related events should be recorded under Object Code 511.

**512 – Student Transportation Services Purchased from an Independent or Non-Vermont School Object Rule:**

Mandatory Method Rule: Payments to independent schools and schools outside Vermont for transporting children to school and school-related events should be recorded in Object Code 512.

**519 – Student Transportation Services from Other Sources Object Rule:**

Mandatory Method Rule: Payments to persons or agencies other than LEAs and schools for transportation of children to school and school-related events should be recorded in Object Code 519.

**560 – Tuition Object Rule:**

Mandatory Method Rule: Expenditures to reimburse other educational agencies for instructional services rendered to students residing in the legal boundaries described for the paying LEA should be recorded under Object Code 560.

**561 – Tuition to Other LEAs in Vermont Object Rule:**

Mandatory Method Rule: Expenditures for instructional services to reimburse other public LEAs located in Vermont, including tuition payments to an SU office, should be recorded in Object Code 561.

**562 – Tuition to private VT LEAs**

**563 – Tuition to out of state public LEAs**

**564 – Tuition to out of state private LEAs Object Rule:**

Mandatory Method Rule: Expenditures for instructional services to reimburse public and private schools not located in Vermont should be recorded under Object Code 563 or 564 respectively.

**566 – Tuition to vocational schools paid by State –On Behalf - Object Rule:**

Mandatory Method Rule: Expenditures for State tuition payments to technical centers on behalf of a school district (with a corresponding revenue entry) should be recorded in Object Code 566.

**567 – Tuition to Vocational Schools Object Rule**

Expenditures for instructional services paid to any of the fifteen Vermont Area Technical Centers. The paying district uses Program 11, not Program 31, which is reserved for technical centers and the technical component of comprehensive high schools. This object is used by town districts that are not members of unions including grades 9 – 12 (town districts paying tuition directly to tech centers) and union districts paying tuition to tech centers

**591- Services Purchased From Another School District or Educational Services AOE Within the State Object Rule:**

Mandatory Method Rule: Payments for services (e.g., data processing, nursing, guidance, and purchasing) provided by another public LEA within the State should be recorded under Object Code 591.

**592 – Services Purchased From Another School District or Educational Services AOE Outside the State Object Rule:**

Mandatory Method Rule: Payments for services (e.g., data processing, nursing, guidance, and purchasing) provided by another public LEA outside the State should be recorded under Object Code 592.

**593 – SU Assessments Object Rule:**

Mandatory Method Rule: Use the function codes for breaking down areas such as transportation, special education, etc.

**594 – Special Education – Excess Costs Paid to Public Vermont LEAs Object Rule:**

Mandatory Method Rule: Payments to another public LEA within the State for special education services above or beyond either regular or special education tuition should be recorded under Object Code 594.

**595 – Special Education – Excess Costs Paid to Independent and Non-Vermont Schools Object Rule:**

Mandatory Method Rule: Payments to independent or out-of-state schools for special education services above or beyond either regular or special education tuition should be recorded under Object Code 595. See the Master UCOA excel workbook for the appropriate object code to be used.

**600 – Supplies:** Supplies are defined as items that are consumed, worn out, or deteriorated through use. This includes all expenditures for general supplies for the operation of the LEA; gasoline, electricity, oil, coal, wood, and other energy related supplies; food; books and periodicals (including textbooks); video tapes, movies, and other audio/visual materials; and charts, maps, globes, games and other manipulative devices. See the Master UCOA excel workbook for the appropriate object code to be used.

**600 – Supplies and Materials Object Rule:**

Mandatory Method Rule: Supplies are defined as items that are consumed, worn out, or deteriorated through use. This includes all expenditures for general supplies for the operation of the LEA; gasoline, electricity, oil, coal, wood, and other energy-related supplies; food; books and periodicals (including textbooks); video tapes, movies, and other audio/visual materials; and charts, maps, globes, games, and other manipulative devices.

**620 Series code– Energy Object Rule:**

Mandatory Method Rule: Expenditures for energy (e.g., 621-Natural Gas, 622- Electricity, 623- Bottled Gas, 624-Oil, 625-Coal, 626-Gasoline, 627-Wood Chips, and 629 Other Energy.

**640 – Supplies, Books, and Periodicals Object Rule:**

Mandatory Method Rule: Expenditures for regular or incidental purchases of books, both prescribed and available for general use by students (including the cost of workbooks, textbook, and school library bookbinding or repairs, as well as the net cost of textbooks which are purchased to be resold or rented, periodicals, magazines, trade journals, or newspapers for general use) but other than for acquisition of books for a new school library or an expansion of the library, should be recorded under Object Code 640.

**700 – Property:** Property does *not* lose its identity when removed from a location, nor is it normally consumed, worn out, or deteriorated through use within one year. This includes land and any improvements to the land; buildings; machinery; tools; vehicles (including school buses); furniture and fixtures and other equipment; and depreciation. See the Master UCOA excel workbook for the appropriate object code to be used.

**710 – Property, Land, and Land Improvements Object Rule:**

Mandatory Method Rule: Expenditures for the purchase of land and the improvements thereon, including purchases of air rights, mineral rights and the like, should be recorded under Object Code 710.

**720 – Property, Buildings Object Rule:**

Mandatory Method Rule: Expenditures for acquiring existing buildings and additions (including those for installment or lease payments, other than for interest, with have an end date and that result in the acquisition of buildings) should be recorded under Object Code 720.

**730 – Property, Equipment Object Rule:**

Mandatory Method Rule: Expenditures for the initial, additional, and replacement items of equipment, such as machinery, furniture and fixtures, and vehicles, should be recorded under Object Code 730.

**740 – Infrastructure Object Rule:**

Mandatory Method Rule: Expenditures for purchased infrastructure assets (e.g., water/sewer systems, roads, bridges, and other assets that have significantly longer useful lives than other capital assets) should be recorded under Object Code 740.

**800 – Debt Service:** Payments for goods and services that are not classified elsewhere. This includes organizational dues or fees; judgments (court decisions) against the LEA that are not covered by insurance; and interest payments on long- and short-term debt. See the Master UCOA excel workbook for the appropriate object code to be used.

**810 –Dues and Fees Object Rule:**

Mandatory Method Rule: Expenditures or assessments for membership in professional or other organizations, as well as student fees (such as entry fees to contests and Admission fees to Museums). Tuition expenditures should be reported in Objects 560 through 569. (Used with Functions 1000 and 2000.)

**820 – Judgments Against the LEA Object Rule:**

Mandatory Method Rule: Expenditures from current funds for all judgments (exceptions indicated below) against the LEA that are not covered by liability insurance, but are of a type that might have been covered by insurance should be recorded under Object Code 820.

**830 – Interest Object Rule:**

Mandatory Method Rule: Expenditures for interest on bonds, notes, and loans should be recorded under Object Code 830.

**831 - Redemption of Principal.**

Expenditures to retire bonds (including current and advance refundings) and long-term loans, including lease-purchase arrangements. (Used only with Function 5000.)

**832 Interest on Long-Term Debt.**

Expenditures for interest on bonds or notes, including lease-purchase arrangements. (Used only with Function 5000.)

**833 Bond Issuance and Other Debt-Related Costs.**

Expenses in connection with bond and other debt issuance costs, including lease-purchase debt issuance costs. (Used only with Function 5000.)

**834 Amortization of Premium and Discount on Issuance of Bonds.**

Expenses amortized as debt premium and/or discount in connection with the issuance of debt. This account is used only in proprietary funds, fiduciary funds, and the entity-wide statements.

**835 Interest on Short-Term Debt.**

Expenditures for interest on short-term debt or anticipation notes. (Used only with Function 2510 Fiscal Services.)

**890 Miscellaneous Expenditures.**

Amounts paid for goods or services not properly classified in one of the objects included above. The refund of prior year's revenues should be reported here.

**891 Contra Expenditure Account**

An account that is paired with, and offsets, a specific expenditure account. The account is typically used when an expenditure is payed for, and is then reimbursed by a third party for some or all of this initial outlay.

**892 Sub-Grant to Public VT LEA's**

Includes any transfers from the SU to public Vermont LEAs. Normally, subgrants are state or federal funds that are sent to the Supervisory Union and then distributed from that level. Under the federal single audit act, Supervisory Unions must record the receipt of such funds, as well as their distribution. Districts report receiving subgrants under revenue codes in the 2000 series. This object code must be used with function 5510. Funds moving from districts to supervisory unions are not subgrants. These transactions may be included in assessments (Object 593) or reported as purchased services (Object 591).

**893 Sub-Grant Other**

Include any transfers from the Supervisory Union or Supervisory District to independent or out-of-state schools or other entities except for Vermont public LEAs. Normally, these subgrants are state or federal funds that are sent to the Supervisory Union and then distributed by the Supervisory Union. Under the federal single audit act, Supervisory Unions must record the receipt of such funds, as well as their distribution. This object code must be used with 5520.

**894 Refund of Prior Year Grant Revenue**

Used to refund monies properly accounted for in the prior year. [Disallowed grant expenditures]

**895 Refund of Prior Year Tuition Revenue**

Used to refund monies properly accounted for in the prior year. [Announced tuition exceeds allowable tuition statutory threshold for expenditures]

**896 Refund of Prior Year Other Revenue**

Used to refund monies properly accounted for in the prior year. [SU assessment was over billed].

**897 Prior Year Expenditure/Expense Adjustment**

Used to record prior year expenditures/expenses paid in the current year due to failure to account for the transaction in the prior year. [Goods received in the prior year were never paid for in the prior year b/c of misplaced invoice. Payment occurred the following fiscal year when invoice was found or delinquency notice received.]

**900 – Other Items:** Used to classify transactions that are not properly recorded as expenditures/expenses but require control and reporting by the school district. See the Master UCOA excel workbook for the appropriate object code to be used.

**910 Fund Transfers Out**

Includes all transactions conveying financial resources from one fund to another within the district.

**911 Transfer to Capital Project Fund - School Bus Purchase**

Includes transfers to Capital Project Funds for activities that include School Bus Purchases, Building Purchases or construction, Renovation Projects, Etc.

**912 Transfer to Food Service Special Revenue Fund**

Transfers made to the food service fund from the general fund to cover a deficit.

**913 Transfer of Indirects**

When indirect are earned on federal grants, use this object code to transfer the earned indirect from the grant special fund to general fund.

**919 Fund Transfers Out – Other**

Used for all other interfund transfers within an entity.

**920 Payments to Escrow Agents for Defeasance of Debt**

QSCB payments are accounted for here.

**925 Discount on the Issuance of Bonds**

Proceeds from that portion of the sale of bonds below their par value. The discount represents an adjustment of the interest rate and will be amortized using expenditure Object Account 834. (Object 925 should only be used with Function 5000.)

**930 Net Decreases in the Fair Value of Investments**

Losses recognized from the sale of investments or changes in the fair value of investments. Losses represent the excess of the cost or any other basis at the date of sale (or valuation) over sales value (or fair value). For financial reporting purposes, GASB Statement 31 requires that all investment income, including changes in the fair value of investments, be reported as revenue in the operating statement. (Used only with Function 2510.)

This account has been established for investment losses so that districts may report gains or losses separately as required in certain states (or where only credits may be reported for revenue codes and only debits for expenditure codes). However, Revenue Account 1530 may be used to record all investment gains or losses (reported as a contra revenue).

**931 Realized Losses on Investments**

Losses recognized from the sale of investments. Losses represent the excess of the cost or any other basis at the date of sale over sales value. For financial reporting purposes, the net of all realized and unrealized investment gains and losses should be reported as a single line in the financial statements; however, this account and the following account may be used for internal tracking purposes. (Used only with Function 2510.)

**932 Unrealized Losses on Investments**

Losses recognized from changes in the value of investments. Losses represent the excess of the cost or any other basis at the date of valuation over fair value. For financial reporting purposes, the net of all realized and unrealized investment gains and losses should be reported as a single line in the financial statements; however, this account and the previous account may be used for internal tracking purposes. (Used only with Function 2510.)

**940 Losses on the Sale of Capital Assets**

The excess of book value of the capital assets sold over the amount received. This account is used in proprietary and fiduciary funds only and in the statement of activities. Revenue Account 5300 is used for governmental funds. (Object 940 should only be used with Function 2510.) This account has been established for accounting for losses from capital asset sales such that districts may report gains or losses separately as required in certain states (or where only credits may be reported for revenue codes and only debits for expenditure codes). However, Account 1930 may be used to record all gains or losses on these sales (reported as a contra revenue).

### 950 Special Items

Used to classify special items in accordance with GASB Statement 34. Included are transactions or events within the control of the school district administration that are either unusual in nature or infrequent in occurrence. For some districts, this may include termination benefits resulting from workforce reductions or costs in connection with an early retirement program offered to all employees represented in one or more classes of employees. Some capital asset impairments, as defined by GASB Statement 42, may be reported as special items. In the governmental funds, these items should be separately captioned or disclosed.

### 960 Extraordinary Items

Used to classify items in accordance with Accounting Principles Board (APB) Opinion No. 30 that are transactions or events that are both unusual in nature and infrequent in occurrence. For some districts, this includes significant costs related to a natural disaster such as: fire, flood, tornado, hurricane, or hailstorm or costs related to an environmental disaster.

**General Object Rules:**

Mandatory Method Rule: Expenditures should include all dollars spent on publicly funded students, including assessments for SUs and tuitions, as well as Federal dollars.

Mandatory Method Rule: Technical tuitions should include payments by the State directly to technical centers on behalf of districts and any costs paid directly by a district.

Mandatory Method Rule: A payment by an incorporated district to the Education Fund is not to be included as expenditure.

Mandatory Method Rule: Act 144 expenditures must be recorded such that they can be individually reported in data extracts.

Mandatory Method Rule: A district's SU assessments must be recorded such that they can be individually reported in data extracts.

Mandatory Method Rule: Expenditures must be recorded in a manner that allows each to be identified electronically as one considered an offset to "excess spending."

### 8.8.3 How the Object Segment Is Used

The object codes noted herein and subsequently authorized by AOE are required when an LEA conducts activities that meet the criteria for use of the object.

Only the minimum number of objects consistent with legal and operating requirements should be established; using unnecessary accounts results in inflexibility, undue complexity, and inefficient financial administration.

- 100 - Salaries
- 200 - Benefits
- 300 - Purchased Professional and Technical Services
- 400 - Purchased Property Services
- 500 - Other Purchased Services
- 600 - Supplies
- 700 - Property
- 800 - Debt Service
- 900 - Other Items

## 8.9 Revenue Description

### 8.9.1 Overview

Revenue recognition should follow the rules of GAAP as promulgated by the GASB.

The primary objective of revenue coding is to maintain information on sources of revenue.

**Table 12: Revenue**

| Description | Structure | Number Methodology Rule | Length | Reportable |
|---|---|---|---|---|
| Revenue | XXXX | Fixed | 4 | 4 |

### 8.9.2 How the Revenue Segment Is Used

The revenue codes noted herein and subsequently authorized by AOE are required on all Revenue transaction.

Only the minimum number of revenues consistent with legal and operating requirements should be established; using unnecessary accounts results in inflexibility, undue complexity, and inefficient financial administration.

- 1000 - Local Sources
- 2000 - Intermediate Sources (excluding Sub-grants)
- 3000 - State Sources
- 4000 - Federal Sources
- 5000 - Other Financing Sources
- 6000 - Other Revenue Items

### 8.9.3 Code Definitions and Rules - Revenue

**1000 – Local Sources:** Revenues from local sources. For most districts, all property taxes are now a State source of revenue. Act 144 property taxes are restricted to the Manchester and West Windsor Town School Districts per statute, valid through FY22. Revenues in the 1000 series include tuition revenue, revenue from investments, and contributions raised by the district.

**1000 – Local Revenue Rule:**

Mandatory Method Rule: Act 144 property taxes raised in association with tuition revenue, revenue from investments, and contributions should be classified as Revenue 1115.

**2000 – Intermediate Sources:**

**2000 – Sub-grants Received from Other LEAs Revenue Rule:**

Mandatory Method Rule: Funds received directly by an SU to operate a program or sub-grants to member districts or independent schools operating within the SU boundaries should be recorded under Revenue Accounts 3000 or 4000, with expenditures of such under Function 5500. Receipt of the funds by the district from the SU should be recorded using Revenue Code 2000 series.

**2000 – Intermediate Sources Revenue Rule:**

Mandatory Method Rule: In order to prevent duplicating revenue amounts sent to member districts, the SU records receipt of the funds under the 3000 or 4000 Revenue Codes, and the transfer to its districts or other entities under the expenditure Function 5500 series.

Mandatory Method Rule: The districts receiving the money from the SU record it under major Revenue Code 2000, Sub-grants Received. There are many more revenue codes for grants than for subgrants. If you receive a subgrant that does not have a specific 2000 revenue code, report the revenue in Revenue Code 2790, Other Subgrants.

**3000 – State Sources (3700 – State Sub-grants):** The 3000 series contains State revenue sent predominantly to districts. One of the major sources of revenue from the State is the Education Spending grant. These funds are paid to Town, City, Incorporated Districts, Union Districts, Regional Education Districts, and Unified Union Districts. The Education Spending grant is not paid to SUs or Joint Contract Schools at this time.

**3000 – State Revenue Rule:**

Mandatory Method Rule: Funds received from the State (e.g., Education Spending grant distributed to the Town, City, Incorporated District, Union District, Regional Education District and Unified Union District, Food Service revenues) should be recorded under Revenue Account 3000 series. Correspondingly, if such revenue is sub-granted to the town, such transactions should use Revenue Account 2000 series rather than the 3000 series.

**3000 – State Sources Revenue Rules:**

Mandatory Method Rule: An area that frequently causes confusion is revenue for special education. For any of this money that is received and reported by the SU and then subgranted to the member districts, the member districts should record monies received under the 2000 series of revenue codes rather than the 3000 series.

Mandatory Method Rule: Food Service revenues from "State Match Payments" should be recorded in the 3000 series.

**4000 – Federal Sources:** Money from Federal sources is generally distributed by the AOE in the form of grants which may be restricted or unrestricted. Even though you receive a check from the State, revenue may actually be from a Federal source. Record the funds received under the revenue code noted on the check or notice of direct deposit.

**4000 – Federal Sources Revenue Rules:**

Mandatory Method Rule: An area which frequently causes confusion is revenue for Food Services. The money you receive on a monthly basis to help defray the cost of breakfast, lunch, and milk programs is from Federal funds. The value of the commodities you receive through the State of Vermont's USDA Donated Food (commodities) should also be recorded here in Revenue Code 4456, Child Nutrition – Commodities. Since monies received in "State Match Payments" are from State sources, they are not recorded here, but in the 3000 series.

Mandatory Method Rule: Unrestricted revenue received directly from the Federal government is reported in Revenue Code 4100 if it does not have a separate revenue code.

Mandatory Method Rule: Federal revenues received through the State that do not have specific revenue codes listed should be reported in Revenue Code 4792, Other Grants – Through the State.

**4791 – Other Grants Directly from Federal Government Revenue Rule:**

Mandatory Method Rule: Restricted revenues received from the Federal government lacking a specific revenue code should be recorded with Revenue Account 4791. Similar revenue, but not restricted, should be recorded Revenue Account 4100.

**4793 – Other Grants Revenue Rule:**

Mandatory Method Rule: Through Other Intermediate Agencies. Revenues received from neither the Federal government, the State of Vermont, or as an SU sub-grant should use Revenue Account 4793.

**5000 – Other Financing Sources:** Some funds are not properly classified as current year "revenues," but still require budgetary control. The most frequent example is the money received from the sale of long-term bonds to finance school construction. This category also includes any general fund transfers, and any adjustments or refunds of a prior year expenditure. Grants distributed by the State from entities other than the Federal government are reported in the 5700 series. Medicaid reimbursements are reported in the 5480 series.

**5000-6999 – Other Revenue Rule:**

Mandatory Method Rule: Funds received from the sale of long-term bonds to finance school construction, general fund transfers, and any adjustments or refunds of a prior year expenditure should use Revenue Accounts 5000 through 6999. Grants distributed by the State from entities other than the Federal government are reported in the 5700 series. Medicaid reimbursements are reported in the 5480 series.

**6000 – Other Revenue Items:**

**General Revenue Rules:**

Mandatory Method Rule: Special Revenue Fund cannot be associated with the trust or capital projects.

Mandatory Method Rule: No Federal assets, arising from Federal revenue sources, may be used for non-Federal purposes, including interfund transfers (other than statewide programs), loans, or due to/from accounts.

Mandatory Method Rule: Proposed Local Revenues should not include payments made to a tech center on behalf of the district and should not be recorded as local revenues but, rather, as part of educational spending.

Mandatory Method Rule: Do not record tax revenues sent to the Education Fund from incorporated districts.

Mandatory Method Rule: Local districts must record any revenues received to pay for expenditures of Eligible Principal and Interest for Capital Debt Hold-Harmless Aid in a manner that allows them to isolate and report these amounts.

Mandatory Method Rule: Union member districts should associate revenues received to pay for expenditures of Eligible Principal and Interest for Capital Debt Hold-Harmless Aid with eligible expenditures in order for them to allocate the net to union members.

Mandatory Method Rule: Revenues received for the purpose of satisfying expenditures associated with all or a portion of State-approved construction projects must be recorded in a manner such that those amounts may be reported.

Mandatory Method Rule: Funds distributed by the AOE in the form of grants should be recorded under the revenue account noted on the check or direct deposit remittance advice.

## 8.10 Project Description

The project field (outside of the chart in eFinancePLUS) is to be used to track revenues and expenditures associated with a certain set of activities that is not easily tracked with the chart Examples of how this could be used would include student activities, grant tracking, high cost/state placed students etc.

**Table 13: Project**

| Description | Structure | Number Methodology Rule | Length | Reportable |
|---|---|---|---|---|
| Project - AOE | XXXXXXXX | TBD | 8 | 8 |
| Project - Local | XXXXXXXX | TBD | 8 | 8 |
| Project - Key | XXXXXXXX | Local Discretion | 8 | 8 |

### 8.10.1 Overview

The AOE project code segment is currently not used in the UCOA, this segment is reserved for future use by the AOE.

The Local project code segment may be used at the districts discretion, see the UCOA excel file for examples of ways to use the Local project segment.

## 8.11 Balance Sheet Description

### 8.11.1 Overview

As stated in Section 3.1, balance sheet transactions will utilize a separate COA string. The string, included below requires only a few of the same UCOA segments: fund, type, and Account.

| Fund | Location | Level | Program | RevSource | Function | Type | BS |
|---|---|---|---|---|---|---|---|
| XXXX | 0000 | 00 | 00 | 0 | 0000 | X | XXXX |
| 4 | | | | | | 1 | 4 |

Each of the segments are made up of either Federal, State, or "not used" components from the UCOA. **X** represents a Federal requirement. # represents a State requirement. And **0** represents a component that is present in the UCOA that is not used for balance sheet transactions.

### 8.11.2 How the Balance Sheet Segment Is Used

The Balance sheet code will be entered into the account field for balance sheet transaction. The segments that are not required will be zero filled.

List of Codes

- 1000-2899 Assets
- 3000-3099 Deferred Outflows of Resources
- 4000-5999 Liabilities
- 6000-6099 Deferred Inflows of Resources
- 7000-7899 Fund Balances/Fund Net Position

### 8.11.3 Code Definitions and Rules - Balance Sheet

**Assets**

**1001 – Cash in Bank:** All funds on deposit with a bank or savings and loan institution, normally in non-interest-bearing accounts. Interest-bearing accounts; however, that do not meet the definition of an investment (e.g., demand deposits that are interest-bearing) should be recorded herein as well.

**1002 – Cash on Hand:** Currency, coins, checks, postal and express money orders, and bankers' drafts on hand.

**1003 – Petty Cash:** A sum of money set aside to pay small obligations for which the issuance of a formal voucher and check would be too expensive and time consuming.

**1004 – Change Cash:** A sum of money set aside to provide change.

**1005 – Cash With Fiscal Agents:** Deposits with fiscal agents, such as commercial banks, for paying matured bonds and interest.

**1101 – Investments:** Securities and real estate held for producing income in the form of interest, dividends, rentals, or lease payments. Investments should be presented at fair value as of the reporting date. Gains from changes in the fair value of investments are recorded using Revenue Account 1530. Losses from changes in the fair value of investments are recorded using expenditure Object Code 931. Alternatively, gains and losses may be netted and recorded in Revenue Account 1530. The account does not include capital assets used in school district operations. Separate accounts may be maintained for each category of investments.

**1102 – Unamortized Premiums on Investments:** The excess of the amount paid for securities over the face value that has not yet been amortized. Use of this account is restricted to short-term money market investments.

**1103 – Unamortized Discounts on Investments (Credit):** The excess of the face value of securities over the amount paid for them that has not yet been written off. Use of this account is restricted to short-term investments.

**1104 – Interest Receivable on Investments:** The amount of interest receivable on investments, excluding interest purchased. Interest purchased should be shown in a separate account.

**1105 – Accrued Interest on Investments Purchased:** Interest accrued on investments between the last interest payment date and the date of purchase. The account is carried as an asset until the first interest payment date after the date of purchase.

**1201 – Taxes Receivable:** The uncollected portion of taxes that a school district or government unit has levied and that has become due, including any interest or penalties that may be accrued. Separate accounts may be maintained on the basis of tax roll year, current and delinquent taxes, or both.

**1202 – Allowance for Uncollectible Taxes (Credit):** The portion of taxes receivable estimated not to be collected. The account is shown on the balance sheet as a deduction from the taxes receivable account to arrive at the net taxes receivable. Separate accounts may be maintained on the basis of tax roll year, delinquent taxes, or both.

**1301 – Interfund Loans Receivable:** An asset account used to record a loan by one fund to another fund in the same governmental unit. It is recommended that separate accounts be maintained for each interfund receivable loan.

**1302 – Interfund Accounts Receivable:** An asset account used to indicate amounts owed to a particular fund by another fund in the same school district for goods sold or services rendered. It is recommended that separate accounts be maintained for each interfund receivable.

**1401 – Intergovernmental Accounts Receivable:** Amounts due to the reporting governmental unit from another governmental unit. These amounts may represent grants-in-aid, shared taxes, taxes collected for the reporting unit by another unit, loans, and charges for services rendered by the reporting unit for another government. It is recommended that separate accounts be maintained for each interagency receivable.

**1501 – Loans Receivable:** Amounts that have been loaned to persons or organizations, including notes taken as security for such loans, where permitted by statutory authority.

**1502 – Allowance for Uncollectible Loans (Credit):** The portion of loans receivable estimated not to be collected. The account is shown on the balance sheet as a deduction from the other loans receivable account.

**1503 – Other Accounts Receivable:** Amounts due on open account from private persons, firms, or corporations for goods and services furnished by a school district (but not including amounts due from other funds or from other governmental units).

**1504 – Allowance for Uncollectible Accounts Receivable (Credit):** A provision for that portion of accounts receivable that is estimated will not be collected. The account is shown on the balance sheet as a deduction from the other accounts receivable account.

**1701 – Inventories for Consumption:** The cost of supplies and equipment on hand not yet distributed to requisitioning units.

**1702 – Inventories for Resale:** The value of goods purchased and held by a school district for resale rather than for use in its own operations. Such goods could include unique manufactured inventories, such as student-built homes or equipment.

**1801 – Prepaid Items:** Expenditures/expenses paid for benefits not yet received. Prepaid expenses differ from deferred charges in that they are spread over a shorter period of time and are regularly recurring costs of operation. Examples of prepaid expenses are prepaid rent, prepaid interest, and unexpired insurance premiums.

**1901 – Deposits:** Funds deposited by the school district as a prerequisite to receiving services, goods, or both.

**1903 – Bond Insurance Costs:** Bond insurance costs that are a form of prepayment to be amortized.

**1904 – Premium and Discount on Issuance of Bonds:** Represents amounts to be amortized as debt premium/discount in connection with the issuance of bonds.

**1909 – Other Current Assets:** Current assets not provided for elsewhere.

**2001 – Capital Assets:** Those assets that the school district intends to hold or continue to use over a long period of time. Specifically, capital assets include land, improvements to land, easements, buildings and building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives that extend beyond a single reporting period. This account is used only in proprietary funds, fiduciary funds, and the government-wide financial statements.

**2101 – Land and Land Improvements:** A capital asset account that reflects the acquisition value of land owned by a school district. If land is purchased, this account includes the purchase price and costs such as legal fees, filling and excavation costs, and other associated improvement costs incurred to put the land in condition for its intended use. If land is acquired by gift, the account reflects its fair value at the time of acquisition. Permanent improvements to land, such as grading and fill, should also be accounted for in this account.

Land and land improvements are considered nonexhaustible assets owing to their significantly long expected useful life. Nonexhaustible assets are not to be depreciated. Therefore, assets classified by Asset Code 211 should result in no depreciation expense.

**2201 – Site Improvements:** A capital asset account that reflects the value of nonpermanent improvements to building sites, other than buildings, that add value to land. Examples of such improvements are fences, retaining walls, sidewalks, pavements, gutters, tunnels, and bridges. If the improvements are purchased or constructed, this account contains the purchase or contract price. If improvements are obtained by gift, it reflects the fair value at the time of acquisition.

Site improvements are improvements that have a limited useful life. Because these improvements decrease in their value/usefulness over time, it is appropriate to depreciate these assets. Therefore, all capitalized site improvements should be depreciated over their expected useful life.

**2202 – Accumulated Depreciation on Site Improvements:** Accumulated amounts for the depreciation of land improvements.

**2301 – Buildings and Building Improvements:** A capital asset account that reflects the acquisition value of permanent structures used to house persons and property owned by the school district. If buildings are purchased or constructed, this account includes the purchase or contract price of all permanent buildings and the fixtures attached to and forming a permanent part of such buildings. This account includes all building improvements, including upgrades made to building wiring for technology. If buildings are acquired by gift, the account reflects their fair value at the time of acquisition.

**2302 – Accumulated Depreciation on Buildings and Building Improvements:** Accumulated amounts for the depreciation of buildings and building improvements.

**2401 – Machinery and Equipment:** Tangible property of a more or less permanent nature, other than land, buildings, or improvements thereto, that is useful in carrying on operations. Examples are machinery, tools, trucks, cars, buses, computers, purchased software, furniture, and furnishings.

**2402 – Accumulated Depreciation on Machinery and Equipment:** Accumulated amounts for the depreciation of machinery and equipment.

**2501 – Works of Art and Historical Treasures:** Individual items or collections of items that are of artistic or cultural importance.

**2502 – Accumulated Depreciation on Works of Art and Historical Collections:** Accumulated amounts for the depreciation (as applicable) of works of art and historical treasures.

**2601 – Infrastructure:** A capital asset, network, or subsystem that has a useful life that is significantly longer than those of other capital assets. These assets may include water/sewer systems, roads, bridges, tunnels, and other similar assets.

**2602 – Accumulated Depreciation on Infrastructure:** Accumulated amounts for the depreciation of infrastructure assets.

**2701 – Construction in Progress:** The cost of construction work undertaken but not yet completed.

**2801 – Intangible Assets:** An intangible asset is a capital asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life of more than one year. Intangible assets may be purchased or licensed, acquired through nonexchange transactions, or internally generated. Examples include easements, contractual rights, patents, trademarks, and computer software.

**2802 – Accumulated Amortization of Intangible Assets:** Accumulated amounts for the amortization of intangible assets.

**<u>Deferred Outflows of Resources</u>**

**3000 – Deferred Outflows of Resources:** A consumption of net assets by the government that is applicable to a future reporting period.

## Liabilities

**4001 – Interfund Loans Payable:** A liability account used to record a debt owed by one fund to another fund in the same governmental unit. It is recommended that separate accounts be maintained for each interfund loan.

**4002 – Interfund Accounts Payable:** A liability account used to indicate amounts owed by a particular fund for services rendered. It is recommended that separate accounts be maintained for each interfund payable.

**4101 – Intergovernmental Accounts Payable:** Amounts owed by the reporting school district to another governmental unit. It is recommended that separate accounts be maintained for each intergovernmental payable.

**4201 – Accounts Payable:** Liabilities on open account owed to private persons, firms, or corporations for goods and services received by a school district (but not including amounts due to other funds of the same school district or to other governmental units).

**4202 – Judgments Payable:** Amounts due to be paid by a school district as the result of court decisions, including condemnation awards paid for private property taken for public use.

**4203 – Warrants Payable:** Amounts due to designated payees in the form of a written order drawn by the school district directing the school district treasurer to pay a specific amount.

**4301 – Contracts Payable:** Amounts due on contracts for assets, goods, and services received by a school district.

**4302 – Construction Contracts Payable—Retainage:** Liabilities on account of construction contracts for that portion of the work that has been completed but on which part the liability has not been paid pending final inspection, the lapse of a specified time period, or both. The unpaid amount is usually a stated percentage of the contract price.

**4303 – Construction Contracts Payable:** Amounts due by a school district on contracts for constructing buildings and other structures and other improvements.

**4401 – Matured Bonds Payable:** Bonds that have reached or passed their maturity date but that remain unpaid.

**4402 – Bonds Payable—Current:** Bonds that have not reached or passed their maturity date but are due within one year or less. This account is used only in proprietary or fiduciary funds, as well as in the government-wide financial statements.

**4403 – Unamortized Premiums on Issuance of Bonds:** An account that represents that portion of the excess of bond proceeds over par value and that remains to be amortized over the remaining life of such bonds. This account is used only in proprietary or fiduciary funds, as well as in the government-wide financial statements.

**4501 – Loans Payable:** Short-term obligations representing amounts borrowed for short periods of time, usually evidenced by notes payable or warrants payable.

**4502 – Lease Obligations—Current:** Capital lease obligations that are due within one year.

**4505 – Interest Payable:** Interest due within one year.

**4601 – Accrued Salaries and Benefits:** Salary and fringe benefit costs incurred during the current accounting period that are not payable until a subsequent accounting period.

**4701 – Payroll Deductions and Withholdings:** Amounts deducted from employees' salaries for withholding taxes and other purposes. District-paid benefits amounts payable are also included. A separate liability account may be used for each type of benefit.

**4702 – Compensated Absences—Current:** Compensated absences that will be paid within one year.

**4703 – Accrued Annual Requirement Contribution Liability:** A liability arising from payments not made to pension funds. This amount represents any difference between the actuarially determined annual required contribution and actual payments made to the pension fund.

**4801 – Advances from Grantors:** A liability account that represents resources received from grantors before eligibility requirements are met.

**4901 – Deposits Payable:** Liability for deposits received as a prerequisite to providing or receiving services, goods, or both.

**4909 – Other Current Liabilities:** Other current liabilities not provided for elsewhere.

**5000 – Long-Term Liabilities:** Obligations with a maturity of more than one year. These accounts should be used only with proprietary and fiduciary funds, as well as at the entity-wide level of reporting.

**5101 – Bonds Payable:** Bonds (general obligation, asset-backed, or revenue-backed) that have not reached or passed their maturity date and that are not due within one year.

**5102 – Accreted Interest:** An account that represents interest that is accrued on deep discount bonds. This account should be used by school districts that issue capital appreciation bonds. Such bonds are usually issued at a deep discount from the face value, and no interest payment is made until maturity. Under full accrual accounting, the district is required to accrete the interest on the bonds over the life of the bonds. Accretion is the process of systematically increasing the carrying amount of the bond to its estimated value at the maturity date of the bond. To calculate accreted interest, the district should impute the effective interest rate, using the present value, the face value (or the future value), and the period of the bond, and multiply the effective interest rate by the book value of the debt at the end of the period. Accreted interest is usually recorded as an addition to the outstanding debt liability.

**5103 – Unamortized Gains/Losses on Debt Refundings:** An account that represents the difference between the reacquisition price and the net carrying amount of old debt when a current or advance refunding of debt occurs. This account should be used only when defeasance of debt occurs for proprietary funds and entity-wide statements. The unamortized loss amount should be reported as a deferred outflow of resources and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. The unamortized gain amount should be reported as a deferred inflow of resources and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

**5201 – Loans Payable:** An unconditional written promise signed by the maker to pay a certain sum of money one year or more after the issuance date.

**5301 – Capital Lease Obligations:** Amounts remaining to be paid on capital lease agreements.

**5501 – Compensated Absences:** Amounts remaining beyond the period of one year to be paid on compensated absences balances.

**5503 – Special Termination Benefits:** These are benefits offered for a short period of time to employees in connection with their termination of employment. Special termination benefits are often used as an inducement for early retirement or to address budgetary problems.

**5601 – Arbitrage Rebate Liability:** Liabilities arising from arbitrage rebates to the Internal Revenue Service (IRS) from bond financing.

**5900 – Other Long-Term Liabilities:** Other long-term liabilities not provided for elsewhere. This account represents amounts due after more than one year from the balance sheet date for advances from other funds and certain miscellaneous liabilities, including workers' compensation, self-funded insurance, special termination benefits, and legal claims and judgments.

**Deferred Inflows of Resources**

**6000 – Deferred Inflows of Resources:** An acquisition of net assets by the government that is applicable to a future reporting period. A deferred inflow of resources should be recognized when resources are received or recognized as a receivable before (a) the period for which property taxes are levied or (b) the period when the resources are required to be used. When an asset is recorded in governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

**Fund Balances/Fund Net Position**

**7101 – Nonspendable Fund Balance:** The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This would include items not expected to be converted to cash, including inventories and prepaid amounts. It may also include the long-term amount of loans and receivables, as well as property acquired for resale and the corpus (principal) of a permanent fund.

**7201 – Restricted Fund Balance:** The restricted fund balance classification should be reported when legally enforceable constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

**7301 – Committed Fund Balance**: The committed fund balance classification reflects specific purposes pursuant to constraints imposed by formal action at the district's highest level of decision making authority (generally the governing board). Such constraints can only be removed or changed by the same form of formal action.

**7401 – Assigned Fund Balance:** The assigned fund balance classification reflects amounts that are constrained by the government's intent to be used for specific purposes, but meet neither the restricted nor committed forms of constraint. Also, the assigned fund balance classification is the residual classification for the special revenue, debt service, capital projects, and/or permanent funds after nonspendable, restricted, and committed balances have been identified (unless the residual amount is negative, which would require presentation as unassigned fund balance).

**7501 – Unassigned Fund Balance:** The unassigned fund balance classification is the residual classification, for the general fund only, after nonspendable, restricted, committed, and assigned balances have been identified. It is also used to report the residual amount for all other governmental funds after nonspendable, restricted, and committed balances have been identified, if the residual amount is negative.

**7601 – Net Investment in Capital Assets:** This account is used to record the component of net position invested in capital assets, net of related debt, that represents total capital assets less accumulated depreciation less debt directly related to capital assets. This account is to be used only in proprietary funds and entity-wide statements. (This was previously Fund Balance Code 740.)

**7701 – Restricted Net Position:** This account is used to record the component of net position that represents net assets legally restricted by sources internal or external to the organization. This account is to be used only in proprietary funds and entity-wide statements. (This was previously Fund Balance Code 750.)

**7801 – Unrestricted Net Position**: This account is used to record the component of net position that represents net position not classified in accounts 760 and 770. This account is to be used only in proprietary funds and entity-wide statements. (This was previously Fund Balance Code 760.)

# 9 Business Rules

The eFinancePLUS system is pre-loaded with all  UCOA segment values.

The allowable account combinations are based upon the Business Rules. The Business Rules will be applied to the UCOA in eFinancePLUS. For those not in the system by FY20, the rules will be applied to the FY20 Expenditure and Revenue data loaded into the data warehouse.

Additional rules will be developed, including Fund – RevSource and Revenue combinations

## 9.1 General Business Rules

- Objects 450, 710, 720, and 740 shall only be used with Function Series 4000 or a prior year adjustment Function 5210
- Function 3100 – Food Service shall only be used with Program 12 – Academic Summer School, Program 13 – 21st Century Program, Program 14 – Other After School Program, and Program 15 – Food Service (these Programs can be used with other functions)
- Program 24 – Early Childhood Special Education (ECSE) should only be used with the PreK level (01)
- Title I 4250 should always be used with Program 11 and Fund 2106 and RevSource 4.
- 3000 Series Funds (capital) should only be used with Function Series 270s, 400s, and 500s
- 3000 Series Funds should only be used with Program Series 10, 20, and 30
- 4000 Series Funds should only be used with Program Series 10, 20, and 30
- 4000 Series Funds should only be used with Functions 5110, 5020, 5090, 5210, 5390
- 4000 Series Funds should only be used to pay principal (5-831) and interest (Object 5-832)
- Program 23 should always use a 6000 series fund
- Revenue Code 1600 should always be used with a 9000 series fund or a fund withing the special fund series 2800-2999
- Revenue Code 1600 should always be used with school locations (100 series)
- Program 11 should never be used with a 3000 series function
- Program 24 should only be grand level codes pre-K and elementary (01, 11, 12, and 13)
- Program 21 and 22 should never be used with 3000 series or 4000 series function codes
- Program 21 cannot be used with Function 2510, 2314, 2315
- Program 21 cannot be used with Objects 5-593, 5-342, 5-566, 5-567

### 9.2 Governance Business Rules

- Only Tech centers shall be able to use 30 series programs
- Only SUs shall be able to subgrant funds (Function 5500, Object 892)
- Only SUs/SDs shall be able to book to special education program codes (20 series)
- Only districts who are a member of an SU shall be able to book assessment expenses (Object 593)
- Only SUs can received assessment revenue (RevSource 1931)
- 3000 series funds should only be used with district locations (200s/300s) or vocational centers (500 series)
- 4000 series funds should only be used with district locations (200s/300s) or vocational centers (500 series)
- 400 series location (SU) should only be used for mult-district entities – i.e., Not for use by single districts

# 10 Recording Transactions/Data Dictionary

This chapter provides detailed guidance on a number of accounting and reporting related topics.

## 10.1 Adult Education

Topic Description:

Vermont's adult education and literacy system offers essential services at locations throughout the state with trained professionals. Personalized instruction are offered in mathematics, reading and writing, essential workplace skills and English for speakers of other languages. All education services are informed and guided by the Equipped for the Future Standards and the College and Career Readiness Standards for Adult Education. This topic covers accounting guidance related to the topic of adult education.

Accounting and Reporting Considerations:

*Funding*

A funding formula for adult education was developed on a needs-based rationale for distributions. The formula was developed to "balance service delivery throughout the state" with funding linked to the need for services at the county level. A base amount is incorporated in order to ensure a basic level of services for each county and to acknowledge access and small population issues. The formula is designed to be responsive to the needs of adults and give weight to populations most likely to demand services.

The formula, outlined in the Vermont State Board of Education Rule 2410.1-3 consists of three parts:

1. Base of $30,000 to each county
2. 70% of the remaining balance available for allocation shall be allocated on the basis of comparative need as measured statewide as follows:

- 15% based upon the statewide percentage in the county of unemployed or underemployed persons without a high school diploma.
- 50% based upon the statewide percentage in the county of persons who are 16 years of age or older, not enrolled in school and without a high school diploma.
- 20% based upon the statewide percentage in the county of persons living at 125% of poverty.
- 15% based upon the statewide percentage in the county of persons in the categories of offenders, mothers without high school diplomas and persons for whom English is a second language.

3. 30% of the remaining funds for allocation shall be allocated on the basis of the comparative density of need within each county as follows:

- 15% based upon each county’s density of unemployed and underemployed persons without a high school diploma.
- 50% based upon each county's density of persons 16 years of age or older, not enrolled in school and without a high school diploma.
- 20% based upon each person living at 125% of poverty;
- 15% based upon each county's density of persons in the categories of offenders, mothers without high school diplomas and persons for whom English is a second language.

Data for indicators are updated annually with the most current information available including population census data or most recent population estimates published by the Vermont Department of Health.

- The State will evaluate compliance with grant requirements based on periodic site visits and monitoring of pertinent learner, administrative, and fiscal records of adult education grantees.
- Compliance determinations may be based on performance targets identified as continuous improvement measures. Compliance determinations shall be based on demonstrated adherence to these policies, and to the terms of the current statewide grant describing operational procedures, full range of services, and vision, mission and common practice. The State will notify the grantee of identified performance problems that could jeopardize continuation of the grant award in writing, and will provide the grantee a reasonable opportunity to take corrective action and to demonstrate compliance with 1) implementation of the vision, mission and common practice and 2) the full range of services. If grantee fails to correct performance and achieve compliance with requirements within six months of notification, the grant may be terminated. The grant can also be immediately terminated due to gross misconduct. In such an event, prior to or at the time of termination, grantee will be provided with written notice of such termination, including specific identification of the misconduct.

## 10.2 After School

Topic Description:

The 21st Century Community Learning Centers (21st Century) program provides funding for high quality after school learning programs. Vermont's 21st Century program supports students' learning and interests through diverse and engaging programming using multiple approaches and curricula. Programs are delivered through schools and community partnerships for grades K-12. LEAs may have non-21st Century afterschool programs. These Programs complement, but do not duplicate the school day, and should be accounted for separately from 21st Century programs. This topic covers accounting guidance related to after school programs.

Accounting and Reporting Considerations:

*Legal Framework*

The 21st Century program rules flow from federal legislation as part of the Every Student Succeeds Act (ESSA) Title IV Part B. The US Department of Education (ED) develops rules and guidance for the use of federal funds including 21st Century funds that provide a general framework for implementation. These rules are known as the Education Department General Administrative Regulations. The 21st Century ED office has also produced 'non-regulatory guidance' that assists states in implementation. The AOE manages the program at the state level, and develops statewide systems of implementation, as well as additional standards, rules, and expectations. Eligible local communities in Vermont apply for funding in order to implement programming. An annual grant agreement is signed that is based on the approval of a 21st Century application and any grant conditions.

*Performance Reporting*

Reporting is done at the end of each school year, generally due at the end of June. Data needs to be collected throughout the year once programs begin. Each LEA must collect data on both the project level and the individual site level. Each year, the state reporting requirements are released as a draft for comment in February with the final collection coming later in the spring.

The state annual performance reporting requires data related to a project's local evaluation plan. LEAs must track, collect and report on required data as part the state annual performance reporting collection. Site and Project data can be shared with the AOE via a PDF or Excel sheet.

Federal reporting is tracked and submitted on-line in what is also being called the Annual Performance Report (21APR) system in three separate entry periods: summer term, fall term, and spring term; which is cumulative data for the whole school year. Term entry occurs sequentially and opens and closes on strict deadlines. Directors use local databases to get the needed data. Directors are issued a username and password by the state coordinator for the federal system and 21APR password reset changes are managed by AOE versus the federal help desk.

*Program Income*

2 CFR §200.80 defines program income as: Program income means gross income earned by the non-Federal entity that is directly generated by a supported activity or earned as a result of the Federal award during the period of performance. Program income includes but is not limited to income from fees for services performed, the use or rental or real or personal property acquired under Federal awards, the sale of commodities or items fabricated under a Federal award, license fees and royalties on patents and copyrights, and principal and interest on loans made with Federal award funds.

The United States Department of Education has granted approval to the AOE to allow its subrecipients to earn program income on the 21st CCLC grant awards and account for the program income under the addition method detailed in 2 CFR §200.307(e)(2). Common examples of program income earned as a result of the 21st CCLC grant award include but are not limited to: parental fees, VT subsidy payments, and the sale of items. Program income must be used for the purposes and under the conditions of the Federal award. AOE requires subrecipients to follow the below four steps as evidence the subrecipient has met this requirement:

1. Program income must be accounted for in the subrecipients accounting system as a separate revenue source. Per the UCOA, please use the below codes:
    a. Program code 13 for 21st CCLC
    b. Revenue Source code 4 for Federal
    c. LEA Project code: assign your own 1 - 8 digit code to identify this as 21C program income
    d. Revenue codes:
        i. 1911 for parent fees
        ii. 3790 for state subsidy payments
        iii. 1985 for other program income
2. Program income may be spent only on allowable activities of the 21st CCLC program regulations and the Uniform Guidance Subpart E (Cost Principles)
3. Program income must be expended prior to requesting federal 21 CCLC grant reimbursement through the AOE 3.0 process. Please note the earning of program income must be reported on the AOE 3.0 request as of FY19.
4. Program income earned must be spent on current grant year expenses.

Program income generated through 21st Century and Perkins funded programs are considered federal funds. Program income is gross income earned by the non-federal entity that is directly generated by a supported activity or earned as a result of the Federal award during the grant award period. Program income must be spent at least quarterly each year with an annual balance brought to zero each July 1st. Any program income remaining at the end of any grant year may be recaptured by the AOE guided by federal rules.

*Grants*

For grant accounting guidance, see Subchapter 10.26.

*Title I Funds*

Afterschool programming can be an important component of helping students academically and closing the achievement gap in a school or LEA. Title I funds can be used in afterschool programs but not for all costs. Below are the most common forms of afterschool programming using Title I funds:

- In a Targeted Assistance Title I school, the school may offer an afterschool program for those students who are on the Title I caseload (those students who have been determined by multiple criteria to be failing, or most at-risk of failing, to meet challenging State academic standards"[ESSA Sec.1115(c)(1)(B)]. Also, students who are homeless, migrant, in institutions for children who are neglected or delinquent or that participated in Head Start are eligible for services under Title I [Sec.1115(c)(2)].). In this case, Title I funds may be used to fund almost all aspects of the program as long as it is academic in nature.
- In a Schoolwide Title I school, the school may offer an afterschool program for all of its students. In a Schoolwide model, all students are considered to be Title I students. Again, Title I funds may be used to fund almost all aspects of the program as long as it is academic in nature and the strategy of providing extra academic supports through an afterschool program is outlined in the school's Schoolwide plan.
- Some LEAs operate 21st Century afterschool programs. LEAs may use their funds as outlined above. If the program is associated with a Targeted Assistance school, then Title I funds may be used to fund academically-oriented services for the Title I caseload students only. If associated with a Schoolwide school, all students may participate but the funds are limited to providing the academic portion of the afterschool program – supplemental instruction, homework club, etc. If a LEA operates the afterschool program, then it must be operated as a Title I Targeted Assistance model unless all schools in the LEA are schoolwide Title 1 schools.

Title I funds may not be used as blanket support for a summer or afterschool program. The LEA should work in partnership with the program to determine what costs are allowable and under Title I and allocate expenses to particular high quality offerings. Records, including time and effort if applicable, must be maintained to verify that the Title I funds are spent in accordance with the requirements outlined above.

*Program Code*

After school activities can be coded to Program 13, 21st Century Program; or Program 14, Other After School Program. After school activity financing can be derived from multiple funds. If an after school program draws from various funds, which include 21st Century funds, then it is recorded using Program 13. If an after school program gets funding from various funds, but excludes 21st Century funds, then it is recorded using Program 14.

## 10.3 Assessments and Supervisory Union Services

Topic Description:

This topic covers accounting guidance related to assessments.

Accounting and Reporting Considerations:

*Supervisory Unions*

A Supervisory Union (SU) is an administrative, planning, and educational service unit created by the State Board which consists of two or more school districts.

*Supervisory Union Assessments*

SUs assess certain costs to member districts. Those SDs often prorate a portion of the budgets from their SU. SUs relatedly bill member districts quarterly, bi-annually, or once a year for those funds.

*Joint School Assessments*

Joint school assessments are administered when two districts operate a school together. Costs are shared between member districts under the LEA's Statbook. The two districts, operating a school together, will split the assessment costs.

*Services and Duties of a Supervisory Union*

Services provided by SUs can include:

- Establishing a SU-wide curriculum, by either developing the curriculum or assisting the member districts to develop it jointly, and ensure implementation of the curriculum. This includes assisting schools in the SU to follow the curriculum that they have adopted.
- Establishing and implementing a plan for receiving and disbursing federal and State funds distributed by the Agency of Education.
- Providing professional development programs or arranging for the provision of them, for teachers, administrators, and staff within the SU. These may include programs offered solely to one school or other component of the entire SU to meet the specific needs or interests of that component; a SU has the discretion to provide financial assistance outside the negotiated agreements for teachers' professional development activities.

- Providing special education services on behalf of its member districts and, compensatory and remedial services, and provide or coordinate the provision of other educational services as directed by the State Board or local boards; provided, however, if a supervisory union determines that services would be provided more efficiently and effectively in whole or in part at the district level, then it may ask the Secretary to grant it a waiver from this provision.
- Employing a person or persons qualified to provide financial and student data management services for the supervisory union and the member districts.
- Provide the following services for the benefit of member districts in a manner that promotes the efficient use of financial and human resources. However, if a SU determines that services would be provided more efficiently and effectively in another manner, then it may ask the Secretary to grant it a waiver from this subdivision:
    - Managing a system to procure and distribute goods and operational services
    - Managing construction projects
    - Providing financial and student data management services, including grant writing and fundraising as requested
    - Negotiating with teachers and administrators, and with other school personnel at the supervisory union level; provided that:
        - Contract terms may vary by district; and
        - Contracts may include terms facilitating arrangements between or among districts to share the services of teachers, administrators, and other school personnel
- Providing transportation or arrange for the provision of transportation, or both in any districts in which it is offered within the supervisory union.
- Providing human resources management support
- Providing other appropriate services according to joint agreements
- Submitting to the board of each member school district, on or before January 15 of each year, a summary report of financial operations of the supervisory union for the preceding school year, an estimate of its financial operations for the current school year, and a preliminary budget for the supervisory union for the ensuing school year. This requirement does not apply to a supervisory district. For each school year, the report shall show the actual or estimated amount expended by the supervisory union for special education-related services, including:
    - A breakdown of that figure showing the amount paid by each school district within the supervisory union; and
    - A summary of the services provided by the supervisory union's use of the expended funds.

- Adopting a budget for the ensuing school year on or before June 30 of each year.
- Adopting supervisory union-wide truancy policies consistent with the model protocols developed by the Secretary.

<u>Specific Accounting and Reporting Guidance:</u>

*Expense Appropriation for Supervisory Unions*

Unless otherwise agreed upon, each SD shall pay a proportionate share of the salary and expenses of the superintendent and the expenses of the SU based on the number of enrolled students in each member SD. "Enrolled students" shall be defined by the State Board by rule, including the treatment of tuition students, special education students, students enrolled in career technical centers, and other particular circumstances (16 V.S.A. § 301).

*Example Entries*

To record an assessment made by an SU to an SD for $500,000 (SU entry):

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 1001 | | | | | | 1 | 1001 | Cash in Bank | $500,000 | |
| 1001 | 401 | XX | XX | 5 | 0000 | 4 | 1931 | SU Assess-Regular | | $500,000 |

To record an assessment made by an SU to an SD for $500,000 (SD entry):

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 1001 | XXX | XX | XX | 0 | 2590 | 5 | 593 | SU Assessments | $500,000 | |
| 1001 | | | | | | 1 | 1001 | Cash in Bank | | $500,000 |

In the example provided above X's were used for demonstrations purposes in sections of the budget unit where information was not provided. It should be noted that program code may be required for recording certain assessments, assessments related to the special education program for example.

*Assessments Allocation of Costs*

SDs paying SUs for assessments should use object code 593. SUs should book the assessment payment using revenue code 1931. The revenue code 1934 is used when SUs receive reimbursement for providing certain specific purchased services.

## 10.4 Capital Assets and Depreciation

Topic Description:

This topic pertains to government-wide reporting. Although it is important to understand capital assets and depreciation, many of the topics discussed in this Subchapter are not accounting concerns that will occur on a day-to-day basis. Consult with your external auditor with specific questions on financial reporting related to this topic. Property and equipment of material value are commonly referred to as fixed or capital assets. These include land and land improvements, buildings and building improvements, equipment, and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. This topic covers accounting guidance related to capital assets. See Subchapter 10.57 for additional guidance on Capital Assets.

Accounting and Reporting Considerations:

*Recordkeeping*

Capital assets are one of the largest investments made by LEAs. Generally accepted accounting principles and federal funding agencies require LEAs to maintain adequate record keeping to account for capital assets. When accounting for capital assets, LEAs should consider the following:

- Capital assets and accumulated depreciation must be accounted for in conformity with generally accepted accounting principles.
- Administrators have a responsibility to account for and control all assets under their care.
- Capital asset accounting records should support the following:
    - Capital planning - providing proper equipment for schools by furnishing such data as useful life, location, and condition.
    - Determination of insurable values and in securing insurance appraisals.
    - Substantiating loss in the event of fire, theft, or other catastrophe.
    - Employee responsibilities in the care and use of the LEA’s equipment.
- Valuation of Property and Equipment

GAAP require the use of “historical cost” to measure an entity's investment in property and equipment. Historical cost is the actual cost at the time of acquisition. The total cost of placing a capital asset into service should be recognized as the historical cost of acquiring the capital asset. The actual cost should include the invoice cost paid by the LEA plus tax, freight charges, or costs of other forms of transportation for delivery to the LEA, whether added to the invoice or paid separately to a carrier. To account for these costs, the LEA should add any labor and other costs of installation. Labor and other costs of installation by the vendor will usually be included in the original invoice price or may be billed separately by the vendor. Such cost represents the value to be derived over the useful life of the asset.

*Depreciation and Estimated Useful Life*

Estimated useful life is an estimate of the time period that an asset can be used for the purpose for which it was intended. Estimated useful lives should be determined and used to allocate depreciation expense to the appropriate periods. In estimating a capital asset's useful life, LEAs should consider the asset's present condition, use, construction type, maintenance policy, and the length of time the asset is expected to be in service. If the Board has adopted a capitalization policy, including the estimated useful life of capital assets, that policy should be followed and implemented as part of the LEA's internal control structure. The most common method of depreciation is the straight-line method. This method is the simplest to use and the most systematic.

*Capitalizing Intangible Assets*

Software that is purchased or licensed by the district 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 should be capitalized, while user training and routine maintenance should be expensed. An 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. For further accounting guidance on software, see Subchapter 10.58, Technology.

*Amortization of Intangible Assets*

The useful life of an intangible asset that arises from contractual or other legal rights should not exceed the period to which the service capacity of the asset is limited by contractual or legal provisions. Renewal periods related to such rights may be considered in determining the useful life of the intangible asset if there is evidence that the LEA will seek and be able to achieve renewal and that any anticipated outlays to be incurred as part of achieving the renewal are nominal in relate to the level of service capacity expected to be obtained through the renewal. Such evidence should consider the required consent of a third party and the satisfaction of conditions required to achieve renewal, as applicable.

An intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset. A permanent right-of-way easement is an example of an intangible asset that should be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should *not* be amortized. If changes in factors and conditions result in the useful life of an intangible asset no longer being indefinite, the asset should be tested for impairment because a change in the expected duration of use of the asset has occurred. The carrying value of the intangible asset, if any, following the recognition of any impairment loss should be amortized in subsequent reporting periods over the remaining estimated useful life of the asset.

*Disposal of Capital Assets*

When items are disposed of, their cost is removed from the capital asset account and any related accumulated depreciation is removed from the depreciation allowance account. Often a gain or loss would also be required to be recorded as a result of the disposal whether resulting from a sale or impairment of the asset.

*Asset Impairment*

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. LEAs are required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage.

A capital asset generally should be considered impaired if the decline in service utility of the capital asset is large in magnitude, the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the LEA should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the LEA should be measured using the method that best reflects the diminished service utility of the capital asset.

*Donated Assets*

In accepting donated items, any method that can be shown to reflect a reasonable estimate of the value of the item may be used. The LEA's governing board should approve the valuations based on their fair market values as of the dates of acceptance.

*Capitalization Threshold*

The capitalization threshold is the cost at which a given item qualifies for capitalization. The cost used for determining capitalization should include tax, freight charges, and installation costs, whether included in the invoice cost of the item or paid separately. Capitalization thresholds may differ from one LEA to another depending on materiality. Typically, the larger the LEA, the higher is its capitalization threshold.

LEAs may establish a separate, higher threshold for capitalization of buildings and building improvements than for capitalization of equipment. Professional judgment should be used in the application of this separate threshold so that only those improvements that meet the threshold for capitalization and that significantly enhance the value or extend the life of the site or building, regardless of the cost, are capitalized.

LEAs may choose to capitalize groups of items acquired at the same time that do not meet the threshold for capitalization individually. Examples might include major acquisitions of library books for a new library, large quantities of computers for an entire computer laboratory, or furniture for a new school. However, unless the group of items would represent a very significant asset for the LEA, it is not recommended that groups of items whose unit cost does not meet the capitalization threshold be capitalized.

If the Board has adopted a capitalization policy, including capitalization thresholds and group assets, that policy should be followed and implemented as part of the LEA's internal control structure.

Specific Accounting and Reporting Guidance:

*Example Entries*

To record the purchase of a large piece of equipment for $20,000 with estimated useful live of 5 years with no salvage value.

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 1001 | | | | | | 1 | 2401 | Machinery/Equip. | $20,000 | |
| 1001 | | | | | | 1 | 1001 | Cash in Bank | | $20,000 |

To record the annual depreciation on the equipment using the straight-line method.

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 1001 | XXX | XX | XX | X | XXXX | 5 | 791 | Dep./Amort.. | $4,000 | |
| 1001 | | | | | | 1 | 2402 | Acc. Dep on Mach/Equip. | | $4,000 |

To record an impairment of the equipment of $5,000.

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 1001 | XXX | XX | XX | X | XXXX | 5 | 950 | Special Items.. | $5,000 | |
| 1001 | | | | | | 1 | 2401 | Mach./Equip.. | | $5,000 |

To record the sale of the equipment for a $2,000 loss.

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 1001 | | | | | | 1 | 1001 | Cash in Bank | $ 9,000 | |
| 1001 | | | | | | 1 | 2402 | Acc. Dep on Mach/Equip. | $ 4,000 | |
| 1001 | | | | | | 1 | 2401 | Mach./Equip. | | $ 15,000 |
| 1001 | XXX | XX | XX | X | XXXX | 5 | 940 | Loss on Sale of Capital Asset | $ 2,000 | |

Consistent with the modified accrual basis of accounting used in governmental funds, the capital assets themselves and their related depreciation are not reported in the funds. Rather, capital assets of governmental activities are reported only in the government-wide financial statements. Capital assets and accumulated depreciation are reported on the statement of net position, and depreciation expenditures are reported on the statement of activities.

### 10.5 Career and Technical Education

Topic Description:

This topic covers accounting guidance related to career and technical education (CTE).

Accounting and Reporting Considerations:

*CTE Cost and Revenue Separation*

A SD offering technical education programs must maintain separate cost records for all costs associated with secondary technical education. All revenues and costs should be accounted for separately from regular secondary school revenues and costs [including Technology Education and Home Economics] and from Adult Education revenues and costs.

*Calculating Shared Costs*

Costs that are shared by technical education programs and other education programs offered by a SD must be allocated by calculating technical education's percentage of total costs by using the following methods unless the regional board for the center and the school board for the district with whom the costs are shared both agree to an alternate method:

- School board costs, fiscal services, superintendent's office, and other central office costs shall be allocated through the following formula:
    - (Direct program costs for technical center)/( total of all direct program costs)
- Staff development/instructional staff support costs shall be allocated through the following formula:
    - (FTE teaching staff for technical center)/(total FTE teaching staff)
- Building maintenance and operation costs shall be allocated through the following formula:
    - (Square feet of technical center)/ (total square feet)
- Student support services shall be allocated through the following formula:
    - (Student FTE for technical center)/(total student FTE)

When an alternative method of sharing costs is adopted, the regional board and school board will notify the Secretary of the method being used in a notification signed by both board chairs that identifies the method and duration of the agreement.

*In-state Tuition Payments from LEAs*

On behalf of a sending SD within Vermont, a career technical center shall receive from the Education Fund for each full-time equivalent student from the district 87 percent of the base education amount and an equivalent amount shall be subtracted from the amount due to the sending district. The amount sent to the career technical center and subtracted from the sending district shall be considered a revenue and an expenditure of the district and is reported as such in appropriate accounts and in the district's annual budget. A notice to record this transaction will be sent by school finance near the end of the fiscal year. The general state support grant for the six semester average number of full-time equivalent students enrolled by the SD in a technical center are deducted from that SD's total state support grant and sent directly to the technical center/s attended by resident students. Those payments are made by the Secretary at the same time as general student state support payments are made to SDs.

*Out-of -state Tuition*

School districts that are geographically remote from Vermont technical centers and that have received permission from the state board of education may send students to technical education programs outside of Vermont. In those cases, the school districts shall receive general state support grants for those students and will pay the full tuition charged by the schools to which the students are sent.

*Overpayment of Tuition*

If sending districts have paid tuition in excess of 3% of net costs for the prior year they will be credited that amount toward their current year assessment in proportion to their contribution or, if they do not have an assessment sufficient to use the credit, the board of the receiving district will refund that amount to the sending districts by July 31 of the current fiscal year. Interest will begin to accrue on the refund on December 1, at the rate of one-half percent per month.

*Underpayment of Tuition*

If the receiving district(s) have been under-assessed tuition by 3% or more of net costs for the prior year, the sending districts will pay the amount of the underassessment. If payment is not made by July 31 of the year following the year of the underassessment, interest will be owed by the sending district at the rate one half percent per month starting the next day, August 1.

*Out-of-State CTE Programs*

LEAs that are geographically remote from Vermont technical centers and that have received permission from the state board of education may send students to CTE programs outside of Vermont. In those cases, the LEAs will receive general state support grants for those students and will pay the full tuition charged by the schools to which the students are sent.

*Transportation Assistance from State*

Transportation is paid from the education fund to sending SDs to provide transportation of students to and from technical centers. Transportation assistance shall not be paid for transportation to or from students' homes or locations other than the sending school. The amount of transportation assistance shall in accordance with 16 V.S.A. § 1563.

*State Salary Assistance*

The State Board reimburses LEAs operating a CTE center for a portion of its cost in paying the salary of the following persons:

- The director of CTE
- A person whose principal duty is to provide guidance services for CTE students
- A person whose principal duty is to find job training opportunities for students during the time they are enrolled at the CTE center
- An assistant director for adult education
- An assistant director of CTE, if the CTE center has full-time equivalent enrollment of at least 150 and the sending school population is at least 30 percent of the CTE center's total full-time equivalent enrollment.

Specific Accounting and Reporting Guidance:

*Journal Entry*

Program codes 31 – Vocational Regular, and 32 – Vocational Special Education, are used when recording technical education. Programs 31 and 32 are only used by CTEs. Identifying the correct Location code to use is key when accounting for technical education. The Location code is dependent upon whether or not the technical center is attached to the high school. Separate cost records must be maintained between technical education and regular education. Program code 11 is used for LEAs when paying a CTE center.

## 10.6 Central Services

Topic Description:

Central Services are activities that support other administrative and instructional functions, including fiscal services, human resources, planning, and administrative information technology. This topic covers accounting guidance related to central services. For further accounting guidance on assessments, see Subchapter 10.03.

Accounting and Reporting Considerations:

Due to their potential effect on reporting, it is important to make a clear distinction between the components of central services.

*Fiscal Services*

Fiscal services include activities concerned with the fiscal operations of the LEA. This function includes budgeting, receiving and disbursing, financial and property accounting, payroll, inventory control, internal auditing and managing funds. Fiscal services are inclusive of supervision of fiscal services, budgeting services, and payroll, internal audit, and general accounting functions.

*Office of the Superintendent*

Superintendent services include activities performed by the superintendent and such other staff in generally directing and managing all affairs of the SD. These include all personnel and materials in the office of the chief executive officer. General administration services are to be included, and are considered to be a part of, superintendent services. Job Class 501 is designated for superintendents, and Job Class 502 is designated for assistant superintendents. Function 2320 is used with both Job Class codes. When considering what Job Class code to use, it is important to note that the work done defines the code used, not the job title.

*Indirect Cost Rates*

Indirect costs are those costs of general management that are agency-wide. General management costs consist of expenditures for administrative activities necessary for the general operation of the LEA (e.g., accounting, budgeting, payroll preparation, personnel management, and purchasing, centralized data processing). The standardized method to recover indirect costs from federal programs without having to time-account for the general administrative support provided to each program is referred to as the *indirect cost rate process*. It is important that the two components of central services, fiscal and superintendent services, be accounted for correctly. An inaccurate accounting of central services would lead to a misrepresentation of the indirect cost rate.

## 10.7 Collaborative Programs

<u>Topic Description:</u>

This topic covers accounting guidance related to collaborative programs between LEAs.

<u>Accounting and Reporting Considerations:</u>

SUs, or administrative units not within a SU, in order to provide services cooperatively, may with proper approval, enter into a joint agreement to provide joint programs, services, facilities, and professional and other staff that are necessary to carry out the desired programs and services.

*Shared Expenses*

The expense of carrying on these shared programs services, and facilities shall be allocated according to a plan mutually agreed upon by the participating supervisory unions and the Secretary of Education, including agreement on revision and adequate auditing procedures to allocate costs.

*Shared Facilities*

Facilities constructed to house such shared programs and services when constructed with funds from the State School Building Aid Bond Account and attached to an existing building become a part of a new construction program. The SD within which the special facilities are located shall own the facilities subject to the mutual agreement on reversion.

*Funding*

A central treasury may be established among the participating LEAs. Such central treasury will receive and disburse funds of participating LEAs. Funds shall be disbursed only on orders signed by at least one authorized member from each of the participating LEAs. The participating LEAs may jointly own personal property under their contract.

Specific Accounting and Reporting Guidance:

*Special Education Collaborative Programs*

Special education collaborative programs are recorded as enterprise funds using Program 23 - K-12 Special Education Collaborative.

## 10.8 Community Service Programs

Topic Description:

This topic covers accounting guidance related to Community Service Programs.

Accounting and Reporting Considerations:

*Programs*

Community service programs represent activities which are not directly related to the provision of educational services in an LEA. These include services such as community recreation programs, civic activities, public libraries, programs of custody and care of children, and community welfare activities.

*Community Recreation*

Community recreation activities are concerned with providing recreation for the community as a whole or for some segment of the community. Included are such staff activities as organizing and supervising playgrounds, swimming pools and similar programs.

*Civic Services*

Civic service activities are concerned with providing services to civic affairs or organizations. This program area includes services to parent-teacher association meetings, public forums, lectures, and civil defense planning.

*Public Library Services*

Public library services include activities pertaining to the operation of public libraries by an LEA or the provision of library services to the general public through the school library. Included are such activities as budgeting, planning, and augmenting the library's collection in relation to the community and informing the community of public library resources and services.

*Custody and Child Care Services*

Custody and child care services include activities pertaining to the provision of programs for the custodial care of children in residential day schools or child-care centers that are not part of, or directly related to, the instructional program and where the attendance of the children is not included in the attendance amounts for the LEA.

Specific Accounting and Reporting Guidance:

*Exclusion from Current Expenditures*

The U.S. Department of Labor defines current expenditures as the operating expenditures for day-to-day operations of LEAs. Items excluded from current expenditures include expenditures for programs outside elementary and secondary education, such as community services.

*Coding Considerations for Community Service Programs*

Any fee charged to external users for goods or services must be associated with an enterprise fund (6000). These include community service programs that are self-sustaining, where fees are charged to users that cover all costs, there is no direct use of governmental funds or transfer of governmental funds, and no burden on the State Education Fund. Additionally, Agency funds can be used when coding community services programs. The Agency fund takes into consideration whether or not the funds are held in a custodial capacity. For additional information on custodial funds, see Subchapter 10.11.

Community service programs use Program 81. Activities included in this program do not directly relate to the provision of educational services in an LEA. These include services such as community recreation programs (playgrounds and swimming pools), civic activities (parent-teacher association meetings and public forums), public libraries, programs of custody and care of children (where attendance of children is not included in the district figures), and community welfare activities (i.e., clothing, food, etc.) provided by the LEA either for the community as a whole or for some segment of the community.

Program 81, Other Community Services, and Function 3300, Community Services Operations, are used for activities concerned with providing services to the community. Function 3300 can only be used with Program 81. However, Program 81 can be used with multiple functions to show a greater detail of activity for which a service or material object is acquired for a CSP. Examples of services provided to the community include parental training, community recreation activities, public library services, civic services, and counseling services for the parents of students.

## 10.9 Computer-Related Topics

Topic Description:

This topic covers accounting guidance related to computers and computer software. This topic covers many government-wide accounting procedures. Although it is important to understand computer-related topics, many of the topics discussed in this Subchapter are not accounting concerns that will occur on a day-to-day basis. Consult with your external auditor with specific questions on financial reporting related to this topic.

Accounting and Reporting Considerations:

*Subscriptions*

If subscriptions to computer-related software are renewed on a yearly basis (or less than one year) they are to be expensed, rather than capitalized. There is no capitalization requirement for subscriptions one year or less, even if they meet the capitalization threshold.

*Distinguishing Between Supplies and Capitalization*

The uniform guidance for administration of federal grants in Title 2 of the *Code of Federal Regulations*, Part 200 (the Uniform Guidance) allows property costing up to $5,000 to be charged to federal grants as supplies, rather than as equipment, unless the LEA's capitalization threshold is lower. If an LEA elects to set a capitalization threshold higher than $5,000 for most items, it still needs to have a separate threshold of $5,000 for items paid for with federal funds. It is recommended that LEAs set a similar threshold for items paid for with restricted state funds.

It is not recommended to capitalize groups of items acquired at the same time that do not meet the threshold for capitalization individually. This includes large quantities of computers for an entire computer laboratory. See Subchapter 10.57 for further guidance on differentiating supplies and equipment.

*Capitalizing Intangible Assets*

Software that is purchased or licensed by a LEA generally meets the description of an intangible asset. If a LEA enters into a licensing agreement with a vendor for multiple components, such as use of the software, modifications to meet the LEA'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.

*Amortization of Intangible Assets*

The useful life of an intangible asset that arises from contractual or other legal rights should not exceed the period to which the service capacity of the asset is limited by contractual or legal provisions. Renewal periods related to such rights may be considered in determining the useful life of the intangible asset if there is evidence that the LEA will seek and be able to achieve renewal and that any anticipated outlays to be incurred as part of achieving the renewal are nominal in relation to the level of service capacity expected to obtained through the renewal. Such evidence should consider the required consent of a third party and the satisfaction of conditions required to achieve renewal, as applicable.

Specific Accounting and Reporting Guidance:

*Cloud Computing*

Cloud computing services have become more prevalent among LEAs. These transactions often involve long-term contracts wherein an LEA will receive the right to use certain hardware or software provided by the vendor without actually owning the technology. The features of these arrangements may make it difficult to determine whether they result in an asset and a related liability or a period expense. GASB Statement No. 51 applies to assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. This description applies to the right-to-use received by LEAs in cloud computing contracts. To capitalize, LEAs with cloud computing services, or subscription-based information technology arrangements (SBITA), would recognize a right-to-use subscription asset and a corresponding subscription liability (with an exception for short-term SBITAs with a maximum term of 12 months).

*Codes Related to Computer Related Topics*

Technology has specific Object codes for recording supplies and equipment. Object code 734 is used for expenditures related to technology equipment and technology infrastructure. Object code 735 is used to record technology software expenditure that exceed the capitalization threshold, and that are not classified as a subscription for one year or less. Object code 651 is used to record technology supply expenditures, with Object codes 652-659 open for local use. Object 432 is used for technology expenditures related to repairs and maintenance services that are not directly provided by the SD.

*Example Entries*

To record the purchase of a software for $6,000 with estimated useful live of 3 years with no salvage value.

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| *Fund* | *Location* | *Level* | *Program* | *RevSource* | *Function* | *Type* | *Acct.* | | | |
| | | | | | | | | | | |
| 1001 | | | | | | 1 | 2801 | Intangible Assets | $ 6,000 | |
| 1001 | | | | | | 1 | 1001 | Cash in Bank | | $ 6,000 |

To record the annual amortization on the software using the straight-line method.

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| *Fund* | *Location* | *Level* | *Program* | *RevSource* | *Function* | *Type* | *Acct.* | | | |
| | | | | | | | | | | |
| 1001 | XXX | XX | XX | X | XXXX | 5 | 791 | Dep./Amort. | $ 2,000 | |
| 1001 | | | | | | 1 | 2802 | Acc. Amort. On Intang. Assets | | $ 2,000 |

To record an agreement with cloud based software provider that meet the definition of a subscription based information technology arrangement for $21,000 over 3 years.

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| *Fund* | *Location* | *Level* | *Program* | *RevSource* | *Function* | *Type* | *Acct.* | | | |
| | | | | | | | | | | |
| 1001 | | | | | | 1 | 2801 | Intangible Assets | $ 21,000 | |
| 1001 | | | | | | 2 | 5901 | Other LongTerm Liabilities | | $ 21,000 |

To record the annual amortization on the software using the straight-line method.

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 1001 | XXX | XX | XX | X | XXXX | 5 | 791 | Dep./Amort. | $ 7,000 | |
| 1001 | | | | | | 1 | 2802 | Acc. Amort. On Intang. Assets | | $ 7,000 |

To record annual payments to the cloud based software provider of $7,000.

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 1001 | | | | | | 1 | 1001 | Cash in Bank | $ 7,000 | |
| 1001 | | | | | | 1 | 5901 | Other LongTerm Liabilities | | $ 7,000 |

## 10.10 Construction

Topic Description

This topic provides accounting guidance related to construction projects.

Accounting and Reporting Considerations:

*Construction Aid*

The State does not provide funding for construction projects, unless for emergency projects, or for certain construction expenditures pertaining to an emergency center/shelter.

A LEA may be eligible for assistance if it intends to construct or purchase a new school, or make extensive additions or alterations to its existing school, and desires to use of State school construction aid. The LEA must submit a written preliminary application. The application includes information required by the State Board by rule and will specify the need for and purpose of the project.

When reviewing a preliminary application for approval, considerations include:

- The regional educational opportunities and needs, including school building capacities across SD boundaries, and available infrastructure in neighboring communities
- Economic efficiencies
- The suitability of an existing school building to continue to meet educational needs
- Statewide educational initiatives and the strategic plan of the State Board of Education.

Upon its review, the preliminary application may be approved if:

- The project or part of the project fulfills a need caused by:
    - Conditions that threaten the health or safety of students or employees
    - Facilities that are inadequate to provide programs required by State or federal law or regulation
    - Excessive energy use resulting from the design of a building or reliance on fossil fuels or electric space heat
    - Deterioration of an existing building;
- The need addressed by the project cannot reasonably be met by another means; and
- The proposed type, kind, quality, size, and estimated cost of the project is suitable for the proposed curriculum and meets all legal standards.

Following approval of a preliminary application, and provided that the district has voted funds or authorized a bond for the total estimated cost of a project, the State Board assigns points to the project so that the project can be placed on a priority list based on the number of points received. Once a project receives points, if it does not receive funding in a given year, it does not lose points in subsequent years and it can gain points due to length of time on the list and may gain points for any other reason.

The points are assigned in the following priority:

- First priority is given to emergency projects in excess of $100,000.00 that address threats to the safety and health of students or employees created by unanticipated circumstances or events.
- Second priority is given to construction projects in excess of $10,000.00 that address a need occasioned by deterioration of an existing building or equipment, and that extend the useful life of the building but that do not make additions or extensive alterations to existing school facilities in which students are provided services. Examples of projects given priority under this subdivision are replacement, addition, or repair to utilities; projects that address environmental quality issues; repair of a roof; replacement of an existing space-heating, water-heating, cooling, or refrigeration system; and replacement or upgrading of mechanical equipment.

Remaining projects are given priority based on consideration of their relative degree of need. By January 15 of each year, the State Board presents the House Committee on Corrections and Institutions and the Senate Committee on Institutions with its annual capital construction funding request. Following receipt of the request, the Committees recommends a total school construction appropriation for the next fiscal year to the General Assembly. The General Assembly does not revise the order of the project priorities presented by the State Board.

The funding request to the Committees is in the form of separate line items as follows:

- A list of projects that have been assigned points in their order of priority, including the voted funds or authorized bond amount for each project.
- The cost of emergency projects that the State Board has approved but not yet reimbursed due to insufficient funds, as well as the estimated cost of those that might be approved in the coming year.
- The cost of projects to extend the life of a building that the State Board has approved but not yet reimbursed due to insufficient funds, as well as the estimated cost of those that might be approved by the State Board in the coming fiscal year.

*Final Approval for Construction Aid*

Unless approved for good cause in advance of commencement of construction, a LEA cannot begin construction before the State Board approves a final application. A LEA may submit a written final application to the State Board at any time following approval of a preliminary application.

*Awarded Construction Aid for Renewable Energy*

The amount of an award for the incremental costs associated with the installation of a space-heating, water-heating, cooling, or refrigeration system that uses biomass, a geothermal ground-source, wind, or solar energy as the primary heating or cooling source may be 75 percent of the approved cost of those elements of the project specifically related to the renewable fuel source being used; provided that those elements may include the costs of necessary equipment, a chimney, air quality technology, and additional square footage necessary to house the heating unit and fuel; and further provided that those elements shall not include the costs of staff areas, site improvements relating to fuel delivery, and other ancillary costs.

*Eligible Construction Costs*

Construction costs eligible for State aid may include the cost of a preliminary land test on an approved project and any expenditures of federal funds for retrofitting to conserve energy or for asbestos abatement. Expenditures of federal funds for any other purpose shall not be eligible for reimbursement by State aid.

*Selling an Item That Used State Construction Aid*

Upon the sale by a LEA of any item, building, or unit that may be relocated, for which State construction aid was awarded under this title, the LEA will refund the State a percentage of the sale price equal to the percentage of construction aid received. In no event will the sum refunded be in excess of the amount of the original State aid received for the purchase of the item, building, or unit. All refunds are to be deposited with the State Treasurer for use in school construction aid awards.

*LEAs That Operate as Emergency Center and Shelters*

Any school building that is designated as a local, regional, or State emergency operation center or shelter will be designed for use as an emergency operations center or shelter. For this purpose, the proposed project includes the installation of a wiring harness capable of being connected to emergency electric power generation to provide for emergency heating, lighting, and communications. The wiring installation cost to upgrade emergency facilities is included in the budgets submitted to the Legislature for capital funding. The State pays 100 percent of such costs, which at the Agency level will be itemized and accounted for separately from those costs in which the State only shares in the project cost. The State will not pay for the costs of purchasing the generator.

*Construction of Career Technical Education Facilities*

A preliminary application may be approved for a project involving career technical education facilities if the project has received the approval of the regional advisory board. The Department of Buildings and General Services is available to consult with and share its expertise with the SD regarding the design and construction of any new career technical education facility or any alterations to existing career technical education facilities, and for the analysis of any lease or lease-purchase proposal.

The amount of an award will be 50 percent of the approved cost of the project. Where the construction of career technical education facilities is undertaken in conjunction with the construction of noncareer technical education facilities, the approved costs of the project shall be allocated as determined by the Secretary.

*Federal Aid for School Construction*

The State Board may accept, use, disburse and account for federal funds made available for the purposes of acquisition, construction, reconstruction, remodeling, or repair of public school buildings.

*Qualified School Construction Bonds*

The American Recovery and Reinvestment Act of 2009 expanded existing and created new tax-credit bond programs available to public schools. Accordingly, LEAs are authorized to issue bonds to finance public school building construction and rehabilitation, the purchase of equipment, the development of course materials, and teacher and personnel training, consistent the Internal Revenue Code, pertaining to qualified school academy zones and qualified school construction bonds.

*Fund Types Used for Construction – Capital Project Fund*

Capital project funds are used to account for financial resources that are restricted, committed, or assigned for the acquisition or construction of major capital facilities and other capital assets that are not financed by proprietary funds or trust funds. An LEA’s use of a capital projects fund does not mean that the LEA should account for all capital acquisition in that fund; routine purchases of capitalizable items are typically reported in the general fund. A capital projects fund should be used only for major capital acquisition or construction activities that would distort trend data if not reported separately from an LEA's operating activities. Unrestricted grants are usually recognized as revenues in the general fund or the special revenue fund. These unrestricted grants may be transferred to capital project funds. Capital project funds typically last the duration of the project. Upon termination (the end of the project), any necessary funds will be returned to providers of financing, and the remainder will be transferred to the debt service fund, or to the general fund.

*Interest Cost Incurred Before the end of a Construction Period*

GASB requires that construction related interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period should not be included in the historical cost of a capital asset.

## 10.11 Custodial Funds

<u>Topic Description</u>

This topic covers accounting guidance related to custodial funds.

<u>Accounting and Reporting Considerations:</u>

The GASB, through issuing GASB Statement No. 84, *Fiduciary Activities*, addressed the wide diversity in practice for reporting fiduciary activities. Similar activities of LEAs were often not reported on a comparable basis. For example, a single activity could be reported in a governmental fund, a fiduciary fund, or not reported at all. Prior to Statement No. 84, none of the existing standards defined fiduciary responsibilities.

*Fiduciary Activity*

The first step in determining whether a LEA has custodial funds is determining whether activities/funds in question meet the definition of fiduciary activity. Whether a fiduciary activity exists (or not) centers on the control of the assets and the beneficiaries with whom the fiduciary relationship exists. To meet definition of a fiduciary activity all of the following criteria must be met:

1. The assets are controlled by the LEA
2. The assets are not derived from the LEA's own-source revenues
3. The assets have one or more of the following characteristics:

   a. Administered through a trust; the LEA is not a beneficiary; dedicated to providing benefits in accordance with the benefit terms; and legally protected from the LEA's creditors.

b. Are for the benefit of individuals and the LEA does not have *administrative* or *direct financial involvement* with the assets.

*Own-source revenues* - Own-source revenues are revenues that are generated by a LEA itself. They include exchange and exchange-like revenues and investment earnings.

*Administrative involvement* – A LEA has administrative involvement with the assets if, for example, it (a) monitors compliance with the requirements of the activity that are established by the LEA or by a resource provider that does not receive the direct benefits of the activity, (b) determines eligible expenditures that are established by the LEA or by a resource provider that does not receive the direct benefits of the activity, or (c) has the ability to exercise discretion over how assets are allocated.

*Direct financial involvement* - A LEA has direct financial involvement with the assets if, for example, it provides matching resources for the activities.

There are four types of fiduciary activities:

1. Pension and other employee benefit trust funds
2. Investment trust funds
3. Private-purpose trust funds
4. Custodial funds (primarily student activity funds)

*Custodial Funds*

Custodial funds (formerly known as Agency Funds) are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. Student activity funds if determined to be fiduciary activity will most likely meet the definition of custodial funds.

Specific Accounting and Reporting Guidance:

*Reporting Custodial Funds*

LEAs should report custodial funds activities in the fiduciary fund financial statements of the basic financial statements. In the statement of changes in fiduciary net position, LEAs are required to report disaggregated additions by source and disaggregated deductions by type. A LEA may report a single aggregated total for additions and a single aggregated total for deductions of custodial funds in which resources, upon receipt, are normally expected to be held for three months or less. The descriptions of the aggregated totals of additions and deductions should indicate the nature of the resource flows.

*Determining if Student Activity Funds are Custodial*

Student organizations are often not considered separate legal entities from LEAs. It is anticipated that many LEAs will find that they have administrative or direct financial involvement with student activity funds and thus will not be considered fiduciary under GASB.

standards. Activity that does not meet the definition of fiduciary activity should be considered activity of the LEA and accounted for as a special revenue fund (using fund series 2800-2999). Determining administrative involvement, and in turn determining whether the funds are fiduciary in nature, can be difficult. The following are a few examples of situations where administrative involvement is considered:

1. If a school board is responsible for establishing fees charged by student clubs:

   *There is administrative involvement by the LEA (not a fiduciary activity).*

2. If the school board establishes and approves policies which only address issues that authorize account signers and the prohibition of spending for illegal activities:

   *There is no administrative involvement by the LEA (fiduciary activity).*

3. If disbursements from the student club are approved by a faculty advisor assigned to the club on behalf of the LEA:

   *There is administrative involvement by the LEA (not a fiduciary activity).*

4. If the student club president, with the members of the club, establishes how resources can be spent and approves disbursements from the account:

   *There is no administrative involvement by the LEA (fiduciary activity).*

5. If the school board establishes and approves policies related to the receipt, disbursement and holding of funds for student clubs:

   *There is administrative involvement by the LEA (not a fiduciary activity).*

6. If parents of the club members establish how resources can be spent:

   *No administrative involvement by the LEA (fiduciary activity).*

### 10.12 Debt Service and Leases

Topic Description:

LEAs enter into leases for many types of assets. LEAs often use debt service funds to finance these leases. This topic covers guidance pertaining to debt service and leases. This topic covers many government-wide accounting procedures. Although it is important to understand debt services and leases, many of the topics discussed in this Subchapter are not accounting concerns that will occur on a day-to-day basis. Consult with your external auditor with specific questions on financial reporting related to this topic.

Accounting and Reporting Considerations:

*Definition of a Lease*

A lease is a contract that conveys control of the right to use another entity's nonfinancial asset (buildings, land, vehicles, and equipment) as specified in the contract for a period of time in an exchange or exchange-like transaction. Determining whether a contract conveys control to the right of the asset, an LEA should assess whether they have both of the following:

- The right to obtain the present service capacity from use of the underlying asset as specified in the contract.
- The right to determine the nature and manner of use of the underlying asset as specified in the contract.
- Leases include contracts that, although not explicitly identified as leases, meet the definition of a lease. This definition excludes contracts for services except those contracts that contain both a lease component and a service component.

*Lease Term*

A lease term is defined as the period during which a lessee (the holder of the lease) has a noncancelable right to use an underlying asset, plus the following periods, if applicable:

- Periods covered by a lessee's option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessee will exercise that option
- Periods covered by a lessee's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessee will not exercise that option
- Periods covered by a lessor's (The owner of the leased property) option to extend the lease if it is reasonably certain, based on all relevant factors, that the lessor will exercise that option
- Periods covered by a lessor's option to terminate the lease if it is reasonably certain, based on all relevant factors, that the lessor will not exercise that option.
- At the start of the lease term, the lessee and the lessor should assess all factors relevant to the likelihood that either party will exercise any of the options identified above. The assessment often will require the consideration of a combination of these interrelated factors. Examples of elements to consider include:

    - A significant economic incentive, such as contractual term, and conditions for the optional periods that are favorable compared with current market rates

- A significant economic disincentive, such as costs to terminate the lease and sign a new lease (for example, negotiation costs, relocation costs, abandonment of significant leasehold improvements, costs of identifying another suitable underlying asset, costs associated with returning the underlying asset in a contractually specified condition or to a contractually specified location, or a substantial cancellation penalty)
- The history of exercising options to extend or terminate

*Lease Reassessment*

Lessees and lessors should reassess the lease term if one of more of the following occur:

- The lessee or lessor elects to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would not exercise that option
- The lessee or lessor elects not to exercise an option even though it was previously determined that it was reasonably certain that the lessee or lessor would exercise that option
- An event specified in the lease contract that requires an extension or termination of the lease takes place

*Lease Cancelations*

Periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party (or if both parties have to agree to extend) are cancelable periods and are excluded from the lease term. For example, a rolling month-to-month lease, or a lease that continues into a holdover period until a new lease contract is signed, would not be enforceable if both the lessee and the lessor have an option to terminate and, therefore, either could cancel the lease at any time. Provisions that allow for termination of a lease due to purchase of the underlying asset, payment of all sums due, or default on payments, are not considered termination options.

A fiscal funding or cancellation clause allows LEA lessees to cancel a lease, typically on an annual basis, if the LEA does not appropriate funds for the lease payments. This type of clause should affect the lease term only if it is reasonably certain that the clause will be exercised.

*Short-Term Leases*

A short-term lease is a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. For a lease that is cancelable by either the lessee or the lessor, such as a rolling month-to-month lease or a year-to-year lease, the maximum possible term is the noncancelable period, including any notice periods.

Specific Accounting and Reporting Guidance:

*Short-Term Leases – Lessees*

A lessee should recognize short-term lease payments as expense based on the payment provisions of the lease contract. The lessee should recognize a prepaid asset if payments are made in advance or a liability for rent due if payments are to be made subsequent to the reporting period.

*Ownership Transfer*

A contract that transfers ownership of the underlying asset to the lessee by the end of the contract and does not contain termination options, but that may contain a fiscal funding or cancellation clause that is not reasonably certain of being exercised, should be reported as a financed purchase of the underlying asset by the lessee or sale of the asset by the lessor.

*Long-Term Lease Liability*

At the start of the lease term, a lessee should recognize a lease liability and an intangible right-to-use lease asset. A lessee initially should measure the lease liability at the present value of payments expected to be made during the lease term. Measurement of the lease liability should include the following, if required by a lease:

- Fixed payments
- Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term
- Variable payments that are fixed in substance. These variable payments may be based on future performance of the lessee or usage of the underlying asset. These variable should not be included in the measurement of the lease liability. Instead, those variable payments should be recognized as expenditures in the period in which the obligation for those payments is incurred. However, any component of those variable payments that is fixed in substance should be included in the measurement of the lease liability
- Amounts that are reasonably certain of being required to be paid by the lessee under residual value guarantees
- The exercise price of a purchase option if it is reasonably certain that the lessee will exercise that option
- Payments for penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease or a fiscal funding or cancellation clause
- Any lease incentives receivable from the lessor
- Any other payments that are reasonably certain of being required based on an assessment of all relevant factors

The future lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease. If the interest rate cannot be readily determined by the lessee, the lessee's estimated incremental borrowing rate (an estimate of the interest rate that would be charged for borrowing the lease payment amounts during the lease term) should be used.

In subsequent financial reporting periods, the lessee should calculate the amortization of the discount on the lease liability and report that amount as interest expense for the period. Any payments made should be allocated first to the accrued interest liability and then to the lease liability.

The Lessee should remeasure the lease liability at subsequent financial reporting dates if one or more of the following changes have occurred at or before that financial reporting date, based on the most recent lease contract before the changes, and the changes individually or in aggregate are excepted to significantly affect the amount of the lease liability since the previous measurement:

- There is a change in the lease term
- An assessment of all relevant factors indicates that the likelihood of residual value guarantee being paid has changed from reasonably certain to not reasonably certain, or vice versa.
- An assessment of all relevant factors indicates that the likelihood of a purchase option being exercised has changed from reasonably certain to not reasonably certain, or vice versa.
- There is a change in the interest rate the lessor charges the lessee, if used as the initial discount rate.
- A contingency, upon which some or all of the variable payments that will be made over the remainder of the lease term are based, is resolved. For example, an event occurs that causes variable payments that were contingent on the performance or use of the underlying asset to become fixed payments for the remainder of the lease term.

If a lease liability is remeasured for any of the changes mentioned above, the liability also should be adjusted for any change in an index or rate used to determine variable payments if that change in the index or rate is expected to significantly affect the amount of the liability since the previous measurement. A lease liability is not required to be remeasured solely for a change in an index or rate used to determine variable payments.

The Lessee also should update the discount rate as part of the remeasurement if one or both of the following changes have occurred and the changes individually or in the aggregate are expected to significantly affect the amount of the lease liability:

- There is a change in the lease term
- An assessment of all relevant factors indicates that the likelihood of a purchase option being exercised has changed from reasonably certain to not reasonably certain, or vice versa.

A lease liability is not required to be remeasured, nor is the discount rate required to be reassessed, solely for a change in the lessee's incremental borrowing rate.

If the discount rate is required to be updated, the discount rate should be based on the revised interest rate the lessor charges the lessee at the time the discount rate is updated. If that interest rate cannot be readily determined, the lessee's estimated incremental borrowing rate at the time the discount rate is updated should be used.

*Long-Term Lease Asset*

- A lessee initially should measure the lease asset as the sum of the following:
    - The amount of the initial measurement of the lease liability
    - Lease payments made to the lessor at or before the start of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term
    - Initial direct costs that are ancillary charges necessary to place the lease asset into service.

Lease incentives are payments made to, or on behalf of, the lessee, for which the lessee has a right of offset with its obligation to the lessor, or other concessions granted to the lessee. A lease incentive is equivalent to a rebate or discount and includes assumption of a lessee's preexisting lease obligations to a third party, other reimbursements of lessee costs, rent holidays, and reductions of interest or principal charges by the lessor.

Lease incentives reduce the amount that a lessee is required to pay for a lease. Lease incentives that provide payments to, or on behalf of, a lessee at or before the commencement of a lease term are included in initial measurement by directly reducing the amount of the lease asset. Lease incentive payments to be provided after the start of the lease term should be accounted for by lessees as reductions of lease payments for the periods in which the incentive payments will be provided. Those payments should be measured by lessees consistently with the lessee's lease liability and by lessors consistently with the lessor's lease receivable. Accordingly, lease incentive payments to be provided after the commencement of the lease term are included in initial measurement and any remeasurement if they are fixed or fixed in substance, whereas variable or contingent lease incentive payments are not included in initial measurement.

*Amortization*

A lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The amortization of the lease asset should be reported as amortization expense, which may be combined with depreciation expense related to other capital assets for financial reporting purposes.

If a lease contains a purchase option that the lessee has determined is reasonably certain of being exercised, the lease asset should be amortized over the useful life of the underlying asset. In that circumstance, if the underlying asset is nondepreciable, such as land, the lease asset should not be amortized.

The presence of impairment to the underlying asset may result in a change in the manner or duration of use of the lessee's right-to-use asset. Such a change in the manner or duration of use of the lessee's right-to-use asset may indicate that the service utility of that lease asset is impaired. The length of time during which the lessee cannot use the underlying asset, or is limited to using it in a different manner, should be compared to its previously expected manner and duration of use to determine whether there is a significant decline in service utility of the lease asset. If a lease asset is impaired, the amount reported for the lease asset should be reduced first for any change in the corresponding lease liability. Any remaining amount should be recognized as an impairment.

*Lease Termination – Lessee*

An LEA generally should account for the partial or full lease termination by reducing the carrying values of the lease asset and lease liability, and recognizing a gain or loss for the difference. However, if the lease is terminated as a result of the LEA purchasing an underlying asset from the lessor, the lease asset should be reclassified to the appropriate class of owned asset.

*Use of Debt Service Funds for Leases*

Debt service funds are restricted, committed, or assigned to expenditures for principal and interest payments on long-term debt items (principal balances should be kept in the general fund). Debt Service Funds should be used if legally mandated, as well as for the accumulation of resources for, and the payment of, general long-term debt principal and interest maturing in future years.

*Example Entries*

To record proceeds from a $5,000,000 bond issuance sold at a discount of $50,000 with $200,000 in loan origination costs.

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 1001 | | | | | | 1 | 1001 | Cash in Bank | $ 4,750,000 | |
| 1001 | | | | | | 2 | 5101 | Bonds Payable | | $ 5,000,000 |
| 1001 | | | | | | 1 | 4403 | Unam. Prem. On Iss. Of Bonds | $ 50,000 | |
| 1001 | XXX | XX | XX | X | 5090 | 5 | 833 | Loss on Sale of Capital Asset | $ 200,000 | |

To record a lease for a major piece of equipment with a present value of lease payments of $80,000 (5 year lease, annual payments at 5% interest made at end of year).

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 1001 | | | | | | 1 | 2401 | Mach./Equip.. | $ 80,000 | |
| 1001 | | | | | | 2 | 5301 | Capital Lease Obligations | | $ 80,000 |

To record the first year activity of this lease assuming the asset has a 5 year useful life, straight-line depreciation method is used.

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 1001 | | | | | | 2 | 5301 | Capital Lease Obligations | $ 12,897 | |
| 1001 | XXX | XX | XX | X | 5000 | 5 | 832 | Interest on LT Debt | $ 4,088 | |
| 1001 | XXX | XX | XX | X | XXXX | 5 | 791 | Dep./Amort. | $ 4,000 | |
| 1001 | | | | | | 1 | 1001 | Cash in Bank | | $ 16,985 |
| 1001 | | | | | | 1 | 2402 | Acc. Dep. On Mach./Equip. | | $ 4,000 |

### 10.13 Donations, Gifts and Fundraising

Topic Description:

A donation or gift is the act by which the owner of a thing voluntarily transfers the title and possession of the same from themselves to another. This topic covers accounting guidance related to donations, gifts and fundraising.

Accounting and Reporting Considerations:

*Classification*

Under GASB, the vast majority of donations (often called gifts) are considered voluntary nonexchange revenue. A voluntary non exchange revenue results from legislative or contractual agreements, other than exchange transactions, entered into willingly by two or more parties. Examples include donations, grants, or entitlements entered into by an LEA through an application process. Under modified accrual accounting, voluntary nonexchange revenue is recognized when all applicable eligibility requirements have been met and the resources are available.

*Time Requirements and Purpose Restrictions on Donations*

Time requirements specify the period or periods when donated resources are required to be used or when use may begin. (For example, a provider may stipulate that the resources it donates are to be disbursed during a specific fiscal year or over a specified number of years, or cannot be disbursed until after a certain date or event has occurred, if ever.)

Purpose restrictions specify the purpose or purposes for which the resources are required to be used. For example, a provider may specify that its donation is to be expended for certain programs or, in the case of an endowment, that the principal is required to be held in income-producing investments. Purpose restrictions do not affect the timing of recognition for any class of nonexchange transactions. Rather, recipients of resources with purpose restrictions should report resulting net position as restricted until the resources are used for the specified purpose or for as long as the provider requires the resources to be maintained.

*Recognition*

The timing of recognition of donations resulting from nonexchange transactions should be the same whether the accrual or the modified accrual basis of accounting is required. However, for revenue recognition to occur on the modified accrual basis, the accrual-basis recognition should have been met *and* the revenues should be available. The term "available" means that the LEA has collected the donations in the current period or expects to collect them soon enough after the end of the period to use them to pay liabilities of the current period.

Promises of cash or other assets that nongovernmental entities, including individuals, voluntarily make to LEAs may be referred to in practice as "pledges," "promises to give," or "promised donations" or by some other term. Promised assets may include permanently nonexpendable additions to endowments and other trusts; term endowments; contributions of works of art and similar assets to capitalized collections; or other kinds of capital or financial assets, with or without purpose restrictions or time requirements. Recipients of promises from nongovernmental entities to provide cash or other assets should recognize receivables and revenues (net of estimated uncollectible amounts) when all eligibility requirements are met, provided that the promise is verifiable and the resources are measurable and available for collection.

*Monetary and Nonmonetary Reporting for Unconditional Donations:*

An unconditional donation has no restrictions on its use. This type of donation is recorded as follows:

- A nonmonetary donation is recorded at appraised or estimated fair market value at the time of receipt in the:
    - General fund
    - Capital Projects Fund

A monetary gift is recorded only in the general fund.

*Reporting for Conditional Donations*

A conditional donation is one in which the donor has placed restrictions on their contribution. This type of donation creates a fiduciary responsibility and is recorded in a private-purpose trust fund (if there is a trust fund agreement) or a permanent fund, depending on if the principal can be expended. If only the interest and not the principal can be used, the donations is recorded using a 5000 Permanent Fund code. If the principal can be used, the donation is recorded in a private-purpose trust fund.

*Fundraising*

Fundraising activities include magazine sales, candy sales, school pictures, and a variety of other similar ventures where an LEA may derive revenue.

These revenues are typically associated with activities conducted at the school level that generate revenues to be used for the benefit of the school. In many instances, particular student organizations are in charge of one or more such fundraising activities. In other instances, the LEA administers the revenues for its own programs. See Subchapter 10.52, Student Activities, for further information on student activity funds accounted for as custodial funds.

## 10.14 eFinancePlus

<u>Topic Description:</u>

This topic covers the use of eFinancePLUS as the Shared School District Data Management System (SSDDMS) for Vermont.

Accounting and Reporting Considerations:

*eFinancePLUS as a SSDDMS*

The SSDDMS is a shared financial and human resources data management system for Vermont LEAs. SSDDMS supports LEAs implementation of the UCOA. The platform supports continued UCOA compliance through a centrally managed chart of accounts. The system also includes mechanisms for reporting to the state. The AOE has contracted for the SSDDMS to be a fully vendor-hosted service by implementing eFinancePLUS. A statewide financial system will give schools the tools to ensure the production of high quality, consistent, and comparable school finance and personnel data, a critical prerequisite for data-driven decision making that may be used to promote equity-driven policy.

*eFinancePLUS Services*

eFinancePLUS is a true fund accounting solution that adheres to all GAAP, GASB, and GAAFR requirements. This SSDDMS maintains fiscal, purchasing, and budgeting information. Adoption of the SSDDMS means that LEAs will implement the Vermont-specific version of eFinancePLUS, and will use this system to record and report their school finance and personnel data.

Specific Accounting and Reporting Guidance:

See Chapter 11 for further eFinancePlus guidance related to encumbrances, expenditures, and revenues, see Chapter 11.

### 10.15 Interfunds

Topic Description:

This topic covers accounting guidance pertaining to interfunds.

Accounting and Reporting Considerations:

*Interfund Receivables and Liabilities*

Each fund is a separate self-balancing set of accounts. Transactions between funds often involve amounts due to/from other funds. These generally arise from interfund loans or services used/services provided between funds. For instance, a LEA may use its general fund cash account for all disbursements for all funds. Many of these transactions require the recognition of interfund liabilities and receivables (due to / due from) which may be classified as current or noncurrent depending on the terms for repayment. The advancing fund should report nonspendable fund balance for the noncurrent portion of amounts due from another fund.

GASB requires LEAs to disclose in the notes to the financial statements the following details about interfund balances reported in the fund financial statements:

- Amounts due from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type
- The purpose for interfund balances
- Interfund balances that are not expected to be repaid within one year from the date of the financial statements.

Additionally, LEAs should disclose in the notes to the financial statements the following details about interfund transfers reported in the fund financial statements:

- Amounts transferred from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type
- A general description of the principal purposes of the government's interfund transfers
- The intended purpose and the amount of significant transfers that meet either or both of the following criteria:
    - Do not occur on a routine basis—for example, a transfer to a wastewater enterprise fund for the local match of a federal pollution control grant
    - Are inconsistent with the activities of the fund making the transfer—for example, a transfer from a capital projects fund to the general fund.

Specific Accounting and Reporting Guidance:

For Specific accounting examples of how to record interfund transfers, see Subchapter 10.52.

## 10.16 Employee Benefits

Topic Description:

Employee benefits include amounts paid for many types of employees. This topic covers accounting guidance related to employee benefits. This topic covers guidance pertaining to debt service and leases. This Subchapter covers many government-wide accounting procedures. Although it is important to understand employee benefits, many of the topics discussed in this Subchapter are not accounting concerns that will occur on a day-to-day basis. Consult with your external auditor with specific questions on financial reporting related to this topic.

Accounting and Reporting Considerations:

*Defined Benefit Plans*

Defined benefit plans require expanded accounting and disclosure around the actuarial accrued liability of the defined benefit pension, certain actuarial assumptions used as to the occurrence of future events affecting the pension costs, (for example, mortality and changes in compensation) and the actuarial value of plan assets.

*Vermont State Teachers Retirement System Pension Plan*

The Vermont State Teachers' Retirement System (VSTRS) is a cost-sharing multiple-employer defined benefit pension plan with a special funding situation. It covers nearly all public day school and nonsectarian private high school teachers and administrators as well as teachers in schools and teacher training institutions within and supported by the State that are controlled by the State Board of Education. Membership in the system for those covered classes is a condition of employment.

All of the assets for the pension plan are credited to the Vermont Teachers' Retirement Fund. Contributions deducted from a members' compensation is accumulated in the Pension Fund, and recorded separately for each individual member. All State appropriations and all reserves for the payment for all pensions, including all interest and dividends earned on the assets of the Retirement System, are accumulated in the Pension Fund. All benefits payable under the pension plan, except for retired teacher health and medical benefits, are paid from the Pension Fund.

It is the State of Vermont's responsibility to liquidate fully the unfunded accrued liability to the retirement plan. Until the unfunded accrued liability is liquidated, the accrued liability contribution is the annual payment required to liquidate the unfunded accrued liability over a closed period of 30 years.

*Retired Teachers' Health and Medical Benefit Fund*

The Retired Teachers' Health and Medical Benefit Fund (RTHMB) is a cost-sharing multiple employer defined benefit (other post-employment benefit or OPEB) plan with a special funding situation. This fund was created on July 1, 2014 to explicitly appropriate State contributions to the fund for health care expenses separate from the State's contribution to the VSTRS pension trust fund. The RTHMB is managed by the STRS Retirement Board. The Retired Teachers' Health and Medical Benefit Fund was established to pay retired teacher health and medical benefits, including prescription drug benefits.

The RTHMB consists of resources remitted to the State on behalf of the members of the VSTRS, and resources appropriated by the General Assembly. No employee contributions are deposited in this benefit fund. Any interest earned remains in the benefits funds, and all balances remaining at the end of a fiscal year shall be carried over to the following year.

*Vermont Municipal Employees' Retirement System of Vermont*

Vermont Municipal Employees' Retirement System (VMERS) is the public pension plan provided by the State of Vermont for participating municipalities' employees, which includes school staff.

VMERS is a cost-sharing, multiple-employer defined benefit pension plan. An employee of any SU that becomes affiliated with the system may join at that time or at any time thereafter. Any employee hired subsequent to the effective participation date who meets the minimum hourly requirement is required to join the system.

Contributions deducted from the compensation of members, together with any member contributions transferred from a predecessor system, are accumulated in the VMERS fund and separately recorded for each member. Contributions by members is calculated by taking a percentage of earnable compensation, with the percentage being dependent upon their group classification.

All employer contributions and all reserves for the payment of all pensions and other benefits, including all interest and dividends earned on the assets in VMERS, are accumulated in the Fund, and all benefits payable under the system, and expenses of VMERS, are paid from the Fund.

*Reporting Inaccuracies*

All LEAs must provide accurate reports. LEAs providing inaccurate reports are responsible for correcting any deficiencies and will reimburse the Pension Fund for any costs incurred by the Fund as a result of the inaccuracy. In the event that an LEA willfully files an inaccurate report, in addition to any other penalties provided by law, the employer shall pay the Vermont Retirement System an administrative penalty of up to 50 percent of the amount that was not accurately reported.

While the retirement systems calculate the values for each participating LEA, the LEA still assume reporting responsibility and must understand the report and underlying assumptions. Again, the participating LEA's auditor evaluates the competence and objectivity of the actuary and the retirement system auditor. However, simply verifying that the amounts reported in the LEA's financial statements are the same as those provided by the retirement system is not evidence that the amounts are fairly stated. Auditors of the participating LEA are required to obtain assurance that the census data are reliable and the pension reporting is fairly stated.

<u>Specific Accounting and Reporting Guidance:</u>

*Special Funding Situation*

Special funding situations are circumstances in which a nonemployer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities. An LEA that has a special funding situation for defined benefit pensions needs to recognize a pension liability and deferred outflows of resources and deferred inflows of resources related to pensions with adjustments for the involvement of nonemployer contributing entities. The employer is required to recognize its proportionate share of the collective pension expense, as well as additional pension expense and revenue for the pension support of the nonemployer contributing entities. Furthermore, the

LEA is required to disclose, in the notes to financial statements, information about the amount of support provided by nonemployer contributing entities.

*Defined Benefit OPEB*

Defined benefit OPEB that are provided to the employees through OPEB plans that are administered through trusts or equivalent arrangements in which contributions from employers and nonemployer contributing entities to the OPEB plan, and earnings on those contributions, are irrevocable. Additionally, the OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.

OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. The defined benefit OPEB plan assets are also legally protected from creditors of the plan members.

GASB requires LEAs to record their net OPEB liability/asset in their financial statements and contributions made to the OPEB plan subsequent to the measurement date be reported as deferred outflows of resources.

## 10.17 Enterprise Operations

Topic Description:

Activities associated with enterprise operations are financed and operated in a manner similar to private business enterprises. This topic covers accounting guidance related to enterprise operations.

Accounting and Reporting Considerations:

*Enterprise Activities*

Some LEAs derive significant revenue from enterprise activities and alternative sources. Enterprise operation revenue sources include things like food services, daycare, and collaborative community programs. Costs of these enterprise operations are financed or recovered primarily through user charges. All enterprise operations use the 6000 Fund series.

*Reporting Enterprise Activities*

Enterprise funds may be used to report any activity for which a fee is charged to external users for good or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. LEAs should apply each of these criteria in the context of the activity's principal revenue sources:

- The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)

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

Food Service funds should be held unrestricted in an Enterprise fund. The Fresh Fruit and Vegetable Program is not part of the Food Service Enterprise fund, and are held restricted in Special Revenue fund 2127. See Subchapter 10.19 - Food Service/ Child Nutrition for further accounting guidance.

## 10.18 E-Rate Reimbursements and Discounts

Topic Description:

The E-Rate Program provides reimbursements and discounts to schools and libraries for telecommunications services such as internet access. The level of E-Rate reimbursement, or discount, is dependent upon an LEA's percentage of students eligible for free or reduced-price lunch (under the federal guidelines). To enroll in the E-Rate program, LEAs must develop a technology plan that is approved by the AOE. A self-certification of eligibility must be submitted to the Schools and Library division of the Universal Service Administrative Company, which administer the program. This topic covers accounting guidance related to E-rate reimbursements and discounts.

Accounting and Reporting Considerations:

*Record Keeping*

The LEA is billed at the discounted rate or may be reimbursed by the vendor, or the Federal Communications Commission (FCC), if they pay the full rate. Record keeping, and the method of recognition, will differ depending on whether the school receives a discount or reimbursement for the E-Rate program. The National Center for Education Statistics recommends, as a matter of practice, that E-Rate transactions be netted against the expenditure if it was received in the same fiscal year or coded as a refund of prior years' expenditures if it was received in a subsequent fiscal year.

## 10.19 Food Service/Child Nutrition

Topic Description:

This topic provides accounting guidance related to food services and the federal child nutrition programs, including the National School Lunch Program (NSLP), School Breakfast Program (SBP), as well as the After School Snack Service, Fresh Fruit and Vegetable Grant Program, Summer Food Service Program. It is important to note that food services is to be coded as enterprise funds. School Food Authorities (SFAs) operating the federal child nutrition programs are required by federal regulation to maintain a non-profit school food service account (NSFSA). In Vermont, the SFA is operated at the Supervisory Union level, or School District level if the School District is not part of a Supervisory Union, so one NSFSA should be maintained for the entire SU/SD. Independent Schools may participate in the federal child nutrition programs as their own School Food Authority, or may be incorporated under a public School Food Authority. See Subchapter 10.22 for accounting guidance on USDA Foods. See Subchapter 10.21 for accounting guidance on contracted food services.

Additional guidance specific to the School Meals Programs on allowable costs, and direct and indirect costs may be found in the *USDA Indirect Costs Guidance for State Agencies & School Food Authorities*.

Accounting and Reporting Considerations:

*Operation of a Non-Profit School Food Service Account*

SFAs establish a NSFSA, in which all reimbursements and other revenues from all food service operations conducted by the SFA, principally for the benefit of school children, are retained. These revenues may be used only for the operation or improvement of the nonprofit school food service, including food, supplies, equipment and personnel to operate the meal service. However, revenue from the NSFSA may not be used to purchase land and/or buildings unless approved by USDA's Food and Nutrition Service (FNS), or to construct buildings. Revenue sources include (but are not limited to) Federal meal reimbursement, State meal reimbursement, children's and adults' payments for meals, a la carte items, the value of USDA Foods (commodities), and interest. It may also include catering revenue generated by the food service program or donations made to the program.

The NSFSA must not maintain net cash resources (funds which have accrued in the account less cash payable) which exceed more than three months average operating expenses. Generally, this is calculated assuming a 10-months of operation per school year. However, if the SFA operates year round, either because it is a year-round school or because the SFA operates one of the federal summer meals programs, 12-months of operation could be used to calculate net cash resources.

If a situation develops where net cash resources exceed three months average operating expenses, the SFA must use the funds to improve food quality, make other improvements to the food service operations, or reduce paid meal charges, if meal charges exceed the minimum level required by the paid lunch equity requirements. If the SFA fails to reduce net cash resources in these ways, the AOE may lower the rates meal reimbursement to the SFA.

*Paid Lunch Equity*

SFAs set minimum prices for reimbursable lunches served to students who do not qualify for free or reduced price meals, and specifies how the minimum prices are to be calculated. This is known as the Paid Lunch Equity (PLE) requirement. Each year, an updated PLE calculation tool is made available to SFAs to help them determine the minimum price to be charged. If the SFA chooses not to increase prices in accordance with the PLE tool and requirements, they must identify a source of non-federal funds to cover the difference between the price charged and the minimum price dictated by the PLE requirements.

*Non-Program Revenue*

Non-program revenue is any revenue from any foods and beverages purchased using funds from the NSFA that are not used as part of a reimbursable meal. These are considered non-program foods. They could include a la carte foods served during and outside of meal service and through SFA operated vending machines, adult meals, and catering conducted by the food service program. All revenue from the sale of nonprogram foods accrues to the non-profit school food service account and that revenue available to support the production of reimbursable school meals does not subsidize the sale of nonprogram foods.

*The Fresh Fruit and Vegetable Grant Program (FFVP)*

The FFVP is a federal grant program available to low-income elementary schools participating in the federal child nutrition programs to provide a fresh produce snack outside of the meal times. Accounting guidance specific to the FFVP may be found on pages 22-24 of USDA's *Fresh Fruit and Vegetable Grant Program Handbook*.

*The Summer Food Service Program (SFSP)*

SFAs may be Summer Food Service Program Sponsors. Accounting guidance specific to the Summer Food Service Program may be found in FNS Instruction 796-4, Rev. 4, SFSP 11-2015, and in the *Administration Guide - Summer Food Service Program*.

*The Child and Adult Care Food Program*

Some school food authorities offer At-Risk After School Meals through the Child and Adult Care Food Program (CACFP). Please note, this is a different after school meals program from the After School Snack Service (ASP) of the NSLP. CACFP regulations sometimes differ from school meals program regulations. Accounting guidance for the CACFP may be found in *FNS*

Instruction 796-2, Rev. 4. In Vermont, CACFP sponsors generally receive cash-in-lieu of USDA Foods.

*Awarding Grants*

The AOE may award grants to:

- Supervisory unions for the use of member school boards that establish and operate food programs;
- Independent school boards that establish and operate food programs; and
- Approved education programs operating under private nonprofit ownership as defined in the National School Lunch Act that establish and operate food programs for students engaged in a teen parent education program or students enrolled in a Vermont public school

*State Funding*

Additional state funds are granted to SFAs participating in the Federal Child Nutrition Programs. With the monthly claim for federal reimbursement for meals served, The AOE shall award to each SFA a sum equal to the amount that would have been the student share of the cost of all breakfasts and lunches actually provided in the district during the previous quarter to students eligible for a reduced-price breakfast under the federal school breakfast program, and students eligible for a reduced-price lunch under the federal school lunch program. The State provides a one-time payment match made in the spring based on the number of breakfast as and lunches claimed between July and December. The amount available for State matches is the total amount appropriated divided by the total meals served statewide, multiplied by the number of meals served by the School Food Authority.

On an annual basis, the AOE shall award to each SFA a state-match payment

*Federal Funding*

With the exception of the FFVP, Federal and State Equipment Grants, start-up funds for the Summer Food Service Program and Child and Adult Care Food Program, USDA Foods (commodities), and some sponsor payments and expansion grants available in the Child and Adult Care Food Program, all of the funds distributed through the federal child nutrition programs are done so on a meals-times-rate funding formula. Provided that the meals served meet the requirements for a reimbursable meal, the SFA may submit a claim to the AOE to be reimbursed for that meal. Claims are submitted monthly in accordance with the USDA. Federal reimbursement to an SFA cannot exceed the meals-times-rate funding formula.

## 10.20 Food Service – USDA Foods (Commodities)

Topic Description:

USDA Foods, previously known as commodities, are foods purchased by the federal government for use in food service and child nutrition programs. This topic provides accounting guidance for USDA Foods related to food service activities. See Subchapter 10.21, In-House Programs vs. Contracted Services, for accounting guidance on contracted food services.

Accounting and Reporting Considerations:

*Distribution of USDA Foods*

The UDSA provides USDA Foods for use in the National School Lunch Program (NSLP) and Summer Food Service Program to distributing agencies. Distributing agencies provide commodities to SFAs and Summer Food Service Program sponsors. In Vermont, the AOE is the distributing agency.

*USDA Foods in the National School Lunch Program*

In Vermont, SFAs are provided with an estimated USDA Foods entitlement (also known as a "Planed Assistance Level" or PAL) for the following school year in January, based on the total number of reimbursable student lunches (free, reduced and paid) served in the prior year. SFAs are asked to request USDA Foods for the following school year using this estimated entitlement value and estimated prices of food items.

USDA purchases the items, which are delivered to a state contracted warehouse over the course of the following school year. SFAs release the items from the state contracted warehouse at their convenience. The warehouse charges additional storage and delivery fees which are billed direct to the SFA. At any time, an SFA may run a "Value of Commodities Received" report in the WBSCM (Web Based Supply Chain Management) ordering system, which will show the value of the items that have arrived at the warehouse.

SFAs also have the option to put some or all of their entitlement funds into the DoD (Department of Defense) Fresh Program. They then use these funds to order weekly deliveries of fresh produce. There are no additional storage and delivery fees for DoD Fresh produce. If additional entitlement becomes available during the school year due to cancelations or price fluctuations, the remaining funds are moved into the DoD Fresh program. At any time, the SFA can run a report in the DoD Fresh ordering system (FFAVORS) to see the value of DoD Fresh produce received during a certain time frame.

After the conclusion of the school year (late July), the state agency sends a "Value of USDA Foods Received" memo, which shows the initial entitlement estimate, value of USDA Foods received, value of DoD Fresh received, and total value of foods received. Because so much of the USDA Foods request system is based on estimated prices, it is possible that an individual SFA's total value received exceeds their initial entitlement. SFAs are not charged for exceeding their entitlement, and the overage does not carry over into the following year. Likewise, if an SFA does not fully utilize their entitlement, the unspent entitlement is lost to the SFA and does not carry over into the following year. Occasionally, bonus items will be offered through the USDA Foods program. These items are not charged against an SFA's entitlement, but do have a value, which will appear on the value of USDA Foods received report.

*Donated food values used to credit distributing agency entitlement levels*

The USDA uses the average price (cost per pound) for USDA purchases of donated food made in a contract period to credit distributing agency entitlement levels. The value of each item can be found on the "Value of Commodities Received" Report in then WBSCM ordering system.

*USDA Foods for the Summer Food Service Program*

A nominal amount of USDA Foods are available to certain sponsors participating in the Summer Food Service Program. SFAs receiving USDA Foods for use in the SFSP will receive an email from the state agency stating the value of these foods. USDA DoD Fresh is also sometimes available for some SFSP sponsors. SFAs may view the value of USDA DoD Fresh produce received at any time in the FFAVORS ordering system.

*Control of Donated Commodities*

The LEA food authority must use commodities, as much as is practical, in the lunches served to schoolchildren, for which they receive an established per-meal value of commodity assistance each school year. However, the LEA food authority may also use commodities in other activities of the nonprofit LEA food service. Revenues received from such activities must accrue to the school food authority's nonprofit school food service account. Some examples of such activities in which commodities may be used include:

- School breakfasts or other meals served in child nutrition programs;
- A la carte foods sold to schoolchildren;
- Meals served to adults directly involved in the operation and administration of the nonprofit school food service, and to other school staff; and
- Training in nutrition, health, food service, or general home economics instruction for students.

The LEA food authority should not use commodities in meals or other activities that do not benefit primarily schoolchildren, such as banquets or catered events. However, as their use in such activities may not always be avoided (*e.g.*, if commodities are commingled with purchased foods in a single inventory management system), the LEA food authority must ensure reimbursement to the nonprofit LEA food service for the value of commodities used in such activities. When such reimbursement may not be based on actual usage of commodities (*e.g.*, in a single inventory management system), the LEA food authority must establish an alternate method of reimbursement—*e.g.*, by including the current per-meal value of commodity assistance in the price charged for the meal or other activity.

*Record Keeping*

Federal regulation require distributing agencies, recipient agencies, processors, and other entities maintain records of agreements and contracts, reports, audits, and claim actions, funds obtained as an incident of commodity distribution. Specific recordkeeping requirements relating to the use of commodities in contracts with food service management companies are included in §250.54. Failure of the LEA to comply with recordkeeping requirements must be considered prima facie evidence of improper distribution or loss of commodities and may result in a claim for the loss or misuse of commodities, in accordance with §250.16, or in other sanctions or corrective actions.

Records relating to requirements for commodities must be retained for a period of three years from the close of the fiscal or school year to which they pertain. However, records pertaining to claims or audits that remain unresolved in this period of time must be retained until such actions have been resolved.

*Revenue from Commodities*

LEAs that receive federal commodities during the year should recognize the fair value as revenue in the period when all eligibility requirements are met—typically, when the commodities are received. Because the federal agricultural commodity program involves purpose restrictions on the use of the resources, the value of inventory remaining on hand at fiscal year-end should be reflected as nonspendable fund balance/restriction of net position However, there may be instances in which resources are transmitted before the eligibility requirements are met. These resources would be reflected by the recipient as a liability.

*Example Entries*

Example of an entry to record receiving commodities:

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 600X | | | | | | 1 | 1701 | Inventories for Consumption | $ X,XXX | |
| 600X | XXX | XX | 15 | 4 | 0000 | 4 | 4456 | Commodities | | $ X,XXX |

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 600X | XXX | XX | 15 | 4 | 3100 | 5 | 631 | Food | $ X,XXX | |
| 600X | | | | | | 1 | 1701 | Inventories for Consumption | | $ X,XXX |

## 10.21 USDA Foods - In-House Programs vs. Contracted Services

Topic Description:

This topic covers accounting guidance related to in-house food, as well as contracted, service programs. See Subchapter 10.19 for general food service and child nutrition accounting guidance, and Subchapter 10.22 for accounting guidance on commodities.

Accounting and Reporting Considerations:

*Contracted Food Service Management*

Prior to commodities being made available to a food service management company, the LEA must enter into a contract with the food service management company. The contract must ensure that all commodities received for use by the LEA in the school or fiscal year, as applicable, are used in the LEA's food service, or that commercially purchased foods are used in place of such commodities.

The LEAs must meet USDA procurement requirements and implementing regulations, as applicable, in obtaining the services of a food service management company. The LEA must ensure that procurement documents, as well as contract provisions, include any commodity activities that a food service management company is to perform. The procurement and contract must also specify the method used to determine the commodity values to be used in crediting, or the actual values assigned. The method used to determine the commodity values may not be established through a post-award negotiation, or by any other method that may directly or indirectly alter the terms and conditions of the procurement or contract. The template fixed-price FSMC (Food Service Management Contract) RFP and contract template in use in Vermont require that the FSMC credit the SFA for the full value of the USDA Foods received, or the initial USDA Foods entitlement level for the SFA, whichever is higher. If the FSMC does not fully utilize the SFA’s USDA Foods entitlement value, the FSMC must credit the SFA for that value. Credit for USDA Foods should be clearly shown on FSMC invoices and should be reconciled at the end of the school year with the Value of USDA Foods Received Report.

A food service management company may perform specific activities relating to commodities in accordance with procurement documents and its contract with the LEA. Such activities may also include the procurement of processed end products on behalf of the LEA. Such procurement must ensure compliance with the requirements in the LEA's processing agreements, and must ensure crediting of the LEA for the value of commodities contained in such end products at the processing agreement value. Although the food service management company may procure processed end products on behalf of the LEA, it may not itself enter into the processing agreement with the processor. Other commodity activities that the food service management company may perform include:

- Preparing and serving meals
- Ordering or selection of commodities, in coordination with the recipient agency
- Storage and inventory management of commodities
- Payment of processing fees or submittal of refund requests to a processor on behalf of the recipient agency, or remittance of refunds for the value of commodities in processed end products to the recipient agency

See Subchapter 10.22, Inventory – Commodities and Non-Commodities, for inventory management under contracted food services management companies.

### 10.22 Food Service - Inventory – Commodities and Non-Commodities

Topic Description:

This topic covers accounting guidance related to inventory for commodities and non-commodities.

Accounting and Reporting Considerations:

*Inventory*

LEAs in child nutrition programs are not required to store commodities in a manner that distinguishes them from purchased foods or other foods, or to maintain a separate inventory record of commodities— they may utilize single inventory management. For such recipient agencies, commodities are subject to the same safeguards and effective management practices as other foods. Accordingly, recipient agencies in child nutrition programs are not required to separately monitor and report commodity use, distribution, or loss, unless there is evidence indicating that commodity loss has occurred as a result of theft or fraud.

LEAs operating child nutrition programs may transfer commodities to another LEA or charitable organization without approval from the distributing agency or USDA. However, the recipient agency must still maintain records of commodity inventories.

*Inventory Using a Food Service Management Company*

The food service management company may store and inventory commodities together with foods it has purchased commercially for the LEA's use (unless specifically prohibited in the contract). It may store and inventory such foods together with other commercially purchased foods only to the extent that such a system ensures compliance with the requirements for the use of commodities in 7 CFR §250.51(d) Crediting for, and use of commodities. The requirement gives guidance use all donated beef and pork, and all end products in the food service, and use all other commodities or commercially purchased foods of the same generic identity, of U.S. origin, and of equal or better quality than the commodities, in the food service. Additionally, under cost-reimbursable contracts, the food service management company must ensure that its system of inventory management does not result in the recipient agency being charged for commodities.

### 10.23 Food Service - Student Balances

Topic Description:

This topic covers accounting guidance related to student balances.

Accounting and Reporting Considerations

*Meal Charge Policy Requirement*

The USDA requires all school food authorities to have a written and clearly communicated meal charge policy or procedure, which must be distributed to households at the start of each school year. The policy/procedure must clearly articulate how students will be charged for meals, as well as how SFAs will offer alternate meals, set limits on meal charges, manage debt on student accounts, and disallow meal charges or alternate meals when a student's account has insufficient funds. Per USDA guidance, the specific policy/procedure is at the discretion of each school food authority and must include information about how the unpaid meal debt will be collected.

*Determining Bad Debts*

When an LEA determines delinquent debt is uncollectable and no further collection efforts will be made, the debt must be reclassified as "bad debt". Debts are initially considered assets because they represent resources due. Once a delinquent debt is reclassified as a bad debt, it is no longer considered an asset because it is uncollectable. Delinquent debt may be carried over from year to year, if the SFA determines it is still collectable. However, once the debt becomes bad debt, it must be written off as an operating loss. For more on delinquent and bad debt, see SP 47-2016.

*Bad Debts*

Bad debts (debts which have been determined to be uncollectable), including losses (whether actual or estimated) arising from uncollectable accounts and other claims, are unallowable costs. Unallowable costs cannot be charged to the food service program, or claimed for reimbursement. The LEAs accounting records must segregate, account for, and identify all unallowable costs. LEAs must fund unallowable costs from non-food service program sources. Related collection costs, and related legal costs, arising from such debts after they have been determined to be uncollectable are also unallowable. The food service program resources may not be used to cover costs related to the bad debt, such as continued legal and collection costs.

*Repayment of Bad Debt Resulting From Unpaid Meal Charges*

Repayment of bad debt resulting from unpaid meal charges is an unallowable cost; therefore the nonprofit school food service account must be restored using the LEA's general fund.

Although the total bad debt amount of the school food program is restored using the LEA's general fund, each individual student with an account deficit is still tracked, and collections are still pursued.

*Recordkeeping for Bad Debts*

Once delinquent debts are converted to bad debts, records relating to those charges must be maintained in accordance with federal record retention requirements of three years. The following are records that should be maintained to document the appropriate establishment and handling of bad debt:

- Evidence of efforts to collect unpaid meal
- Financial documentation showing when the unpaid meal charge(s) became an operating loss
- Evidence any funds written off as bad debt were restored to the nonprofit school food service account

Specific accounting and Reporting Guidance:

*Transferring General Funds to Food Services*

General funds may be used to for repayment of bad debts resulting from unpaid student meal charges. For this transfer, only the general fund has an expense. There is no additional expense to the food service fund during this transfer. Additionally, the food service program (program 15) should not be used for this transfer. Instead, regular education (11) should be the program input on the budget unit.

*Example Entry*

To record transfer from general fund to special revenue fund to cover a shortfall in student accounts of $500.

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 1001 | XXX | XX | 11 | 6 | 5390 | 5 | 912 | Trnsfer to Food Serv SpRev | $ 500 | |
| 1001 | | | | | | 1 | 1001 | Cash in Bank | | $ 500 |
| 6001 | | | | | | 1 | 1001 | Cash in Bank | $ 500 | |
| 6001 | XXX | XX | 15 | 6 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 500 |

## 10.24 Fund Balance

Topic Description:

This topic covers accounting guidance related to fund balances. This topic pertains to government-wide reporting. Although it is important to understand the reporting requirements of fund balances, many of the topics discussed in this Subchapter are not accounting concerns that will occur on a day-to-day basis. Consult with your external auditor with specific questions on financial reporting related to this topic.

<u>Accounting and Reporting Considerations:</u>

*Fund Balance Defined*

A fund balance is the gross difference between fund assets and deferred outflows of resources, and liabilities and deferred inflows of resources reflected on the balance sheet. The fund balance of the general fund is significant, because the general fund is the primary fund through which most functions are financed and includes state aid and local taxes.

*Reserve Funds Classifications*

Historically known classifications of reserved and unreserved funds (with subcomponents of designated and undesignated amounts) have been replaced with five separate components of funds, as follows:

1. Nonspendable funds
2. Restricted funds
3. Committed funds
4. Assigned funds
5. Unassigned funds

*Fund Type – Nonspendable*

The nonspendable funds classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" criteria includes items that are not expected to be converted to cash. Examples of nonspendable funds include, but are not limited to:

- Inventories
- Prepaid items
- Property acquired for resale
- Long-term amount of loans and notes receivables

*Fund Type – Restricted*

Restricted funds are restricted amounts for a specific purpose, such as restrictions imposed by enabling legislation, creditors, grantors, contributors, or other laws and regulations. Examples of restricted funds 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 an LEA has designated as restricted.

*Fund Type – Committed*

Committed funds amounts can only be used for specific purposes due to imposed constraints. Those committed amounts cannot be used for any other purpose unless the LEA removes or changes the specified use by taking the same type of action (e.g. vote, ruling, etc.) it employed to previously commit those amounts. Committed funds should also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. Examples of the committed funds include, but are not limited to:

- Construction
- Self-insurance
- Capital expenditures
- Retirement of notes and loans payable
- Claims and judgments

*Fund Type – Assigned*

Assigned funds includes all remaining amounts that are reported in funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed. By reporting particular amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund, the LEA has assigned those amounts to the purposes of the respective funds. Assignment within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the LEA itself. However, LEAs should not report an assignment for an amount to a specific purpose if the assignment would result in a deficit in unassigned fund balance. Examples of assigned funds include, but are not limited to:

- Construction
- Self-insurance
- Capital expenditures

- Retirement of notes and loans payable
- Claims and judgments

LEAs should not assign funds if it creates a negative assigned fund balance.

*Fund Type – Unassigned*

Unassigned funds are the residual classification for the general fund. This classification represents funds that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance. The unassigned funds is what remains after amounts have been allocated or assigned to the previous four classifications, listed above.

See Subchapter 3.4 for a discussion of the different types of fund types.

*Classifying Fund Balance Amounts*

Fund balance classifications should depict the nature of the net resources that are reported in a fund. An individual fund could include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. Typically, the general fund also would include an unassigned amount. An LEA should determine the composition of its ending fund balance by whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Similarly, within unrestricted fund balance, the classification should be based on the whether it considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. If an LEA does not establish a policy for its use of unrestricted fund balance amounts, it should consider that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

*How to Report Fund Balances*

Fund balances for LEA funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the LEA is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Amounts for the two components of nonspendable fund balance are not in spendable form and legally or contractually required to be maintained intact, may be presented separately, or non-spendable fund balances may be presented in the aggregate. Restricted fund balance may be displayed in a manner that distinguishes between the major restricted purposes, or it may be displayed in the aggregate. Similarly, specific purposes information for committed and assigned fund balances may be displayed in sufficient detail so that the major commitments and assignments are evident to the financial statement user, or each classification may be displayed in the aggregate.

*Net Position of Funds*

The net position consists of 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). The three components of net position are net investment in capital assets, restricted assets, and unrestricted assets.

*Net Position of Funds – Net Investment in Capital Assets*

Net investment in capital consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, borrowings that are attributable to the acquisition, construction, or improvement of assets.

Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement 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.

*Net Position of Funds – Restricted Net Position*

Restricted 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.

*Net Position of Funds – Unrestricted Net Position*

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.

The total net position of a SD 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.

Specific Accounting and Reporting Guidance:

*Reporting for Encumbrances*

Significant encumbrances should be disclosed by major funds and nonmajor funds in the aggregate in conjunction with required disclosures about other significant commitments. Encumbered amounts for a purposes for which resources already have been restricted, committed, or assigned should not result in separate display of the encumbered amounts within those classifications. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed, or assigned should not be classified as unassigned but, rather, should be included within committed or assigned fund balance. See Subchapter 11.1, Encumbrance Control.

## 10.25 Gains and Losses on the Sale of Capital Assets

Topic Description**:**

This topic covers accounting guidance related to gains and losses on the sale of capital assets. For further guidance on capital assets and depreciation, see Subchapter 10.4. This Subchapter covers many government-wide accounting procedures. Although it is important to understand gains and losses on the sale of capital assets, many of the topics discussed in this Subchapter are not accounting concerns that will occur on a day-to-day basis. Consult with your external auditor with specific questions on financial reporting related to this topic.

Accounting and Reporting Considerations:

*Calculating a Gain or Loss on the Sale of Capital Assets*

The net book value of the capital asset would be subtracted from the net amount realized from the sale or disposal. If the capital asset was being depreciated, its net book value would be its historical cost or estimated historical cost, less accumulated depreciation. If the modified approach was being used, its net book value would be historical cost or estimated historical cost.

*Federal Funds Used to buy Capital Assets*

Funds received from federal grants may be used to purchase capital assets, if allowed by the federal grant award. When the capital asset is no longer needed for the project funded by the grant, the capital asset may be disposed.

*Disposal of Real Property Paid with Federal Funds*

Real property includes buildings, land (including improvements), and structures. If a grantee can no longer use the real property, the federal agency may direct the grantee to:

- Sell the property and pay the federal agency its share of the proceeds according to matching or cost-sharing ratios;
- Retain the property and pay the agency its share of the market value of the property; or
- Transfer title to the federal agency and receive its share of the market value

*Disposal of Equipment Paid with Federal Funds*

Equipment includes tangible personal property having an acquisition cost in excess of $5,000 and a useful life of more than one year. If the current market value of the equipment is less than $5,000, the grantee may sell or retain it without compensating the federal government. If the property is worth $5,000 or more, grantees may either retain or sell the equipment and pay the federal agency their share of the market value unless otherwise instructed from the awarding agency.

## 10.26 Grants

Topic Description:

Grants are transactions in which one governmental entity transfers cash or other items of value to (or incurs a liability for) another governmental entity, an individual, or an organization as a means of sharing program costs, subsidizing other governments or entities, or otherwise reallocating resources to the recipients. This topic covers accounting guidance related to grants. See Subchapter 10.26 for guidance on non-AOE pass-through grants.

Accounting and Reporting Considerations:

*Federal Grant Reporting Requirements*

Federal grant programs include fiscal requirements to ensure that grant recipients spend funds in the manner specified by the grant program. If an organization receives funds from federal grant programs, they must adhere to these fiscal requirements. The AOE must collect information from LEAs about any real property they purchased with federal grant funds. Recipients of federal grant programs are often required to report back information to the federal government on the use of federal funds. The required information will vary depending on the federal law that governs the reporting.

*Pass-Through Grants*

The AOE receives grants to transfer to, or spend on behalf of an LEA. These amounts are referred to as pass-through grants. All cash pass-through grants received by an LEA (referred to as a recipient LEA) should be reported in its financial statements. In accordance with GASB, cash pass-through grants should be recognized as revenue and expenditures or expenses in a governmental, proprietary, or trust fund.

In cases where a recipient LEA serves only as a cash conduit, the grant should be reported in an agency fund. A recipient LEA serves only as a cash conduit if it merely transmits grantor-supplied moneys without having administrative or direct financial involvement in the program. A recipient LEA has administrative involvement if:

- It monitors secondary recipients for compliance with program-specific requirements
- It determines eligible secondary recipients or projects, even if using grantor-established criteria
- Has the ability to exercise discretion in how the funds are allocated.
- A recipient LEA has direct financial involvement if, for example, it finances some direct program costs because of a grantor-imposed matching requirement or is liable for disallowed costs.

*Program Specific Grants – Operating and Capital*

Program specific grants include revenues arising from mandatory and voluntary nonexchange transactions that are restricted for use in a particular program. Some grants consist of capital assets or resources that are restricted for capital purposes—to purchase, construct, or renovate capital assets associated with a specific program. These should be reported separately from grants that may be used either for operating expenses or for capital expenditures of the program at the discretion of the reporting LEA. These categories of program revenue are specifically attributable to a program and reduce the net expense of that program. For example, the State may provide an operating grant to an LEA for a health education program or a capital grant to finance construction of a new school. Multipurpose grants (those that provide financing for more than one program) should be reported as program revenue if the amounts restricted to each program are specifically identified in either the grant award or the grant application. Multipurpose grants that do not provide for specific identification of the programs and amounts should be reported as general revenues.

*Classifying Grants – Voluntary Nonexchange Transactions*

Voluntary nonexchange transactions result from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties. Under GASB, the majority of grants are considered to be voluntary nonexchange transactions. Both parties to a voluntary nonexchange transaction may be governments (including the federal government, as a provider), or one party may be a nongovernmental entity, including an individual. Under a grant classified as a voluntary nonexchange transaction, the provider establishes purpose restrictions and eligibility requirements. In many cases, the provider may require the return of the resources if the purpose restrictions or eligibility requirements are not met after recognition of the transaction. The principal characteristics of voluntary nonexchange transactions are they are not imposed on the provider or the recipient, and fulfillment of eligibility requirements is essential for a transaction (other than the provision of cash or other assets in advance) to occur

*Eligibility Requirements for Grants*

Eligibility requirements for grants can comprise of one or more of the following:

- The grant recipient (and secondary grant recipients, if applicable) has the characteristics specified by the provider. (For example, under a certain federal program, recipients are required to be the State and secondary recipients are required to be LEAs.)
- Time requirements specified by enabling legislation or the grant provider have been met. (The period when the resources are required to be used [disbursed, or consumed] or when use is first permitted has begun, or the resources are being maintained intact, as specified by the provider.)
- The grant provider offers resources on a reimbursement (“expenditure-driven”) basis and the recipient has incurred allowable costs under the applicable program.
- The grant provider's offer of grant resources is contingent upon a specified action of the recipient and that action has occurred.

*Time Requirements and Purpose Restrictions for Grants*

Time requirements and purpose restrictions should also be considered for grants. Time requirements specify the period when grant resources are required to be used (sold, disbursed, or consumed) or when use may begin (for example, operating or capital grants for a specific period), or that the grant resources are required to be maintained intact in perpetuity or until a specified date or event has occurred. Time requirements affect the timing of recognition for grants. Purpose restrictions include the purpose for which the grant resources are required to be used. Purpose restrictions should not affect when a grant is recognized. However, LEAs that receive resources with purpose restrictions should report resulting net assets, equity, or fund balance as restricted (or a reservation of fund balance for governmental funds).

*Grant Recognition Requirements*

Grant providers should recognize liabilities (or a decrease in assets) and expenses from voluntary nonexchange transactions, and grant recipients should recognize receivables (or a decrease in liabilities) and revenues (net of estimated uncollectible amounts), when all applicable grant eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met should be reported as advances by the grant provider and a deferred revenue by the grant recipient.

*Reimbursement-Type and Expenditure-Driven Grant Programs*

Governments (including the federal government) frequently engage in award programs commonly referred to as “reimbursement-type” or “expenditure-driven” grant programs. These programs may be either government-mandated or voluntary nonexchange transactions, depending on their characteristics. In either case, the provider stipulates that a grant recipient cannot qualify for resources without first incurring allowable costs under the grant provider's program. That kind of stipulation is not a purpose restriction as defined above. Rather, it is considered an eligibility requirement and affects the timing of recognition. That is, there is no award—the provider has no liability and the recipient has no asset (receivable)—until the recipient has met the provider's requirements by incurring costs in accordance with the grant provider's program. (Cash and other assets provided in advance should be reported as advances [assets] by grant providers and as deferred revenues [liabilities] by grant recipients until allowable costs have been incurred and any other eligibility requirements have been met.)

Specific Accounting and Reporting Guidance:

The following are examples of methods to record the transfer of schoolwide expenditures:

*Method 1*

To transfer Title I and Title IIA funds to each schoolwide account using *Method 1*, amounts are prorated across all the schools by using the same percentages.

**Total Expenditures for each schoolwide account:**

| **School name:** | **Location Code:** | **Total Expenditures:** | **80% - Prorated** | **20% - Prorated** |
|---|---|---|---|---|
| School 1 | 101 | $100,000 | $80,000 | $20,000 |
| School 2 | 102 | $ 25,000 | $20,000 | $ 5,000 |
| School 3 | 103 | $ 15,000 | $12,000 | $ 3,000 |
| Total Expenditures: | | $140,000 | $112,000 | $28,000 |

Example of a schoolwide entry for Title I Funds

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 2106 | 401 | XX | 11 | 4 | 5390 | 5 | 919 | Fund Transfer Out - Other | $112,000 | |
| 2599 | 101 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 80,000 |
| 2599 | 102 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 20,000 |
| 2599 | 103 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 12,000 |

Example of a schoolwide entry for Title IIA:

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 2125 | 401 | XX | 11 | 4 | 5390 | 5 | 919 | Fund Transfer Out - Other | $ 28,000 | |
| 2599 | 101 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 20,000 |
| 2599 | 102 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 5,000 |
| 2599 | 103 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 3,000 |

*Method 2*

*Method 2* involves a transfer to a single schoolwide account of Title I funds.

Example of an entry to record the Transfers of Title I funds to a single school wide account:

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 2106 | 301 | XX | 11 | 4 | 5390 | 5 | 919 | Fund Transfer Out - Other | $ 100,000 | |
| 2599 | 101 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 100,000 |

*Method 3*

*Method 3* involves a transfers of schoolwide expenditures by using sequential drawdown from federal grants.

Example of an entry to transfer Title I, Title IIA, IDEA Part B, and Title IV funds to each schoolwide account:

| | | | **Title I** | **Title IIA** | **IDEA-B** | **Title IVA** |
|---|---|---|---|---|---|---|
| **School name:** | **Location Code:** | **Total Expenditures:** | **Sequential** | **Sequential** | **Sequential** | **Sequential** |
| Funding in each grant | | | $155,000 | 50,000 | $55,000 | $25,000 |
| School 1 | 101 | $120,000 | $120,000 | | | |
| School 2 | 102 | $ 75,000 | $35,000 | $40,000 | | |
| School 3 | 103 | $ 80,000 | | $10,000 | $55,000 | $15,000 |
| Remaining Balance: | | $275,000 | $- | $- | $- | $10,000 |

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 2106 | 301 | XX | 11 | 4 | 5390 | 5 | 919 | Fund Transfer Out - Other | $ 155,000 | |
| 2125 | 301 | XX | 11 | 4 | 5390 | 5 | 919 | Fund Transfer Out - Other | $ 50,000 | |
| 2101 | 301 | XX | 21 | 4 | 5390 | 5 | 919 | Fund Transfer Out - Other | $ 55,000 | |
| 2122 | 401 | XX | 21 | 4 | 5390 | 5 | 919 | Fund Transfer Out - Other | $ 15,000 | |
| 2599 | 101 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 120,000 |
| 2599 | 102 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 35,000 |
| 2599 | 102 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 40,000 |
| 2599 | 103 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 10,000 |
| 2599 | 103 | XX | 21 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 55,000 |
| 2599 | 103 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 15,000 |

### *Method 4*

*Method 4* involves prorating amounts to all the schools using the same method. Is it important to note that subgrants are paid from the LEA to the school after an invoice, back-up documentation, is presented. Use the following prorated method below for payment as a direct charge to each grant. Do not prepay the school by using a subgrant.

Example of an entry to record a transfer of Title I and Title IIA funds to each schoolwide account using *Method 4*:

| District A | | | Title I | Title IIA |
|---|---|---|---|---|
| School name: | Location Code: | Total Expenditures: | 80% -Prorated | 20% - Prorated |
| School 1 | 101 | $100,000 | $ 80,000 | $20,000 |
| School 2 | 102 | $ 25,000 | $ 20,000 | $ 5,000 |
| Total Expenditures: | | $125,000 | $100,000 | $25,000 |
| | | | | |
| *School 3 | | $50,000 | $40,000 | $10,000 |

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| *Fund* | *Location* | *Level* | *Program* | *RevSource* | *Function* | *Type* | *Acct.* | | | |
| | | | | | | | | | | |
| 2106 | 401 | 11 | 11 | 4 | 5390 | 5 | 919 | Fund Transfer Out - Other | $ 100,000 | |
| 2125 | 401 | 11 | 11 | 4 | 5390 | 5 | 919 | Fund Transfer Out – Other | $ 25,000 | |
| 2599 | 101 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 80,000 |
| 2599 | 102 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 20,000 |
| 2599 | 101 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 20,000 |
| 2599 | 102 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 5,000 |

School 3 Subgrant Direct Charge:

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| *Fund* | *Location* | *Level* | *Program* | *RevSource* | *Function* | *Type* | *Acct.* | | | |
| | | | | | | | | | | |
| 2106 | 401 | 11 | 11 | 4 | 5510 | 5 | 892 | Sub-Grant to Pub VT LEA | $ 40,000 | |
| 2125 | 401 | 11 | 11 | 4 | 5510 | 5 | 892 | Sub-Grant to Pub VT LEA | $ 10,000 | |
| 2106 | 103 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 50,000 |

*Method 5*

*Method 5* involves transfer Title I and Title IIA funds to the Consolidated Admin account on a prorated basis.

The following is an example of *Method 5*:

| Administration name: | Location Code: | Total Expenditures: | 80% -Prorated | 20% - Prorated |
|---|---|---|---|---|
| Con Admin | 4001 | $20,000 | $16,000 | $4,000 |
| Total Expenditures: | | $20,000 | $16,000 | $4,000 |

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| *Fund* | *Location* | *Level* | *Program* | *RevSource* | *Function* | *Type* | *Acct.* | | | |
| | | | | | | | | | | |
| 2106 | 4001 | XX | 11 | 4 | 5390 | 5 | 919 | Fund Transfer Out - Other | $ 16,000 | |
| 2125 | 4001 | XX | 11 | 4 | 5390 | 5 | 919 | Fund Transfer Out - Other | $ 4,000 | |
| 2598 | 4001 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 16,000 |
| 2598 | 4001 | XX | 11 | 4 | 0000 | 4 | 5200 | Inter-fund Transfers | | $ 4,000 |

## 10.27 Health Reimbursement Account (HRA)

Topic Description:

Health reimbursement arrangements, or more commonly referred to as health reimbursement accounts (HRA), are LEA funded group health plans from which employees are reimbursed for qualified medical expenses (QMEs), up to a predetermined fixed dollar amount, on an annual basis. HRAs may be offered in conjunction with other employer-provided health benefits. LEAs fund and control the account in which health reimbursements are drawn from. This topic covers accounting guidance related to HRAs.

Accounting and Reporting Considerations:

*Contributions*

HRAs are solely funded from employer contributions. These contributions, provided by the employer, are not to be funded through employee salary deferrals.

*Distributions*

Distributions from an HRA must be paid to reimburse employees for QMEs that have occurred. Any distribution made for an expenditure other than the reimbursement of QMEs is subject to be included in an employee's income. HRAs may be used to make reimbursement distributions for their spouse's and dependents' QMEs. Depending on the particular HRA plan, Medical benefits can be designated to a beneficiary other than the employee's spouse or dependent, with this type of distribution being reported in employee's income.

*Recordkeeping*

LEA contributions to HRAs are to be recorded as an expenditure when funded by the LEA into an account. Object code 218 should be used when accounting for these expenditures. During the year, unused balances will roll-over month-to-month for each employee. Any remaining balances at the end of the year should be accounted for. Employers have the option to reset the balance to zero with the third-party administrator (recommended) or carry-over the funds to the next plan year. Funds carried over into the next year should be accounted for by reducing the expenditures in the current year with an offsetting prepaid account (1801).

### 10.28 Health Savings Account (HSA)

Topic Description:

A health savings account (HSA) allows for an employee to set aside money to pay for qualified medical expenses (QMEs). HSAs can accrue tax-deferred interest. HSAs are fully vested, and are not subject to forfeiture. Additionally, when an HSA owner becomes ineligible to receive contributions into an HSA, they may still use tax-free distributions from an existing HSA to pay qualified medical expenses at any time, as long as the expenses were incurred after the HSA establishment date. This topic covers accounting guidance related to HSAs.

Accounting and Reporting Considerations:

*Recordkeeping*

LEAs that offer HSA programs generally have very little, if any, involvement in HSA distributions. The owner of an HSA account has the discretion for how, and when, to use the funds. An HSA custodian or trustee must track, and report, all HSA activity.

*Administering Distributions*

Once money is added to an employee's HSA, it belongs solely to the account owner, who has complete control over how to spend it. An LEA that contributes funds to an employee's HSA cannot make a custodian or trustee refund the money, even if the amounts deposited exceed contribution limits. Any excess amounts should be included in the employee's gross income. LEAs can choose the custodian or trustee to set up employee HSAs, but cannot restrict employees from making withdrawals or transferring from their HSA. If an LEA chooses an HSA that allows employees to access their HSA funds through a health-care restricted debit card, the account funds must also be readily available to the HSA owner through cash withdrawal or other distribution methods.

The custodian or trustee is allowed to place reasonable restriction on HSA distributions. These restrictions generally include having a minimum dollar amount for a single distribution, and a maximum number of distributions per month. Additionally, the custodian or trustee can withdraw funds from HSAs to cover administrative fees. These withdrawals are not considered distributions.

*When Distributions Transpire*

For medical expenses incurred after an HSA is established, there is no limit for when an HSA owner may take a distribution. HSA funds cannot be used for expenses incurred prior to the date the HSA was established. However, money used to pay a QME does not need to be in the HSA at the time the expense was incurred.

*Reporting Distributions*

Other than contributing to an employee's HSA, LEAs are not involved in the reporting process for HSA distributions. HSA contributions are recorded using Account Object 219. The HSA trustee or custodian tracks all HSA distributions and reports them to the account owner and the IRS using Form 1099-SA.

### 10.29 High School Completion Pass-Through

Topic Description:

The High School Completion program was created to be a potential component of a flexible pathway for any Vermont student who is at least 16 years of age, who has not received a high school diploma, and who may or may not be enrolled in a public or approved independent school. This topic covers accounting guidance related to high school completion pass through.

Accounting and Reporting Considerations:

*Reimbursable Expenditures*

Services provided pursuant to the student's approved plan and as defined by the *High School Completion Program Services and Outcome Reimbursement Rates* as updated each year. Expenses may include participation in co-curricular activities, participation in academic or other courses, plan development, and plan management.

*Reimbursable Services*

High School Completion Pass Through funding is not available for services that are funded and/or required under Adult Basic Education (ABE) grants. Learning activities outside of these ABE services may be funded under the High School Reimbursement Program reimbursement schedule with prior approval of the activity/expense by the AOE (to ensure student readiness and appropriateness of activity).

In most circumstances, reimbursable services will be provided after the date of signature of a plan. However, there may be individual circumstances requiring the delivery of services prior to plan signing. Such services will be eligible for reimbursement if they appear in the plan, the plan is ultimately signed, and the necessary baseline assessments were completed prior to the date of any other reimbursable services. Reimbursements may also be requested (and approved) after the plan has been completed and graduation has occurred.

*Technical Center Reimbursements*

Graduation Education Plans may include coursework offered through an area career and technical education (CTE) center. Some coursework may include a fee for participation and therefore reimbursement would follow as with any other Approved Provider. This is especially the case with evening adult technical education programs. Daytime CTE center courses are available for plan inclusion. However, they are not eligible for reimbursement through the High School Completion Program, but rather through separate funding streams directly from AOE.

*Independent Service Provider Reimbursement*

An organization or individual may enter into a sub-contractual agreement with a local adult education and literacy provider for the purpose of providing specific services as part of a High School Completion Program plan. In these instances, the adult education and literacy provider is the High School Completion Program Plan Manager and is responsible for the development and management of the High School Completion Program plan. Under these circumstances, the approved provider would be reimbursed for services at the negotiated rate included in the sub-contractual agreement, which may not be the same as the rate guaranteed to local adult education and literacy providers for similar services.

<u>Specific Accounting and Reporting Guidance:</u>

Reimbursements under the High School Completion Program will be invoiced by SD at the AOE and a fiscal accounting of same will be submitted to each school district with active graduation education plans. The school district must show all reimbursements as both revenue and expenditures in its accounts. Invoices for reimbursements rendered under the High School Completion Program will be issued on a quarterly basis. The AOE will make payments to the SD and make net cash payments to the providers. Payments to the school district are for services they directly provided and their portion of the reimbursable student outcomes. Net cash payments are payments made on behalf of the school district to the providers for services they directly provided or that they purchased from an approved provider and for reimbursable student outcomes.

Revenue paid by districts with students in the program is reported in 3370, High School Completion. There can be two parts to this revenue paid to LEAs with students in the program. The first is revenue paid by the state to a town or union district. This revenue is used to pay for expenses incurred within the district associated with the High School Completion Program. The second piece is paid by the state directly to the entities operating the programs on behalf of the districts. Both revenue streams should be reported using revenue code 3370. School finance provides LEAs with the amount of the on behalf payments for the SD, and the amount received by the SDs directly.

*Technical Center Reporting for High School Completion Programs*

For technical centers operating high school completion programs, payments received should be reported on behalf of districts from the state using revenue code 1941, Services to VT LEAs

(Public). It is important to note the two distinct revenue codes technical centers can use for High School Completion Program revenues. Technical centers use revenue code 3370 when they receive revenue directly from the state. Revenue code 1941 is used when they receive payments from the state on half of the districts. Since districts are reporting the revenue, technical centers are required to report the payment to a revenue code designed for duplicate revenues. This avoids counting for the payment twice. The revenue should be reported in the program code that contain the expenditures for the High School Completion Program.

*Example Entry*

Example of an entry to record revenue paid by the state directly to the entities operation the programs on behalf of the districts:

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| 1001 | XXX | 31 | 11 | 0 | 1101 | 5 | 591 | Expense of on-behalf payment | $ 1,000 | |
| 1001 | XXX | 31 | 11 | 7 | 0000 | 4 | 3370 | Revenue paid to provider from state on-behalf district (1,000) +500 paid to district | | $ 1,500 |
| 1001 | XXX | 31 | 11 | 0 | 1101 | 5 | XXX | Expense of district $500 (previously recorded since this is a reimbursement). Do not record this at the time of receipt as this district expense has already been accounted for. | XXX | |

## 10.30 Indirects

Topic Description:

Indirect costs consist of agency-wide business and administrative costs such as accounting, budgeting, personnel, purchasing, and centralized data processing. The standardized method for charging indirect costs to programs is the indirect cost rate. This topic covers accounting guidance related to indirect costs.

Accounting and Reporting Considerations:

*Inclusions in Indirect Costs*

Indirect costs are those costs of general management that are agency-wide. General management costs consist of expenditures for administrative activities necessary for the general operation of the LEA (e.g., accounting, budgeting, payroll preparation, personnel management, and purchasing, centralized data processing). The standardized method to recover indirect costs from federal and state programs without having to time-account for the general administrative support provided to each program is referred to as the indirect cost rate process.

*Basis of Indirect Cost Rate*

The indirect cost rate process in Vermont is based on the AOE's federally approved indirect cost plan for K–12 LEAs. Vermont's plan includes specific guidelines on indirect cost components, including the indirect cost pool, base costs, and the carry-forward adjustment.

*Indirect Costs Attribution Factors*

The annual totals of the various support functions are grouped in indirect cost pools for attribution to programs by attribution factors. Attribution factors must have a valid relationship to the support service function's relative benefit to programs. For example, student support services should be attributed to programs based on the number of full time equivalent students in each program relative to the number of full time equivalent students in all programs. General administration and school administration functions should be attributed to programs based on the number of full time equivalent teachers in each program relative to the number of full time equivalent teachers in all programs. Operation and maintenance of plant services are more appropriately attributed to programs based on the relative space that they use.

Indirect cost pools can be allocated under the assumption that the indirect costs benefit only the instructional programs. Some indirect costs also benefit other indirect costs. Therefore, a two-step process should be employed. A further refinement of this concept would be to use a set of simultaneous equations to reduce each pool to zero by allocating back and forth among programs and indirect cost pools. However, the greater precision of these refinements might be offset by the difficulties in communicating their use.

Specific Accounting and Reporting Guidance:

*Reporting Indirect Costs*

Indirect expenditures are reported under administration, and can only be charged under grants that allow for a portion going toward administration. Additionally, they do not increase the amount that can be utilized for administration and total administration expenditures cannot exceed the ceiling set in the grant.

*Calculating Indirect Cost Rate*

An indirect cost rate is determined by dividing an LEA's indirect costs by the majority of its other expenditures, or base costs. However, the realities of the calculation are much more complex. Compliance with federal indirect cost guidelines requires that specific rules must be followed when expenditures are categorized as indirect or base costs.

*Calculating Indirect Cost Rate - Numerator*

An LEA's general ledger data, in combination with a minimal amount of supplemental data, are used to categorize the LEA's expenditures as indirect costs, direct costs, or excluded costs. The indirect costs become the numerator of the calculation, and the direct costs are the denominator. Certain costs, such as debt service and facility construction, are excluded entirely from the calculation.

The numerator of the indirect cost rate calculation—the indirect cost pool—is the cornerstone of the calculation. Costs in the pool come from the general fund and the charter school special revenue and/or charter school enterprise fund. There are five components to the numerator: support services business, personnel support, other central support services, fixed costs, and occupancy and space costs (allocated costs of building, utilities, and grounds).

*Calculating Indirect Cost Rate - Denominator*

Once indirect costs have been identified, most of the LEA's remaining costs in the general fund constitute the denominator of the calculation, referred to as direct costs. Examples of base costs include:

- Direct Instruction: Cost associated with teaching
- Support Services – Students: Assess and improve student well-being
- Support Service – Staff: Curriculum development, professional development
- Educational Media: Using all teaching and learning resources
- Educational Board: Activities of the governing board
- Office of Superintendent: Activities performed by the superintendent of organization, include space costs
- Office of Principal Services: Activities of principal or office manager
- Operation and Maintenance: Keeping buildings and grounds in effective working order
- Student Transportation: Transporting students for instructional purposes
- Community Services: Services provided for the community
- Food Services: Contracted food service costs
- Other Expenditures: All other costs that are not indirect costs, or excluded costs.

*Calculating Indirect Cost Rate – Excluded Costs*

Certain types of costs are distorting in nature or require relatively minimal general administrative support compared with the amount of dollars spent. Because these costs would distort the indirect cost process, they are excluded from both the numerator and denominator of the calculation of the indirect cost rate. Following are the notable categories of costs excluded from the calculation:

- Subgrants: Funds granted to another legal entity
- Food Services: Expenditures for food and supplies
- Capital Outlay: Facilities acquisition or construction, acquisition or fixed assets – land, buildings, improvement grounds, equipment exceeding $25,000
- Debt services: Principal and interest for obligations exceeding one year
- Fines and penalties

*Carry-Forward adjustment*

The carry-forward adjustment is an after-the-fact adjustment for the difference between the indirect cost rate approved for use in a given year and the actual percentage (amount) of indirect costs incurred in that year. The carry-forward adjustment eliminates the need for LEAs to file amended federal reports when their actual indirect costs vary from estimated indirect costs.

*Indirect Cost Expense Calculation*

The indirect cost rate calculation is completed at any time of the year at the SU or SD level. The following are examples of indirect rate calculations:

First time indirect cost rate calculation:

1. Sum allowable expenditures to date ($100,000)
2. Multiply by the approved ICR percentage (e.g. 3%). ($100,000*.03 = $3,000)
3. Reclassify calculated expenses within grant to:

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 2XXX | XXX | XX | XX | X | 2495 | 5 | 913 | Transfer of Indirects | $ 3,000 | |
| 1001 | XXX | XX | XX | X | 0000 | 4 | 4500 | Indirect – Rstrict thr. St. | | $ 3,000 |

Subsequent indirect cost rate calculation:

4. Sum allowable expenditures to date ($250,000)

5. Multiply by the approved ICR percentage (e.g. 3%). ($250,000*.03 = $7,500)
6. Subtract claims to date from the YTD amount ($7,500- $3,000=$4,500)
7. Reclassify calculated expense within grant to:

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 2XXX | XXX | XX | XX | X | 2495 | 5 | 913 | Transfer of Indirects | $ 4,500 | |
| 1001 | XXX | XX | XX | X | 0000 | 4 | 4500 | Indirect – Rstrict thr. St. | | $ 4,500 |

## 10.31 Investments, and Real Property

Topic Description:

Investments include securities and real estate held for producing income in the form of interest, dividends, rentals, or lease payments. This Subchapter covers many government-wide accounting procedures. Although it is important to understand gains and losses on the sale of capital assets, many of the topics discussed in this Subchapter are not accounting concerns that will occur on a day-to-day basis. Consult with your external auditor with specific questions on financial reporting related to this topic.

Accounting and Reporting Considerations:

*Reporting Requirements*

GASB establishes accounting and reporting standards for certain investments held by LEAs. GASB requires LEAs to report their investments at fair value on their balance sheet.

LEA investments affected by GASB are as follows:

- Participating interest-earning investment contracts
- External investment pools
- Open-end mutual funds
- Debt securities
- Equity securities, option contracts, stock warrants, and stock rights

GASB's provisions apply only to investments that are held primarily for the purpose of income or profit and have present service capacity based on their ability to generate cash or to be sold to generate cash.

GASB provides certain exceptions to the general rule requiring that investments be reported at fair value. These exceptions include:

- Investments with a remaining maturity of one year or less at the time of purchase
- Nonparticipating investment contracts, such as nonnegotiable certificates of deposit
- Investments in 2.a.7 (minimal credit risk)-like pools, which are external investment pools that adopt policies similar to those of private companies that operate under the Securities and Exchange Commission's Rule 2.a.7 of the Investment Company Act of 1940. They invest only in short-term securities and are required to sell securities whose market values deviate more than a set percentage from amortized cost.

*Reporting on Real Property*

Real property means land, including land improvements, and structures, but excludes moveable machinery and equipment.

The Federal awarding agency or pass-through entity must require an LEA to submit reports at least annually on the status of real property in which the Federal Government retains an interest, unless the Federal interest in the real property extends 15 years or longer. In those instances where the Federal interest attached is for a period of 15 years or more, the Federal awarding agency or pass-through entity, at its option, may require the LEA to report at various multi-year frequencies (e.g., every two years or every three years, not to exceed a five-year reporting period; or a Federal awarding agency or pass-through entity may require annual reporting for the first three years of a Federal award and thereafter require reporting every five years).

*Investments and Real Property Held by Endowments*

Endowments were previously required to report their land and other real estate held for investment purposes at historical cost. However, such investments are reported at fair value by similar entities, such as pension plans.

Land and other real estate held as investments by endowments should be reported at fair value at the reporting date. Changes in fair value during the period should be reported as investment income.

*Determining Fair Value of Investments*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined from the published market price in newspapers or trade journals and quotes from recognized stock exchanges or over-the-counter markets. For investments without a quoted market price, the fair value may be determined by using the market price of similar instruments, discounted cash flow, or any other valuation technique that provides the best estimates. The fair value of investments in external pools is based on the fair value of the pools' underlying portfolio.

The change in the fair value of investments is defined as the ending fair value, plus proceeds from investments maturing or sold during the year, less investment purchases made during the year, less the beginning fair value.

*Recognition and Reporting of Investment Income*

All investment income, including changes in the fair value of investments, should be recognized as revenue on the operating statement. The change in fair value of investments should be captioned "net increase (decrease) in the fair value of investments." Realized gains and losses should not be reported separately from unrealized gains and losses except in the notes to the financial statements.

Specific Accounting and Reporting Guidance:

*Example Entries*

To record a general fund purchase of a bond with a face value of $100,000 at a premium of $10,000.

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 1001 | | | | | | 1 | 1101 | Investments | $ 100,000 | |
| 1001 | | | | | | 1 | 1102 | Unamorti Prem on Invstmts | $ 10,000 | |
| 1001 | | | | | | 1 | 1001 | Cash in Bank | | $ 110,000 |

To record an unrealized gain of $5,000 on the bond noted in the last entry.

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 1001 | | | | | | 1 | 1101 | Investments | $ 5,000 | |
| 1001 | XXX | XX | 00 | 5 | | 4 | 1532 | Unrealized Gain/Loss | | $ 5,000 |

To record the sale of the bond for a gain of $5,000.

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| *Fund* | *Location* | *Level* | *Program* | *RevSource* | *Function* | *Type* | *Acct.* | | | |
| | | | | | | | | | | |
| 1001 | | | | | | 1 | 1001 | Cash in Bank | $ 120,000 | |
| 1001 | | | | | | 1 | 1101 | Investments | | $ 105,000 |
| 1001 | | | | | | 1 | 1102 | Unamorti Prem on Invstmts | | $ 10,000 |
| 1001 | XXX | XX | 00 | 5 | 0000 | 4 | 1530 | Gain/Loss on Sale-Invest | | $ 5,000 |

### 10.32 Land, Land Improvements, and Buildings

Topic Description:

Land, land improvements, and buildings are all considered capital assets that have initial useful lives extending beyond a single reporting period. This topic covers accounting guidance related to land, land improvements, and buildings. See Subchapter 10.4 for additional information on Capital Assets and Depreciation.

Accounting and Reporting Considerations:

The cost of land, land improvements, and buildings should include capitalized interest and ancillary charges necessary to acquire the asset. Ancillary charges that are directly attributable to the asset acquisition include:

- Freight and transportation charges
- Site preparation costs
- Professional fees
- Historical cost should be the value reported for the assets. Donated land and buildings should be reported at their estimated fair value at the time of acquisition plus any ancillary charges noted above.
- Depreciation

Land should not be depreciated due to its inexhaustible nature. Buildings are considered an infrastructure asset, meaning they are preserved for a significantly greater number of years than most capital assets.

Buildings that are being, or have been, depreciated should be reported net of accumulated depreciation in the statement of net assets. Land, or infrastructure assets reported using the modified approach, should be reported separately if the LEA has a significant amount of these assets. Major classes of asset may be reported in greater detail (for example, infrastructure, buildings and improvements, etc.)

Depreciation expense for buildings that can specifically be identified with a function should be included in its direct expense. Depreciation expense for a "shared" building should be ratably included in the direct expenses of the appropriate functions.

### 10.33 Mentoring Stipends

Topic Description:

This topic covers accounting guidance for new teacher mentors stipends.

Accounting and Reporting Considerations:

*Stipends for Teacher Mentors*

Regardless of the quality or source of their preparation, beginning teachers encounter a steady stream of distinct challenges in their initial years in the classroom. Additionally new teachers are, on average, less effective than more experienced ones. According to the *Vermont State Board of Education, Manual of Rules and Practices, School Quality Standards*, mentoring new teachers shall be a structured component of each school's needs-based professional development system.

A teacher mentor and mentee relationship consists of an experienced teacher chosen to be a mentor for a new hire. For this service, the teacher mentor receives a stipend. The stipend payment is received after normal working hours, and is included in a teacher's contract. The accounting treatment for paying mentor stipends is very similar to payment of wages. It is important to note that employee benefits for the Vermont State Teachers' Retirement System (VSTRS) is not applied to teacher mentor stipend payments. However, after school programs and 21C Class stipends count toward VSTRS. The stipends are accounted for using the Salaries object code. LEAs can create a specific salary object code for stipends (112-119) at their own discretion. Function code 2219 is used when coding the costs for teacher mentors.

### 10.34 Other Grants – Non-Agency of Education (AOE) Pass-through

Topic Description:

This topic covers accounting guidance related to non-AOE pass-through grants. For guidance additional on grants, see Subchapter 10.26. For guidance on subgrants, see Subchapter 10.47.

Accounting and Reporting Considerations:

*Direct Federal Grant Programs*

For direct grant programs, LEAs apply directly to the Federal government. The AOE is not an intermediary during the grant process. A grantee must comply with applicable statutes, regulations, and approved applications, and use Federal funds in accordance with those statutes, regulations, and applications. A grantee directly administers or supervises the administration of the project. A grantee will use fiscal control and fund accounting procedures that insure proper disbursement of, and accounting for, Federal funds.

A grantee may use grant funds only for obligations it makes during the grant period. The LEA is responsible for oversight of the operations of the Federal award supported activities. The LEA must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved. Monitoring by the LEA must cover each program, function or activity.

Specific Accounting and Reporting Guidance:

*Federal Grants – Non-AOE Pass Through*

Direct Federal grants can be restricted or unrestricted. For restricted direct Federal grants, revenue code 4791-4793 would be used. Unrestricted direct Federal grants use the 4100 revenue code. Revenue codes 4101-4109 are designated for local LEAs to use at their own discretion when recording unrestricted Federal grants.

*Non-AOE State Grants*

Non-AOE State grants can be restricted or unrestricted. For restricted non-AOE grants, LEAs use revenue code 3790. Additionally, revenue codes 3791-3799 can be used, at an LEA's discretion, to record other restricted non-AOE State grant revenue. Unrestricted non-AOE State grants, revenue code 3190 is used. Local LEAs have revenue codes 3191-3199 to use at their own discretion when recording unrestricted non-AOE State grants.

Additionally, revenue codes 1001-1109 can be used, at an LEA's discretion, to record local grant revenue. An LEA would have to determine whether those grant revenues are restricted or unrestricted. Revenue codes 1904-1909, at an LEA's discretion, can be used for non-AOE State grants pertaining to food.

## 10.35 Purchased Property Services

Topic Description:

This topic covers accounting guidance related to purchased property services.

Accounting and Reporting Considerations:

*Purchased Property Services*

Property services included services purchased to operate, repair, maintain, and rent property owned or used by the LEA. These services are performed by persons other than the LEA employees. Although a product may or may not result from the transaction, the primary reason for the purchase is the service provided.

*Determining a Purchased Property Service*

Determining if a service is considered a purchased property service, rather than construction activities, is made on a case-by-case basis, with consideration of all information available. Factors that determine if a project is a purchased property service or construction include the following:

- One-for-one replacement ("like for like"): replacement parts, components, or equipment should be equal in grade, quality, and capacity to the original, without the addition of any new or upgraded components, accessories, features, or functions
- The scale and complexity of the project, including the amount of time and material required to complete the job, should be relatively simple and routine
- The physical size of the object being worked on

If architect or engineering services are required for the services, the work may trigger requirements for compliance with updated building codes, or building permits or inspections are required for the work, the services likely constitute construction services rather than purchased property services.

Specific Accounting and Reporting Guidance:

*Booking Purchased Property Services*

The services should be booked at the location where they were rendered. For instance, services provided to a SU would be booked at the SU level. Object code 431 – Non-Technology-Related Repairs and Maintenance, and Object code 490 – Other Purchased Property Services can be used when booking purchased property services.

## 10.36 Purchased Professional and Technical Services

Topic Description:

This topic covers accounting guidance for the procurement of professional services.

Accounting and Reporting Considerations:

*Professional Services*

Professional services included services provided by medical doctors, lawyers, architects, auditors, accountants, therapists, audiologists, dieticians, editors, negotiations specialists, paying agents, systems analysts, and planners.

*Costs for Professional Services*

Costs of professional services rendered by persons who are members of a particular profession or possess a special skill, and who are not employees of the SU, are allowable when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government.

In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:

- The nature and scope of the service rendered in relation to the service required.
- The necessity of contracting for the service, considering the SU's capability in the particular area.
- The past pattern of such costs, particularly in the years prior to Federal awards.
- The impact of Federal awards on the SU's business (i.e., what new problems have arisen).
- Whether the proportion of Federal work to the SU's total business is such as to influence the SU in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Federal awards.
- Whether the service can be performed more economically by direct employment rather than contracting.
- The qualifications of the individual or concern rendering the service and the customary fees charged, especially on SU service activities.
- Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).

Retainer fees must be supported by evidence of real services available or rendered.

<u>Specific Accounting and Reporting Guidance:</u>

*Booking Professional and Technical Services*

The services should be booked at the location where they were rendered. For instance, services provided by an auditor for a SU would be booked at the SU level. If an architect provided designs for school addition, then those services would be booked at the school level. Professional and technical services are coded using Object code 341 – Other Professional Services, and 342 – Auditing Services. Object codes 590 – 592 are used for professional and technical services purchased by another SD or government entity. For substitute teachers Object code 131 – Substitutes, and Object codes 132-139 (local use) are used for payroll expenditures.

*Example Entries*

To record services purchased by an SD from an SU for $50,000 (SU entry):

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 1001 | | | | | | 1 | 1001 | Cash in Bank | $ 50,000 | |
| 1001 | XXX | XX | XX | 5 | 0000 | 4 | 1941 | Serv to Pub VT LEAs | | $ 50,000 |

To record services purchased by an SD from an SU for $50,000 (SD entry):

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 1001 | XXX | XX | XX | X | 2901 | 5 | 591 | PrchSrv frm Pub VT LEA | $ 50,000 | |
| 1001 | | | | | | 1 | 1001 | Cash in Bank | | $ 50,000 |

## 10.37 Other Purchased Services

Topic Description:

This topic covers accounting guidance related to purchased services from another LEA.

Accounting and Reporting Considerations:

*Interagency Purchased Services*

There are many instances where one LEA may purchase services from another. These payments are to another LEA within the state, and do not include tuition and transportation fees. Some examples of interagency services include data-processing, purchasing, nursing, and guidance. An LEA may also purchase services from out-of-state LEAs or education agencies. These out of state services include the purchase of Industry Recognized Credits, and Scholastic Assessment Tests paid by the LEA.

*Special Education Services Purchased from another LEA*

Special education services purchased from another LEA within the State include services above or beyond tuition for either regular or special education. Additionally, LEAs may purchase services from independent or out-of-state schools for special education services above or beyond either regular or special education tuition.

*Student Transportation Purchased Services*

LEAs may purchase student transportation from another Vermont LEA. Object code 511 is used to record student transportation purchased from another Vermont LEA. This includes amounts paid to other LEAs for the service of transporting children to and from school and school-related events. Similarly, LEAs may purchase student transportation from out-of-state schools. Object code 512 is used to record student transportation purchased from a LEA outside of outside the state of Vermont. For student transportation purchased from sources other than school districts, Object code 519 is used.

*Other Purchased Services*

Other purchased services consist of services rendered by organizations or personnel not on the LEA's payroll. These services are considered separately from professional and technical services or property services. A product may or may not result from the transaction, but the primary reason for the purchase is the service provided. Other purchased services are booked at the level the service is rendered. For instance, services provided to a SU would be booked at the SU level. If other purchased services were rendered to a school, then those services would be booked at the school level.

Specific Accounting and Reporting Guidance:

*Booking Other Purchased Services*

Purchased services from another LEA in Vermont are coded using Object 591. Object 592 is used to record purchased services from a LEA outside of Vermont. Object code 594 is used when special education services are purchased from a public Vermont LEA. Object code 595 is used to record special education services purchased from either an out-of-state LEA, or an independent school.

## 10.38 Recording Revenue

Topic Description:

The increases in a fund's financial resources other than from interfund transfers or debt issue proceeds. Revenues are the primary financial resource of a fund. This topic provides guidance on a variety of aspects related to recording revenue.

Accounting and Reporting Considerations:

*Reporting of Revenues*

The accounting and financial reporting of revenues within an LEA is determined by the economic substance of the underlying transactions. Generally Accepted Accounting Principles have established criteria for determining the type of transaction based on the classification and characteristics of the transaction.

Within LEAs, transactions may be classified as either exchange (or exchange-like) transactions or nonexchange transactions. Exchange transactions are those in which the parties involved give up and receive essentially equal values. Within a commercial enterprise, transactions between businesses and their customers meet this definition. Within a proprietary fund of an LEA, fees or charges made for goods or services represent exchange transactions.

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.

To clarify and expand on existing guidance on the accounting and financial reporting of nonexchange transactions within LEAs, GASB issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and Statement No. 36, *Recipient Reporting for Certain*

*Shared Nonexchange Revenues—An Amendment of GASB Statement 33*. These standards establish recognition criteria for nonexchange transactions reported on the accrual basis or the modified accrual basis of accounting.

*Revenue Recognition in Governmental Funds*

Revenues in governmental funds and other governmental fund financial resource increments are recognized using the modified accrual basis of accounting when they are susceptible to accrual, which means they must be both measurable and available. Revenues are measurable when the amount of the revenue is subject to reasonable estimation. To be available, revenues must be subject to collection within the current period or be collected after the end of the period but in time to pay liabilities outstanding at the end of the current period.

*Revenue Recognition in Enterprise Funds*

Revenues in proprietary funds are recognized using the accrual basis of accounting (i.e., in the period in which they are earned) and are classified either as operating or nonoperating. Whereas operating revenues are generated by the primary activity of the fund, nonoperating revenues are generated by other means, such as through grants or interest earnings. Enterprise fund revenues include charges for services, charges to other funds for services rendered, and grant revenues. Enterprise funds use Fund codes in the 6000 series.

*Government Fund Categories*

LEAs account for a variety of revenues that generally may be presented in the financial statements of governmental funds in the following 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 property taxes, tuition, and interest income.
- State revenues are those revenues received from the state, excluding funds passed through the state from the federal government. Such revenues include state grants and state education foundation 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.

*Nonexchange Transactions*

GASB describes the following four classifications of nonexchange transactions:

- Derived tax revenues result from assessments imposed on exchange transactions, such as income taxes and sales taxes. Derived tax revenues and the related receivables normally should be recognized when the underlying transaction occurs, with the criteria extended to include the availability criteria for revenues accounted for on the modified accrual basis.

- Imposed nonexchange revenues result from assessments imposed on nongovernmental entities other than assessments on exchange transactions. Property taxes, ad valorem taxes on personal property, and fines are common examples. A receivable is usually recognized at the time an enforceable legal claim arises. Imposed nonexchange revenues should be recognized in the first period in which the use of the revenues is permitted or required. For imposed nonexchange revenues accounted for on a modified accrual basis, recognition also depends on the availability of the resources.
- Government-mandated nonexchange transactions occur when one level of government provides resources to another level of government and requires the recipient to use the resources for a specific purpose in accordance with the provider's enabling legislation. An example is the federal funds provided for food and nutrition programs in LEAs.
- Voluntary nonexchange transactions result from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties. Certain grants and entitlements and most donations are examples of this type of transaction. Frequently, purpose restrictions and eligibility requirements are established by the provider.

For both government-mandated nonexchange transactions and voluntary nonexchange transactions, revenues and receivables should be recognized when all eligibility requirements have been met. For revenues accounted for on a modified accrual basis, the criteria are extended to include the availability of the resources.

*Recognition of Receivables*

Receivables are generally recognized when a service is performed and/or goods are delivered. Receivables usually arise as a result of revenue transactions. The following are the main sources of revenues for LEAs that could result in outstanding receivables:

- Property taxes;
- State and federal grants;
- Intergovernmental revenues (due from other governmental entities); and
- Interest income.

The method of accounting for revenues in LEAs depends on the type of fund in which the revenue is recorded.

Because governmental funds use the modified accrual basis of accounting, governmental fund revenues should be recognized in the accounting period in which they become susceptible to accrual—that is, when they become both measurable and available to finance expenditures of the fiscal period. "Available" refers to the collectibility of the receivable within the current period or soon enough thereafter to be used to pay for liabilities of the current period. A general criterion for availability is 60 days, although a longer or shorter period may be used, except for property taxes (where the maximum period may not be more than 60 days). The availability period will be disclosed in the notes to the financial statements. Each LEA should adopt a revenue accrual policy that implements the susceptibility-to-accrual criterion and applies it consistently. This policy should also be disclosed in the notes to the financial statements.

Proprietary funds use the accrual basis of accounting to determine when revenues and related receivables should be recorded. Revenues are recognized when they are earned—that is, when the earnings process is complete and an exchange has taken place.

*Revenue Due From State*

This receivable represents amounts from state resources that exceed the amounts received during the fiscal year for which the LEA has met all eligibility requirements. A LEA should also use the measurable and available criteria that are consistent with the modified accrual basis of accounting in the governmental funds to record revenues due from the state. Revenue due from the state for which all eligibility requirements were met during the fiscal year, and which is expected to be received within the availability period (e.g., 60 days) from the financial statement date, should be recorded as a receivable using this account.

*Revenue Due From Federal Agencies*

This account represents amounts for which all eligibility requirements have been met by a district under a federal financial assistance program and that are expected to be available to finance current liabilities. Such revenues are usually accounted for in the general fund or special revenue funds using the measurable and available criteria, as appropriate for a modified accrual-based fund. If this is an expenditure-driven grant, revenues may be recognized only to the extent that expenditures have been incurred.

*Revenue Due From Other LEAs or Agencies*

In some instances, LEAs become eligible for revenue from other LEAs or agencies through grant programs or by providing services. The receivable earned from such revenue should be recorded only if it also meets the measurable and available criteria. Thus, when the revenue has been earned under the grant program, or when the services have been provided, the district should recognize the revenues and receivables for the amount earned. In addition, if the amount of an outstanding receivable at the end of a fiscal year is not expected to be collected within the availability period (e.g., 60 days) from the financial statement date, the district should record a deferred inflow of resources for the outstanding amount.

*Accrued Interest Receivable*

Accrued interest represents the amount of interest at the end of an accounting period on all cash accounts and investments held at that date. Accrued interest should be computed for all investments and cash accounts held by the LEA that generate interest earnings regardless of the expected payment date.

*Revenue from Commodities*

For accounting guidance on commodity revenue recognition, see Subchapter 10.20.

*Required Documentation*

For revenue to be recorded in the appropriate fund and revenue object classification, sufficient source documentation is required.

*Revenue Classifications*

GASB Statement No. 34 introduced a number of new reporting concepts for revenues in the government-wide statements. Essentially, revenues must be classified as either program or general revenues on the statement of activities. The following subsections outline the basic reporting criteria established for revenues.

*Program Revenues*

Program revenues are revenues that are directly attributable to a specific functional activity. GAAP requires these revenues to be presented separately in the appropriate functional areas, providing a calculation of net expense for each activity. This net expense often represents the level of support required from the LEA's own resources. Program revenues include fees collected from those who benefit from the program, grants, and other contributions required by the resource provider to support a specific activity.

Program revenues are reported on the statement of activities in the following three categories, if applicable:

- Charges for services are revenues that arise from charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. Examples are rental fees for school buses or facilities, athletic participant or spectator fees, summer school tuition, or library fines.
- Program-specific operating grants and contributions are revenues that occur from mandatory and voluntary nonexchange transactions with other LEAs, organizations, or individuals that are restricted for use in a particular program. An example is a business grant to provide a scholarship for staff training.
- Program-specific capital grants and contributions are grants and contributions that consist of capital assets or resources that are restricted for capital purposes, such as purchasing, constructing, or renovating capital assets associated with a specific program. These revenues should be reported separately from grants and contributions that may be used either for operating or capital expenses at the judgment of the reporting LEA. An example is a grant to purchase a school bus.

Program revenues are reported as gross amounts. The statement of activities also reports program expenses net of applicable program revenues. GASB Statement No. 37 clarified that different captions and additional categories may be used for program revenues.

*General Funds*

All revenues are general revenues unless they are required to be reported as program revenues. General revenues are reported in the government-wide statement of activities after program revenues have been subtracted from functional expenses.Revenue Classifications

Programs are financed from essentially four sources, as follows:

- *Type A*—those who purchase, use, or directly benefit from the goods or services of the program (program revenue);
- *Type B*—parties outside the reporting LEA's citizenry (program revenue if restricted, general revenue if unrestricted);
- *Type C*—taxpayers (regardless of whether they benefit from a particular program)(general revenue); and
- *Type D*—the LEA institution itself (primarily investment income) (general revenue).

<u>Specific Accounting and Reporting Guidance:</u>

The items of actual revenue should be accounted for separately so that they may be compared with revenue estimates. This separate accounting is accomplished by posting receipts to the revenue ledger. The total from any given apportionment notice is posted to the general ledger, and individual items are posted to the subsidiary revenue ledger.

### 10.39 Reimbursements of Grant Expenditures

<u>Topic Description:</u>

This topic covers accounting guidance related to reimbursements of expenditures.

<u>Accounting and Reporting Considerations:</u>

*Reasons for Reimbursements of Expenditures*

Sometimes certain grant expenditures are disallowed, therefore, these cost need to be refunded to the originating grantor.

*Netting Reimbursements of Expenditures*

One solution to correct disallowed expenditures includes the reduction of current year draws (netting the current year revenue and current year expenditures) — depending upon the circumstances and materiality.

*Returning Funds for a Reimbursement of Expenditures*

Another option for reimbursement of expenditures is to return the funds to the grantor. An accrual associated with the disallowed costs might be the result of revenue and expenditures recorded in the prior year's activity. The proper accounting treatment is to restate the receivable for direct revenues.

## 10.40 Repairs and Maintenance Costs

<u>Topic Description:</u>

This section will focus on accounting guidance related to repairs and maintenance costs.

<u>Accounting and Reporting Considerations:</u>

*Terminology*

It is important to have clear distinctions for repair, enhancement or improvement, and replacement of a capital asset. Regular repairs and maintenance are considered outlays that are necessary to keep an asset in its intended operating condition, but that do not materially increase the value or physical properties of the asset. These costs should be expensed. Enhancement or improvement activities are nonpermanent outlays, such as fencing, walkways, tunnels, and temporary landscaping. A replacement cost is the cost of purchasing a substitute asset for the current asset being used by an LEA.

All additions and betterments to capital facilities should be charged to a capital outlay account when acquired or when construction or installation is completed. An addition refers to a physical extension of some existing asset. 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 asset.

Repairs or betterments of a capital asset that extends its useful life must be added to the undepreciated cost of the capital asset and depreciated over the revised useful life of the asset.

<u>Specific accounting and reporting guidance:</u>

Charges to certain maintenance objects may include contracts for repairing, restoring, or renovating the grounds, buildings, or equipment, including regrading sites and repairing retaining walls, walks, driveways, sprinkler systems, and playground apparatus or equipment; reseeding of lawns; repainting; repairs to or replacement of roofs, walls, heating and air-conditioning units, and electrical and plumbing installations; repairs to built-in fixtures; resurfacing and refinishing of floors; movement of movable walls or partitions; and acquisition and replacement of related equipment.

If equipment is rented for a specific capital outlay project (e.g., a tractor for a major landscaping project), the amount paid should be charged to that project as a capital expenditure.

*Example Entry*

Functions used for repairs and maintenance costs are found in the 2600 series. Object code 431 – Non-Technology-Related Repairs and Maintenance is used when recording repairs and maintenance costs.

To record a repair of a lawn tractor amounting to $3,000:

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 1001 | XXX | XX | XX | X | 2640 | 5 | 431 | NonTechnlgy Repair/Maint | $ 3,000 | |
| 1001 | | | | | | 1 | 1001 | Cash in Bank | | $ 3,000 |

## 10.41 Retirees

Topic Description

This section will focus on accounting guidance related to certain retirement considerations other than ongoing retirement benefits (pension and other postemployment benefits). For retiree information pertaining to employee benefits, and other postemployment benefits, see Subchapter 10.16.

Accounting Considerations

*Early retirement incentives*

Costs resulting from actions taken by an LEA to influence employees to terminate their employment earlier than they normally would have are considered voluntary termination benefits. The most common examples of these costs include early retirement incentives offered in the form of additional pay or added benefits and severance packages negotiated to effect termination and contract buyouts.

Voluntary termination benefit costs generally may not be charged as either a direct cost or an indirect cost to a federal program subject to the federal cost principles. Voluntary termination benefit costs are to be charged to the same business unit and account as the employee's regular salary, but without an approved federal program exception, they must be charged to another account.

- For financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early-retirement incentives) when the offer is accepted and the amount can be estimated. For financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources.

- LEAs should account for absences payable at the end of the year by adjusting the liability account 5501 Compensated Absences (long-term) and 4702 Compensated Absences (current) to reflect any accumulated unpaid vacation, sick leave and sabbatical leaves that are to be paid to employees upon termination or retirement. Upon an employee termination or retirement, compensation due to that employee should be accounted for by reducing this liability.

### 10.42 Self-Insured Dental Plans

Topic Description

This section will focus on accounting guidance related to self-insured dental plans.

Accounting Considerations

Often LEAs offer dental insurance to their employees through self-insured dental plans administered through third parties. Because of the timing necessary to process claims there is more than likely to be some claims that are incurred but not reported (IBNR). LEAs should estimate and accrue for these claims at the end of the year for financial statements prepared under the accrual basis of accounting.

*Example Entry*

To record an estimate of IBNR of $5,000 for financial statements under the accrual basis of accounting:

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 1001 | XXX | XX | XX | X | 1100 | 5 | 281 | Dental | $ 5,000 | |
| 1001 | | | | | | 2 | 4601 | Accrued Sal and Benefits | | $ 5,000 |

## 10.43 Special Education

Topic Description:

Special education activities and services are provided to students with exceptional needs who are assigned an individualized education program (IEP). The activities and services in the IEPs are designed for students with exceptional mental or physical needs and incorporate distinct techniques, materials, and arrangements to cater to their learning needs. This topic covers accounting guidance related to special education.

Accounting and Reporting Considerations:

*Filing Service Plan*

A LEA must file a service plan annually on or before October 15 with the Secretary of Education. The service plan should contain the anticipated special education expenditures for the following school year for the LEA. The plan is a uniform report which includes information on services planned and anticipated expenditures. If a LEA fails to file a service plan by October 15, their funds may be withheld by the Secretary of Education.

*Block Grants*

LEAs may be eligible to receive a standard mainstream block grant each school year. The mainstream block grant may be equivalent to the LEAs mainstream salary standard multiplied by 60 percent.

The SU expends all assistance for special education services or for remedial or compensatory services in accordance with its service plan. Additionally SUs will expend 40 percent or more of its mainstream salary standard for special education from local funds. Mainstream salary standard means the SU's full-time equivalent staffing for special education for the preceding year multiplied by the average special education teacher salary in the State for the preceding year.

*Census Grants*

SUs may receive a census grant, provided by the State, each fiscal year to support the provision of special education services to students with an IEP. SUs are to use this funding and other available sources of funding to provide special education services to students in accordance with their IEPs as mandated under federal law. A SU may use census grant funds to support the delivery of the comprehensive system of educational services, but cannot use census grant funds in a manner that repeals its responsibility to provide special education services to students in accordance with their IEPs as mandated under federal law.

*Special Education Expenditures Reimbursement*

Based on where the related cost is incurred, each SU may receive a special education expenditures reimbursement grant each school year from the State. The amount of a SU's special education expenditures reimbursement shall be equal to the total of its special education expenditures multiplied by the reimbursement rate for that year. Special education expenditures are allowable expenditures for special education, as defined by the State Board. Exclusions from special education expenditures are revenue from federal aid for special education, mainstream service costs, extraordinary special education expenditures, any transportation expenses already reimbursed, exceptional service special education costs, and other State funds used for special education costs defined by the State Board.

*Unusual Special Education Costs*

The Secretary may use up to two percent of the funds appropriated for allowable special education expenditures, as that term is defined in State Board of Education rules, to directly assist supervisory unions with special education expenditures of an unusual or unexpected nature. The Secretary's decision regarding a supervisory union's eligibility for and amount of assistance is final.

*Special Education Payments*

On or before August 15, December 15, and April 15 of each fiscal year, the State Treasurer withdraws from the Education Fund, based on a warrant issued by the Secretary of Finance and Management, and forwards to each supervisory union one-third of the census grant due.

On or before November 15, January 15, April 15, and August 1 of each school year, each supervisory union, to the extent it incurs extraordinary expenditures will file a financial report with the Secretary in a form prescribed by the Secretary. The report describes the total extraordinary expenditures actually incurred during the reporting period.

On or before December 15, February 15, May 15, and September 15 of each school year, based on a warrant issued by the Secretary of Finance and Management, the State Treasurer will withdraw from the Education Fund and forward to each supervisory union the amount of extraordinary reimbursement incurred by the supervisory union.

*Subgrants to LEAs*

The State receives grants and distributes funds to LEA in the State that have established their eligibility with Individuals with Disabilities Education Act (IDEA) for use in accordance with Part B of the Act. Effective with funds that become, the State must distribute funds to eligible LEAs, including public charter schools that operate as LEAs, even if the LEA is not serving any children with disabilities.

*Reallocation of LEA funds.*

If an LEA is adequately providing Free Appropriate Public Education (FAPE) to all children with disabilities residing in the area served by that agency with State and local funds, the AOE may reallocate any portion of the funds under this part that are not needed to provide FAPE, to other LEAs in the State that are not adequately providing special education and related services to all children with disabilities residing in the areas served by those other LEAs. The AOE may also retain those funds for use at the State level to the extent the State has not reserved the maximum amount of funds it is permitted to reserve for State-level activities.

After an AOE distributes funds to an eligible LEA that is not serving any children with disabilities, the AOE must determine, within a reasonable period of time prior to the end of the carryover period, whether the LEA has obligated the funds. The AOE may reallocate any of those funds not obligated by the LEA to other LEAs in the State that are not adequately providing special education and related services to all children with disabilities residing in the areas served by those other LEAs. The AOE may also retain those funds for use at the State level to the extent the State has not reserved the maximum amount of funds it is permitted to reserve for State-level activities.

*Excess Costs*

Except as otherwise provided, amounts provided to an LEA under Part B of the Act may be used only to pay the excess costs of providing special education and related services to children with disabilities. Excess costs are those costs for the education of an elementary school or secondary school student with a disability that are in excess of the average annual per student expenditure in an LEA during the preceding school year for an elementary school or secondary school student, as may be appropriate. An LEA must spend at least the average annual per student expenditure on the education of an elementary school or secondary school child with a disability before funds under Part B of the Act are used to pay the excess costs of providing special education and related services.

LEAs compute the minimum average amount separately for children with disabilities in its elementary schools and for children with disabilities in its secondary schools. LEAs may not compute the minimum average amount it must spend on the education of children with disabilities based on a combination of the enrollments in its elementary schools and secondary schools.

*Calculating Excess Costs*

First the LEA must determine the total amount of its expenditures for elementary school students from all sources—local, State, and Federal (including Part B)—in the preceding school year. Only capital outlay and debt services are excluded. Then, the LEA must subtract from the total expenditures amounts spent for IDEA, Part B allocation; Elementary and Secondary Education Act (ESEA), Title I, Part A allocation; ESEA, Title III, Parts A and B allocation; State and local funds for children with disabilities; and the State or local funds for programs under ESEA, Title I, Part A, and Title III, Parts A and B. The subtracted from the total expenditures represent funds that the LEA actually spent, not funds received in the prior year and carried over to the current year.

Except as otherwise provided, the LEA must must determine the average annual per student expenditure for its elementary schools dividing the average number of students enrolled in the elementary schools of the agency during the preceding year (including its children with disabilities) into the amount computed under the above paragraph. The amount obtained through this computation is the minimum amount the LEA must spend (on the average) for the education of each of its elementary school children with disabilities. Funds under Part B of the Act may be used only for costs over and above this minimum.

Except as otherwise provided, to determine the total minimum amount of funds the LEA must spend for the education of its elementary school children with disabilities in the LEA (not including capital outlay and debt service), the LEA must multiply the number of elementary school children with disabilities in the LEA times the average annual per student expenditure obtained in paragraph c above. Funds under Part B of the Act can only be used for excess costs over and above this minimum.

## 10.44 Student Activities

Topic Description:

This topic covers accounting guidance related to student activities funds.

Accounting and Reporting Considerations:

*Fiduciary Student Activity Funds*

Student activity funds can be accordance with guidelines published in GASB No. 84, *Fiduciary Activities*. Student activity funds are considered fiduciary activities if they meet the following criteria outlined in Subchapter 10.11 – Custodial Funds.

Specific Accounting and Reporting Considerations:

*Reporting Student Activities:*

Once a student activity fund is identified as a fiduciary activity and further a custodial fund, it is required to be reported to the custodial fund using a 9000 series Fund code. A Project code may be included in the string to track the activity. If the student activity does not meet the criteria as a fiduciary activity, it is required to be treated as governmental activities and included in a special revenue fund using 2800-2999 Fund codes. See Subchapter 10.11 Custodial Funds for further guidance on accounting and reporting for student activity funds.

Specific Accounting and Reporting Guidance:

*Example Entry*

To record a receipt of funds ($1,000) for a student activity fund meeting the requirements to be characterized as a custodial fund.

| **Budget Unit** | | | | | | **Account** | | | Project Code | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | | |
| | | | | | | | | | | | |
| 9001 | | | | | | 1 | 1001 | Cash in Bank | CXXXXXXX | $ 1,000 | |
| 9001 | XXX | XX | XX | 1 | 0000 | 4 | 1600 | Student Activities | CXXXXXXX | | $ 1,000 |

To record a receipt of funds for a student activity fund NOT meeting the requirements to be characterized as a custodial fund.

| **Budget Unit** | | | | | | **Account** | | | Project Code | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | | |
| | | | | | | | | | | | |
| 2801 | | | | | | 1 | 1001 | Cash in Bank | CXXXXXXX | $ 1,000 | |
| 2801 | XXX | XX | XX | 1 | 0000 | 4 | 1600 | Student Activities | CXXXXXXX | | $ 1,000 |

## 10.45 Student Expense Tracking

Topic Description:

Student expense tracking is most commonly used for special education. This topic covers accounting guidance related to student expense tracking.

Accounting and Reporting Considerations:

*Student Expense Tracking*

Student expense tracking shows the wide variety how costs per student for individual school districts vary within and between the different systems.

Factors that lead to variations in student expenses include:

- Special education costs
- Transportation costs
- Local programmatic choices
- Historical spending
- Capital construction projects
- Experience level of the teaching staff
- Contractual agreements with the staff

*Tracking Extraordinary Special Education Expenditures*

Extraordinary special education expenditures means a LEA's allowable expenditures that for any one child exceed $60,000 for a fiscal year. Child means a student with disabilities who is three years of age or older in the current school year. The State Board defines allowable expenditures that are included in any expenditures required under federal law, and any costs of mediation conducted by a mediator who is approved by the Secretary. The amount of extraordinary services reimbursement provided to each district or supervisory union will be equal to 95 percent of its extraordinary special education expenditures.

Extraordinary expenditures are increased annually by the annual change in the National Income and Product Accounts Implicit Price Deflator for State and Local Government Consumption Expenditures and Gross Investment as reported by the U.S. Department of Commerce, Bureau of Economic Analysis.

The State Board of Education defines allowable special education expenditures that include any expenditures required under federal law in order to implement fully individual education programs under the Individuals with Disabilities Education Act.

A supervisory union that has extraordinary expenditures in a fiscal year for any one child is eligible for extraordinary reimbursement equal to:

- An amount equal to its special education expenditures in that fiscal year for that child that exceed the extraordinary expenditures threshold amount multiplied by 95 percent; plus
- An amount equal to the lesser of:
- The amount of its excess expenditures; or
- The base amount of the census grant received by the supervisory union under for that fiscal year; multiplied by 60 percent.

Extraordinary special education expenditures are to be tracked using project codes. Project codes for student tracking consist of the letter "S" followed by the seven digit state student ID/perm number.

### 10.46 Student Transportation Costs

Topic Description:

This topic covers accounting guidance related to student transportation costs.

Accounting and Reporting Considerations:

*Allowable Student Transportation Expenditures*

Allowable student transportation expenditures, based of rules and practices published by the AOE, consist of the costs for transporting students on one trip per school day to and from the school of enrollment. Allowable student transportation expenditures exclude any expenditures for transporting students participating in curricular activities that take place off the school grounds as work placement or technical education programs. Additionally, allowable student transportation expenditures do not include transporting students participating in cocurricular or extracurricular activities. Cocurricular or extracurricular activities such as field trips or athletic competitions.

A SU is be reimbursed under based on a completed transportation reimbursement worksheet form prescribed by the Secretary and submitted to the Secretary as part of the Budget Collection Form on or before August 15 of the previous fiscal year.

*Calculating Allowable Student Transportation Expenditures*

Allowable student transportation expenditures are the net of revenues received for transporting students to and from school. Expenditures that are eligible for reimbursement or payment elsewhere are not to be included in allowable student transportation expenditures.

*Depreciation as a Component of Allowable Transportation Expenditures*

Depreciation equals one-seventh of the purchase price of a bus a year for seven years. Depreciation of a school bus begins in the year a bus is purchased. A bus more than seven years old is considered fully depreciated. Only the portion of depreciation attributable to the transportation of students on one trip per school day to and from school may be claimed as an allowable student transportation expenditure.

*Extraordinary Transportation Expenditure*

Extraordinary transportation expenditures consist of budgeted reimbursable transportation expenditures that exceed 8.25% of the total of all budgeted expenditures submitted in the LEA's preceding year Budget Collection Form and are due to unavoidable and unusual circumstances related to the location of the school building within the district; the topographical features of the district: the need to transport tuitioned students outside the district; the condition of the roads; or other unusual circumstances.

A LEA anticipating extraordinary transportation expenditures will apply to the Secretary by January of the preceding fiscal year. The application needs explain the extraordinary nature of the expenditures. The LEA will be awarded an amount equal to transportation expenditures in excess of 8.25% of the preceding year's total budgeted expenditures determined to be extraordinary transportation expenditures.

### 10.47 Subgrants

Topic Description:

Subgrants are an award of financial assistance made under a grant by a grantee to an eligible subgrantee. This topic covers accounting and reporting guidance related to subgrants.

Accounting and Reporting Considerations:

*Creating a Subgrant*

It is important to note that only SUs shall be able to subgrant funds to LEAs. A SU may not make a subgrant under a program unless authorized by federal and state statutes or when necessary to meet the purposes of a program. The AOE designates LEAs as recipients to which subgrants can be awarded. The AOE indicates whether subgrants can be made to LEAs identified in an approved application or, without regard to whether the LEA is identified in an approved application, have to be selected through a competitive process set out in subgranting procedures established by the SU. A subgrant is allowed if it will be used by that LEA to directly carry out project activities described in that application.

*Awarding a Subgrant*

The SU awarding a subgrant must ensure that subgrants are awarded on the basis of an approved budget that is consistent with the LEA's approved application and all applicable statutory, regulatory, and other requirements. When awarding an LEA a subgrant, the SU must ensure that it includes any conditions that are required by federal statutes. The SU must also be ensured that the LEA receiving the subgrant is aware of requirements imposed upon them by federal statutes.

Specific Accounting and Reporting Guidance:

*Example Entries*

**Example 1**

To record a receipt of food service funds from the State (mix of State and Federal funds) to a SU:
(1) SU receives $100,000 from the State.

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 6001 | | | | | | 1 | 1001 | Cash in Bank | $ 100,000 | |
| 6001 | XXX | 51 | 15 | 7 | 0000 | 4 | 3453 | Addl Breakfast Reimb | | $ 10,000 |
| 6001 | XXX | 51 | 15 | 7 | 0000 | 4 | 3474 | Reduced Lunch Initiative | | $ 10,000 |
| 6001 | XXX | 51 | 15 | 8 | 0000 | 4 | 4450 | School Lunch | | $ 35,000 |
| 6001 | XXX | 51 | 15 | 8 | 0000 | 4 | 4448 | CN After School Snack | | $ 25,000 |
| 6001 | XXX | 51 | 15 | 8 | 0000 | 4 | 4452 | Schl Bkfast/StartUp | | $ 20,000 |

To record a receipt of food service funds from the State to a SU: (1) SU subgrants $100,000 to SD.

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Fund*** | ***Location*** | ***Level*** | ***Program*** | ***RevSource*** | ***Function*** | ***Type*** | ***Acct.*** | | | |
| | | | | | | | | | | |
| 6000 | XXX | 51 | 15 | 9 | 5510 | 5 | 892 | Sub-Grant to Public VT LEA's | $ 100,000 | |
| 6001 | | | | | | 1 | 1001 | Cash in Bank | | $ 100,000 |

To record a receipt of food service funds from the State to a SU: (3) SD receives $100,000 subgranted from SU.

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| *Fund* | *Location* | *Level* | *Program* | *RevSource* | *Function* | *Type* | *Acct.* | | | |
| | | | | | | | | | | |
| 6001 | | | | | | 1 | 1001 | Cash in Bank | $ 100,000 | |
| 6001 | XXX | XX | 15 | 7 | 0000 | 4 | 2433 | St Addl Breakfast Reimb | | $ 100,000 |
| 6001 | XXX | XX | 15 | 7 | 0000 | 4 | 2474 | St Reduced Lunch | | $ 10,000 |
| 6001 | XXX | XX | 15 | 8 | 0000 | 4 | 2450 | Fed School Lunch | | $ 35,000 |
| 6001 | XXX | XX | 15 | 8 | 0000 | 4 | 2448 | Fed CN After School Snack | | $ 25,000 |
| 6001 | XXX | XX | 15 | 8 | 0000 | 4 | 2452 | Fed Schl Bkfast/StartUp | | $ 20,000 |

**Example 2 – Subgrant of Title I School Improvement**

SU receives Title I School Improvement revenue:

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| *Fund* | *Location* | *Level* | *Program* | *RevSource* | *Function* | *Type* | *Acct.* | | | |
| | | | | | | | | | | |
| 2109 | | | | | | 1 | 1001 | Cash in Bank | $ 20,000 | |
| 2109 | 401 | XX | XX | 4 | 0000 | 4 | 4255 | Title I Schl Improvement | | $ 20,000 |

SU Subgrants to member districts:

| **Budget Unit** | | | | | | **Account** | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| *Fund* | *Location* | *Level* | *Program* | *RevSource* | *Function* | *Type* | *Acct.* | | | |
| | | | | | | | | | | |
| 2109 | | | | | | 1 | 1001 | Cash in Bank | | $ 20,000 |
| 2109 | 201 | XX | XX | 4 | 5510 | 5 | 892 | Sub-Grant to Pub VT LEA | $ 5,000 | |
| 2109 | 202 | XX | XX | 4 | 5510 | 5 | 892 | Sub-Grant to Pub VT LEA | $ 10,000 | |

Member district 1 receives subgrant revenue:

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| *Fund* | *Location* | *Level* | *Program* | *RevSource* | *Function* | *Type* | *Acct.* | | | |
| | | | | | | | | | | |
| 2109 | | | | | | 1 | 1001 | Cash in Bank | $ 5,000 | |
| 2109 | 201 | XX | XX | 4 | 0000 | 4 | 2255 | Title I-Schl Improvement | | $ 5,000 |

## 10.48 Summer School

<u>Topic Description:</u>

Summer school sessions are carried out during the period between the end of the regular school term and the beginning of the next regular school term. This topic covers accounting guidance related to summer school.

<u>Accounting and Reporting Considerations:</u>

Summer school activities are to be accounted for in the general fund. Any fees paid for summer school are considered fees and should not be categorized as tuition. Program code 12 should be used with academic summer school programs while program code 14 should be used for nonacademic. Function 1101 should be used for summer school.

## 10.49 Supplies vs. Equipment

<u>Topic Description:</u>

Determining whether expenditures should be accounted for as supplies or equipment can be challenging. This topic provides guidance on making these determinations. See Subchapter 10.4 for guidance on Capital Assets and Depreciation.

<u>Accounting and Reporting Considerations:</u>

*Meeting the Supplies Criteria*

Supplies are continually consumed and replaced without substantially increasing the value of the assets of the LEA. LEAs need to be aware of the capitalization threshold for purchases. This threshold will determine whether or not property is treated as a supply or equipment. Depending on materiality, capitalization thresholds may differ from one LEA to another. Larger LEAs typically have higher capitalization thresholds. In most cases, LEAs have a capitalization threshold of at least $5,000.

The uniform guidance for administration of federal grants in Title 2 of the *Code of Federal Regulations*, Part 200 (the Uniform Guidance) allows property costing up to $5,000 to be charged to federal grants as supplies, rather than as equipment, unless the LEA's capitalization threshold is lower. If an LEA elects to set a capitalization threshold higher than $5,000 for most items, it still needs to have a separate threshold of $5,000 for items paid for with federal funds. It is recommended that LEAs set a similar threshold for items paid for with restricted state funds.

*Criteria for Distinguishing Between Supplies and Capitalized Equipment*

It can be difficult to determine whether expenditures for certain items should be classified and recorded as either supplies or capitalized equipment. Items may have the characteristics of equipment but have a low cost or are frequently lost, broken, or worn out and replaced in normal use. Whether an item should be classified as a supply or equipment is determined by the length of time the item is serviceable and on its contribution to the overall value of the physical assets of the LEA. For example, supplies are continually consumed and replaced without substantially increasing the value of the assets of the LEA while, equipment has a service life longer than a year and substantially increases the value of the physical assets of the LEA.

Supplies are items of an expendable nature that are consumed or worn out, deteriorate in use, or are easily broken, damaged, or lost. In LEA accounting, items of equipment that are not capitalized because of their low acquisition cost are considered to be supplies.

The LEA should consider the following in determining whether an expenditure is a supply or equipment:

- Does the item have a service life of less than one year?
- Is it easily broken, damaged, or lost in normal use?
- Is it likely to be replaced by an entirely new unit rather than to repair it?
- Is the cost of the item below the LEA's capitalization threshold?

If the answer to any one of the preceding questions is yes, the item should normally be classified as a supply. Absent other factors, if all the answers are no, the item should be classified as capital outlay.

Equipment with an acquisition cost less than the LEA's capitalization threshold is not capitalized. Expenditures for equipment not meeting the capitalization threshold, supplies, and noncapitalized improvements to existing capital assets are charged as current expenditure; that is, they are recognized as an expenditure of the current period rather than recorded as an asset. If the Board has adopted a capitalization policy that policy should be followed and implemented as part of the LEA's internal control structure, which can assist LEAs in determining whether transactions are operating expenditures or capital assets.

Specific and Accounting Guidance:

*Supplies under the Mandatory Method Rule:*

Supplies are defined as items that are consumed, worn out, or deteriorated through use. This includes all expenditures for general supplies for the operation of the LEA; gasoline, electricity, oil, coal, wood, and other energy-related supplies; food; books and periodicals (including textbooks); video tapes, movies, and other audio/visual materials; and charts, maps, globes, games, computers, and other manipulative devices.

See Subchapter 10.50 for further guidance on Technology or Computers as Supplies.

## 10.50 Technology

The following topic covers accounting guidance related to technology. See Subchapter 10.9 for further guidance on computer related topics.

Accounting and Reporting Considerations**:**

*Technology Asset Separation*

Technology-related assets are a class of capital assets that may require special treatment and reporting by LEAs. Although technology-related assets are not dissimilar from other capital assets (such as vehicles or furniture and fixtures), the resources dedicated to the installation and ongoing support and use of technology by LEAs have resulted in an increased level of interest by policymakers and community members. Thus, many LEAs have instituted special accounting and reporting practices associated with expenditures for technology-related assets.

Specific Accounting and Reporting Guidance:

*Differentiating Expenditures for Technology Hardware and Software*

Correctly reporting technology hardware and software expenditures can be tricky and confusing. Technology hardware costs are associated with the purchase of network equipment, servers, PCs, printers, and other devices and peripherals. Technology software costs are associated with the purchase of software used for educational or administrative purposes that exceed the capitalization threshold. For further guidance on cloud computing, and the capitalization and amortization of intangible asset, see Subchapter 10.9.

*Technology Supplies*

Expenditures for technology hardware and software that meet the standards for classification as a supply (and therefore are not capitalized) should be tracked in the Supplies – Technology Related object code. For further guidance on supplies vs. equipment, see Subchapter 10.49.

*Coding for Technology Equipment and Supplies*

Technology has specific Object codes for recording supplies and equipment. Object code 734 is used for expenditures related to technology equipment and technology infrastructure. Object code 735 is used to record technology software expenditure that exceed the capitalization threshold. Object code 651 is used to record technology supply expenditures, with Object codes 652-659 open for local use. Object 432 is used for technology expenditures related to repairs and maintenance services that are not directly provided by the SD. This included ongoing service agreements for technology hardware.

## 10.51 Textbooks

Topic Description:

This section focuses on the various rules and requirement related to accounting for the costs of textbooks.

Accounting and Reporting Considerations:

*Textbook Classification*

Textbooks are considered direct costs. Direct costs provide measurable, direct benefits to particular programs, including costs for instructional programs, and support costs that relate to the peripheral services necessary to maintain the instructional programs.

Textbooks are supplies under the mandatory method rule. Supplies are defined as items that are consumed, worn out, or deteriorated through use. For more accounting guidance on supplies, see Subchapter 10.49.

*Purchasing Textbooks*

The process of selecting a textbook for a classroom can be a challenging. The process usually includes a length review of applicable textbooks until one is selected. To facilitate this process, the purchasing office should be involved on the front end of the process, assisting as necessary to ensure the choice of text does not fall outside the state's procurement requirements.

Specific Accounting and reporting Guidance:

*Textbook Function*

Textbooks are reported in the Direct Instruction function, and can be used with all programs (10-90). For program descriptions see Subchapter 8.4.3.

*Textbook Object Code*

Textbook expenditures are accounted for using object code 641 – Supplies, Books, and Periodicals. When buying an amount of books that exceeds the capitalization threshold for a school library, Object code 739 – Other Equipment is used.

## 10.52 Transfers

<u>Topic Description:</u>

This topic covers accounting guidance related to transfers. For accounting guidance on interfunds, see Subchapter 10.15.

<u>Accounting and Reporting Guidance:</u>

*Transfers*

Fund transfers convey the transaction of financial resources from one fund to another. Fund transfers are listed in many funds under the expenditures. Fund transfers are not to be confused with incoming revenue transfers. Fund transfers have to be treated carefully so that expenditures are not duplicated. Fund Transfers are not revenues or expenditures of the LEA.

*Operating and Residual Equity Transfers*

Residual equity transfers are considered nonrecurring, or non-routine, transfers of equity between funds. Examples of residual equity transfers include a transaction from the general fund to either an enterprise fund or an internal service fund. Operating transfers are considered all other transfers other than residual equity transfers. Operation transfers include legally authorized transfers from a fund receiving revenue to a fund that will expend it.

<u>Specific Accounting and reporting Guidance:</u>

*Accounting for Transfers to Capital Asset Funds*

Object code 911 is used to account for transfers to capital asset funds for facilities or buses. This transaction is booked at the SU and SD level. The 5390 Function is used in the transaction string. To recognize a transfer-in of funds, 5200 is used for the Revenue Code.

*Accounting for Transfers to Food Service Funds*

Object code 912 is used to account for transfers to food service funds. This transaction is booked at the school level. The 5390 Function is used in the transaction string. To recognize a transfer-in of funds, 5200 is used for the Revenue Code.

*Accounting for Transfers to Indirects*

Object code 913 is used to account for indirect transfers. This type of transactions occurs when indirects are transferred from Federal funds to the General fund. Indirect transfer transactions are booked at the SU and SD level. The 2495 Function code is used when accounting for indirect transfers. To recognized a transfer-in of indirect funds, 4500 is used for the Revenue Code.

*Recording Interfund Transfers in eFinancePLUS*

eFinancePLUS handles transfers from one fund to another with the use of cash accounts. When an interfund transfer occurs the cash is debited/credited to both funds accordingly. For financial reporting purposes, a cash reclassification to accounts receivable/accounts payable (due to / due from) needs to be applied to both funds that are a part of an interfund transaction.

*Example Entries*

To record an interfund loan receivable: General fund lends $10,000 to temporarily fund an enterprise fund.

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| *Fund* | *Location* | *Level* | *Program* | *RevSource* | *Function* | *Type* | *Acct.* | | | |
| | | | | | | | | | | |
| 1001 | | | | | | 1 | 1301 | Interfund Loan Receivable | $ 10,000 | |
| 1001 | | | | | | 1 | 1001 | Cash in Bank | | $ 10,000 |
| 6001 | | | | | | 1 | 1001 | Cash in Bank | $ 10,000 | |
| 6001 | | | | | | 2 | 4001 | Interfund Loans Payable | | $ 10,000 |

To record an interfund accounts receivable: General fund pays cash of $2,500 for a supplies expense of a special revenue fund.

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| *Fund* | *Location* | *Level* | *Program* | *RevSource* | *Function* | *Type* | *Acct.* | | | |
| | | | | | | | | | | |
| 1001 | | | | | | 1 | 1302 | Interfund AR | $ 2,500 | |
| 1001 | | | | | | 1 | 1001 | Cash in Bank | | $ 2,500 |
| 2001 | | | | | | 1 | 1001 | Cash in Bank | | $ 2,500 |
| 2001 | XXX | XX | XX | X | XXXX | 5 | 610 | General Supplies | $ 2,500 | |

To record a reclassification of cash to accounts payable in eFinancePLUS at the end of the period/year related to the previous entry.

| Budget Unit | | | | | | Account | | | Debit | Credit |
|---|---|---|---|---|---|---|---|---|---|---|
| *Fund* | *Location* | *Level* | *Program* | *RevSource* | *Function* | *Type* | *Acct.* | | | |
| | | | | | | | | | | |
| 2001 | | | | | | 1 | 1001 | Cash in Bank | $ 2,500 | |
| 2001 | | | | | | 2 | 4002 | Interfund AP | | $ 2,500 |

## 10.53 Trust Funds

<u>Topic Description:</u>

This topic covers accounting guidance related to trust funds.

<u>Accounting and Reporting Considerations:</u>

Trust fund spending is controlled primarily through legal trust agreements. If a formal trust agreement is not established, the trust fund classification generally should not be used.

*Distinguishing Trust Funds and Custodial Funds*

Trust and Custodial funds are fiduciary fund types used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the LEA's own programs. The key distinction between trust funds and custodial funds is that trust funds normally are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held. A custodial fund does not involve a formal trust agreement and the LEA's role is purely custodial.

*Trust Fund Types*

Trust funds account for assets held by a LEA in a trustee capacity for its, members and beneficiaries of pension plans and other postemployment benefit (OPEB) plans, external investment pools, or private-purpose trust arrangements. Therefore, trust fund assets cannot be used to support the LEA's own programs.

Trust funds are generally accounted for using the economic resources measurement focus and the accrual basis of accounting, with the exception of recognizing certain liabilities of defined benefit pension plans and certain postemployment health care plans. Trust fund types include:

- Pension trust funds, which are fund accounts for resources that are required to be held in trust for members and beneficiaries of defined benefit pension plans, defined contribution plans, OPEB plans, or other benefit plans.
- Investment trust funds, which account for the external portion (a portion that does not belong the LEA) of investment pools operated by the LEA.
- Private purpose trust funds, which account for other trust arrangements under which the principal and interest benefit individuals, private organizations, or other governments.

<u>Specific Accounting and Reporting Guidance:</u>

8000 (fiduciary fund) will be used as the fund type when accounting for trust funds. Funds in the 5000 series are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used. If a formal trust agreement is not established, but there is a restriction that principal cannot be use, a Fund code in the 5000 series is used.

## 10.54 Tuition

Topic Description:

This topic covers accounting guidance related to tuition.

Accounting and Reporting Considerations

*Calculating Allowable Tuition*

The Secretary informs each school board of a receiving public school, each board of trustees of a receiving approved independent school for which the Secretary has calculated an allowable tuition, and each sending school district in Vermont of the calculated allowable tuition per elementary or secondary pupil in the receiving schools. Each school board or board of trustees of a receiving school then determines whether it overcharged or undercharged any sending district for tuition charges and will notify the district.

*Elementary School Tuition*

Tuition for elementary students is paid by the district in which the student is a resident. If a payment made to a public elementary school is three percent more than the calculated allowable tuition in the receiving LEA for the year of attendance, the district will be reimbursed, credited, or refunded by the elementary school that the student is attending. If a payment made to a public elementary school is three percent less than the calculated allowable tuition in the receiving LEA for the year of attendance, the district will be reimbursed, credited, or refunded by the sending district of the student.

*Independent Elementary School Tuition*

Unless a LEA votes to authorize payment of a higher amount, the tuition paid to an approved independent elementary school or an independent school meeting education quality standards cannot exceed the least of:

- The average announced tuition of Vermont union elementary schools for the year of attendance
- The tuition charged by the approved independent school for the year of attendance
- The average allowed tuition the district pays for its other resident elementary students in the year in which the student is enrolled in the approved independent school

*High School Tuition*

Tuition for high school students is paid by the LEA in which the student is a resident. LEAs pay the full tuition charged to its students attending a public high school in Vermont or an adjoining state or a public or approved independent school in Vermont functioning as an approved area career technical center, or an independent school meeting education quality standards. If a payment made to a public high school or an independent school meeting education quality standards is three percent more or less than the calculated allowed tuition in the receiving SD or independent school for the year of attendance, then the LEA will be reimbursed, credited, or refunded.

The LEA will pay an amount not to exceed the average announced tuition of Vermont union high schools for the year of attendance for its students enrolled in an approved independent school not functioning as a Vermont area career technical center, or any higher amount approved by a vote.

Specific Accounting and Reporting Guidance

*Announced Tuition*

Announced tuition rates are estimates of allowable tuition for the upcoming school year. For additional guidance on announced tuition, see Subchapter 5.1.2.

*Allowable Tuition Calculation*

Allowable tuition is the actual rate towns may charge for tuition. Allowable tuition is calculated by dividing actual allowable expenditures by the full-time equivalency of students. Excluded expenditures are considered:

- Transportation costs incurred by the receiving LEA for its resident student
- Transportation costs for which the receiving LEA receives reimbursement
- The portion of the total cost that is provided by direct grants from State or federal sources for salaries or other specific expenses
- Expenditures for maintenance, and payments of principal and interest for buildings used exclusively for boarding students if any
- Expenditures for special education
- Tuition payments for career technical education

*Tuition Reconciliation for Overcharges and Undercharges*

Annually, on or before November 1, the Secretary informs each school board of a receiving public school, each board of trustees of a receiving approved independent school for which the Secretary has calculated an allowable tuition, and each sending school district in Vermont of the calculated allowable tuition in the receiving schools. Each school board or board of trustees of a receiving school will then determine whether it overcharged or undercharged any sending district for tuition charges. The school board or board of trustees needs to notify the district by December 15 of the same year of the amount due or the amount to be refunded or credited.

If the sending district has paid tuition charges in excess of three percent of the calculated allowable tuition and is not sending enough students to the receiving district to use the overcharge funds as credit against tuition, the receiving district shall refund the overcharge money by July 31; provided, however, that the refund shall be in the amount that exceeded a three-percent overcharge. Interest owed the sending district on overcharge monies shall begin to accrue on December 1, at the rate of one-half percent per month.

If the receiving district has undercharged tuition in an amount three percent or more than the calculated allowable tuition, the sending district shall pay the receiving district an amount equal to the amount of the undercharge that is between three percent and ten percent of the allowable tuition. If payment is not made by July 31 of the year following the year in which the undercharge was determined, interest owed the receiving district on undercharge monies shall begin to accrue on August 1, at the rate of one percent per month.

*Calculation of Technical Education Tuition for Technical Centers*

Technical centers shall separate the costs of secondary technical education programs. Income and expenditures for adult education, postsecondary education, and other programs and activities shall be tracked and reported in cost centers separate from secondary programming as required in Rule 2390.1A. Income and expenditures for programs and services that are not state-approved technical education programs provided by the technical center to students and schools shall be determined through agreements that are developed between the technical center and the school/s that benefit and that are approved by the regional board. Such agreements shall not result in an increase in the costs of providing technical education programs.

Sending school districts and receiving school districts may develop agreements that allow students from sending schools to take courses outside their technical education program at the receiving school district in order to facilitate access to technical education. Such agreements shall specify how costs for these enrollments will be covered. If all sending school districts and the receiving school district are in agreement, these costs may be included in the technical education tuition. Otherwise, the sending school districts may be billed for these costs. In no case will enrollments in courses that are not part of the course of studies of a technical education program be reported as enrollment in a technical education program. The technical center shall identify the actual costs of secondary technical education programming that includes all costs associated with that programming.

The technical center shall calculate tuition by subtracting from the actual costs all income through federal funds that support secondary technical education programming; the state grants for overhead, salary assistance and equipment; and local sources of income that was generated by activities funded by the actual costs or use of the facility.

If out-of-state students attend a technical center, the net costs after subtracting the above income are divided into two parts - an amount to be covered through tuition for out-of-state students and an amount to be covered through funding for Vermont students. This allocation is calculated by adding [the (anticipated) number of full-time equivalent out-of-state students] + [the average of the full-time equivalent Vermont students for the prior three years] and then establishing the percentage of the total for each group. Net costs are divided into two parts based on these percentages.

Out-of-state tuition is calculated by dividing the costs to be covered by out-of-state enrollment by the anticipated number of out-of-state full-time equivalent students. The amount to be collected through tuition for Vermont students is identified by taking the net costs for Vermont enrollments and subtracting an amount that results from multiplying the number of full-time equivalent students times the projected equalized pupil general state support grant, and an amount that results from multiplying the number of full-time equivalent students times the projected state tuition reduction grant.

Tuition is calculated by dividing the amount to be collected by the average number of full-time equivalent students over the last six semesters. Vermont sending districts shall be assessed their share of the costs of technical education by multiplying the tuition per student by the number of average full-time equivalent students they enrolled in the technical center over the prior six semesters. Tuition and assessments shall be announced to sending districts by the February 1 prior to the school year in which they will be collected. The announced tuition shall also be reported to the commissioner by February 1.

*School District Payments to Technical Centers*

The general state support grant for the six semester average number of full-time equivalent students enrolled by the school district in a technical center/s shall be deducted from that school district's total state support grant and sent directly to the technical center/s attended by resident students. Those payments shall be made by the commissioner at the same time as general student state support payments are made to school districts. When tuition has been assessed to school districts, school districts shall make tuition payments within twenty days of receipt of their general state support grant. Additional assessments to specific schools districts to reimburse the costs of classes or services not covered by tuition shall be paid on the same schedule.

*Tuition Reconciliation*

Deficits and Surpluses in excess of 3% of net costs (16 V.S.A. § 834):

- Surplus –
    - If sending districts have paid tuition in excess of 3% of net costs for the prior year they shall be credited that amount toward their current year assessment in proportion to their contribution or, if they do not have an assessment sufficient to use the credit, the board of the receiving district shall refund that amount to the sending districts by July 31 of the current fiscal year. Interest shall begin to accrue on the refund on December 1, at the rate of one-half percent per month.
- Deficit
    - If the receiving district has under-assessed tuition by 3% or more of net costs, the sending districts shall pay the amount of the underassessment. If payment is not made by July 31 of the year following the year of the underassessment, interest shall be owed the sending district at the rate one half percent per month starting the next day, August 1.

# 11 PowerSchool eFinancePLUS

## 11.1 Encumbrance Control

Topic Description:

This topic covers accounting guidance on encumbrances, and how they are handled within the SSDDMS.

Accounting and Reporting Considerations:

*Encumbrance Funds*

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, an LEA encumbers funds to fulfill said commitments. Essentially, encumbrances represent amounts an LEA has committed to pay for goods or services that have not been received.

*Payroll and Benefit Encumbrances*

Payroll encumbrances identify all committed funds whether expended or unexpended, against budgets. Encumbering the funds needed for future payments to current employees provides a true picture of the funding still available in an account that can be used for future hires or reallocated for other purchases.

Unlike purchases, for which an encumbrance is recorded at the time the purchase order is issued, the annual cost of salaries and benefits can be encumbered at the beginning of the fiscal year. Salaries and benefits are disencumbered when paid, and amounts encumbered should be adjusted for personnel and rate changes.

*Encumbrance Account Representation*

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 the LEA.

It is the responsibility of the LEA 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.

*Benefits of Encumbrances*

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.

Specific Accounting and Reporting Guidance:

*Reporting Requirements for Encumbrances*

The following are reporting requirements for encumbrance accounting:

- 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 the LEA.
- Encumbered amounts cannot be included in the unassigned fund balance classification because the execution of a purchase order is equivalent to assigning the amount of the purchase order to a specific purpose; thus, the outstanding encumbrance amount would be included in assigned fund balance.
- If an LEA 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 major funds in the aggregate.

*Accounting for Encumbrances in eFinancePLUS*

Encumbrances are entered in the Fund Accounting if an LEA has financial commitments that need to be tracked but are not tied to purchase orders.

### *Menu Navigation*

The following is the encumbrance menu path in eFinancePLUS:

Fund Accounting > Entry & Processing > Encumbrances > POs/Encumbrances/Commitments

### *Adding an Encumbrance*

To add a new encumbrance for the menu path: Fund Accounting > Entry & processing > Encumbrances > POs/Encumbrances/Commitments to display the Post Encumbrances/Commitments/POs page. Use the Set Period item to change the fiscal year, or transaction, date for this encumbrance. Select add new (represented by a plus sign) to display the Add Encumbrances/Commitments/POs page, and enter information in the page's fields. Once complete, distribute the item's costs to the appropriate ledger accounts. As rows of accounting distribution date are entered, the system will keep a running total of all charge amounts in the Total field at the bottom of the Charge Information section.

*Ledger Transactions*

When an LEA posts an encumbrance to Fund Accounting, the system generates the following ledger transactions:

- For all expenditure budget accounts included in the encumbrance's accounting distribution, the encumbrance amount is increased and the budget balance is reduced. These transactions are recorded on the Expenditure Ledger.
- The same entries are made on the Project Ledger for any project budget accounts included in the encumbrance distribution.

When encumbrances are posted to the Expenditure Ledger, the following General Ledger balance sheet account transactions occur:

Debit Encumbrance Control account

Credit Reserve for Encumbrance account

A record is added to the Encumbrance Ledger (menu path: Fund Accounting > Entry & Processing > Detailed Displays > Encumbrances, and then enter the appropriate search criteria).

LEAs can search for and view the record by using the Transactions page (menu path: Fund Accounting > Entry & Processing > Detailed Displays > Transactions).

*Changing Information for a Fund Accounting Encumbrance:*

Follow the path, Entry & Processing > Encumbrance > POs/Encumbrances/Commitments, to start the process of changing encumbrance information.

Find the encumbrance that needs adjusting by entering criteria in the Search Criteria section. Once in the Change Encumbrance/Commitments/POs page, LEAs have the ability to change the line item's vendor number and description fields. In the Control Number field, enter a code to identify a change to the selected encumbrance. This codes is used to track the transaction records that are created by the update. After completing this page, the system displays the accounting distribution for the current encumbrance line item. Change the Budget Unit and Account fields as needed, or keep the original accounting distribution.

Use the Change Amount fields to adjust the original encumbrance amounts for each distribution row. LEAs can enter a positive or negative adjustment. If an LEA uses project accounting to record an encumbrance, change the Project and Account fields for a row's Project Ledger distribution as needed. Once saved, the adjustments will be generated in the System Processing section.

*Batch Encumbrances*

This option is used to enter encumbrance records into batch files that can be reviewed, updated, and later posted to Fund Accounting by an LEA. Using batch encumbrances allows LEAs to identify data entry errors during the review process before records are posted. Batch entry also allows for better control in the way records are grouped for reporting purposes.

To access the Batch Encumbrances Page follow the menu path: Fund Accounting > Entry & Processing > Encumbrances > Batch Encumbrances.

*Add Batch Encumbrance Page*

This page is used to add a record to a new or existing batch file. This page consist of two sections, Encumbrance Data and Charge Information. Each section displays input fields for defining the following information for each batch encumbrance

- Control Number
- Vender Number
- Accounting Distribution
- Fiscal Year/Period
- Encumbrance Description
- Project Accounting
- Encumbrance Number
- Encumbrance Amount
- Distribution

*Batch Encumbrance Entry Page*

This page is used to search for, view, and update encumbrances in a selected batch file. LEAs can also add encumbrance records to the batch file. The page consists of a search section, where LEAs enter criteria for the records you want to retrieve, and a list section, which displays search results and allows LEAs to select and display a specific encumbrance record.

*Creating a New Batch Encumbrance File*

To create a new batch file follow the path, Fund Accounting > Entry & Processing > Encumbrances > Batch Encumbrances. Select Add New (displayed as a "+" sign) to add new batch encumbrance. Complete all data field inputs in the Encumbrance Data Section. Have the Continuous checkbox selected if more than one line item is being added, then click OK. The Charge Information section will be showing, where the encumbrance account distributions can be entered. After all distributions are entered, click OK to save the encumbrance batch file. If the continuous field is selected, the system saves the encumbrance and returns to the Control Number field, where more encumbrances can be added to the current batch, or a new batch can be stated by entering a different Control Number.

*Adding an Encumbrance to an Existing Batch File*

Once on the Batch Encumbrance page, select the batch file that needs updating. When the batch file is selected, the Post Encumbrances – Batch Entry page will appear. Select Add New (displayed as a "+" sign) to display the Add Batch Encumbrance page, where the Encumbrance Data section fields will be filled out. Keep the continuous checkbox selected if more than one line item is being selected. After this is complete move to the Charge information section by pressing OK. Enter the encumbrance's accounting distribution in the Charge Information Section. Press OK to save the record. If the continuous field is selected, the system will save the record and return to the period/year fields so another encumbrance can be added.

Besides the fields used to identify the encumbrance and define its accounting distribution charge, the Post Encumbrances - Batch Change page includes a Hold checkbox. This field determines whether an encumbrance is eligible for posting to Fund Accounting.

*Reviewing and Updating an Existing Batch Encumbrance Record*

The Batch Change page can be used to view and update batch encumbrance records. This page is also used to release an encumbrance for posting.

Besides the fields used to identify the encumbrance and define its accounting distribution charge, the Post Encumbrances Batch Change page includes a Hold checkbox. This field determines whether an encumbrance is eligible for posting to Fund Accounting:

- If the field is selected, then the encumbrance is on hold and cannot be posted.
- If the field is not selected, then the encumbrance can be posted to Fund Accounting.

When a new encumbrance is added to a batch, the system selects the Hold field by default. A user cannot access this field when adding a record. If a user wants to clear an encumbrance's

Hold field after the record has been added and saved, they can access the record in the Post Encumbrances - Batch Change page, clear the Hold field, and save the update by clicking OK.

As an alternative to clearing the field for an individual encumbrance, the Release item in the Batch Encumbrances page can be used to clear the Hold fields for all encumbrances stored in a batch.

On the Batch Encumbrances menu, select the desired encumbrance batch that is to be reviewed and/or updated. Enter criteria in the Search Criteria section to find the encumbrances that will be reviewed and/or updated. If an encumbrance is updated, the change is displayed in the Post Encumbrances section in the Batch Change page.

## 11.2 Expenditure Control

Topic Description**:**

This topic covers accounting guidance on expenditures, and how they are handled within the SSDDMS.

Accounting and Reporting Considerations:

*Expenditures*

GASB defines expenditures as decreases in net financial resources. 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.

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 LEA and providing goods and services.

*Expenditure Recognition*

Expenditures should be 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. 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 are not recorded as expenditures and liabilities of the fund until the due date for payment of the compensated absences. However, if the LEA 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.

*Types of Expenditures*

Operating expenditures include a wide range of expenditures, with payroll and related employee benefits often being the largest portion.

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 are recorded as capital outlay expenditures when the liability is incurred, usually on receipt of the related asset. For further guidance on capital assets, see Subchapter 10.4, Capital Assets and Depreciation.

Debt service expenditures represent the payment of principal and interest needed to service debt. No accruals for interest need to be made for interest accrued at fiscal year-end.

Intergovernmental charges relate to the transfer of resources from one LEA to another, or from other local governments, or to or from the state. Examples include contracted instructional services between LEAs, or other local governments. Such expenditures are accounted for in the general fund using the modified accrual basis of accounting.

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. For further accounting guidance on transfers and interfund transfers, see Subchapters 10.15 and 10.52.

Specific Accounting and Reporting Guidance:

*Expenditure Ledger*

The expenditure Ledger enables LEAs to list and delete records. LEAs can also access pages for adding records, adjusting budgets, transferring funds between records, listing expenditure transactions, and reviewing expenditure data.

To access the Expenditure Ledger in eFinancePLUS follow the menu path: Fund Accounting > Entry & Processing > Budget Ledgers > Expenditure Ledger.

*How to Add an Expenditure*

To add an expenditure, select "Add New" (shown as a "+" sign) on the Expenditure Budgets page displayed in the Expenditure Ledger. A budget information section will appear where a user can enter information into the fields. In the Budget Amount field, enter the amount of the budget for this account. The inputted budgeted amount will automatically populate the 1st Period field. To budget this expenditure on an annual basis, leave the full amount in the 1st Period field. To set up a per period budget, change the amount in the 1st period field, and then allocate the remainder to the 2nd through 12th period fields. Do not use the 13 period field until after the close of a year.

*How to Adjust the Budget for an Expenditure Ledger Record*

To adjust the budget for an expenditure ledger record, go to the Expenditure Budgets page, which is accessed through the Expenditure Ledger. In the Selection Criteria section, enter criteria identifying the expenditure records that need adjusting. From the search results of the Selection Criteria page, select the record that needs adjusting, and then click Adjust Budget to display the Expenditure Budgets adjustment page. Tab through the Budget Unit and Account fields to display budget information in the fields to the right (Current Budget through Control Balance Amount). Enter a Description and Control Number. Then, in the Allocation Adjustments section, enter the amounts for increasing or decreasing the 1st-12th Period budgets. Use a positive number for an increase and a negative number for a decrease. Only enter the adjustment: Do not enter the new (resulting) period amount. For example, to decrease a period's budget from 1,000.00 to 900.00, enter -100.00. If an LEA intends to adjust the next record from the Expenditure Budgets page's List section, leave the Continuous checkbox selected, otherwise, clear the checkbox and press "OK" (represented by a green and checkmark).

*How to Transfer Expenditure Budget Amounts*

LEAs can transfer expenditures from one budget account to multiple budget accounts, as long as they are within the same fund. To transfer expenditures, first go to the Expenditure Ledger and access the Expenditure Budgets page. From the Selection Criteria section, enter criteria identifying the expenditure records and select the record that funds are be transferred from, and then click transfer. This will display the Post Budget Transfer page. Select the Transfer Number field and enter a number to identify the expenditure transfer, and enter a description of the transfer in the Description field. In the Control Number field, enter a number for tracking the transfer on the Transactions options page (follow path: Fund Accounting > Entry & Processing > Detailed Displays > Transactions option). Make sure to clear the Continuous checkbox, unless funds are being transferred for most of the records found in the search. On the first row in the Transfer section, tab through the Budget Unit and Account fields, and then enter a brief description in the Description field. In the From Amount field, enter the amount that is being transferred from the current budget unit-account combination. Tab through the To Amount field to accept its 0.00 default. On the next row, enter the Budget Unit, Account, and Description for the budget unit-account combination receiving the transfer. Tab through the From Amount field to accept its 0.00 default, and in the To Amount field, enter the amount being transferred to the current budget unit-account combination. Click (OK) to post the transfer and return to the Expenditure Budgets page.

*How to View Balances in the Period Balances Page*

The Period Balances page displays details on a selected expenditure record, including period budget, expenses and encumbrance amounts as well as related totals. From the Expenditure Budgets page, accessed from the Expenditure Ledger, LEAs can view period balances of records. To do so, in the Selection Criteria section, an LEA enters criteria identifying the expenditure records. Once the search results have been retrieved, press Period Balances to display balances for the expenditure record.

*How to View Requisitions Tied to an Expenditure*

The Requisitions page is only available if a requisition applies to the record. This page can be found on Expenditure Budgets page, accessed from the Expenditure Ledger, LEAs can view period requisitions tied to records. To do so, in the Selection Criteria section, an LEA enters criteria identifying the expenditure records. Once the search results have been retrieved, press Requisitions to display balances for the expenditure record. If the budget unit does not have any requisitions, the system displays a message indicating no matching records were found.

*How to Generate the Expenditure Control Short Listing Report*

From the Expenditure Ledger select the Expenditure Budgets page to display the Selection Criteria section. Enter search criteria in the Selection Criteria section to identify expenditure records. From the List section of the searched criteria, select the desired record, and then click Budget Control to display the status page. Select print, and specify how the report should be generated.

*How to Delete expenditure records*

From the Selection Criteria section on the Expenditure Budgets page, which can be accessed from the Expenditure Ledger page, enter criteria identifying the records and press "Find". LEAs can select the records they want to delete. An error message will display if the record's budget does not equal zero or has had transactions recorded against it.

### 11.3 Revenue Control

Topic Description:

This topic covers accounting guidance on revenues, and how they are handled within the SSDDMS.

Accounting and Reporting Considerations:

*Revenues*

Revenues are increases in resources to a LEA's current financial resources excluding:

- Interfund transfers,
- Debt issue proceeds, and
- Redemptions of demand bonds.

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.

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

GAAP requires revenues to be recognized when they are subject to accrual, which means they must be both measurable and available. Revenues are:

- *Measurable* when the amount of the revenue is subject to reasonable estimation
- *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

Specific Accounting and Reporting Guidance:

*Revenue Ledger*

The Revenue Ledger in eFinancePLUS is used to create, adjust, and review budget records. Revenue records can be deleted if they are no longer needed, provided they have a zero balance, and have no transactions against them during the current year.

To access the Revenue Ledger, follow the menu path: Fund Accounting > Entry & Processing > Budget Ledgers > Revenue Ledger

*How to set up a new Revenue Budget Record*

To create a new Revenue Budget Record, go the Revenue Ledger and select the Revenue Budgets page. Select Add New (represented as a "+" sign) and complete the fields identifying the new revenue record. In the Revenue Budget Amount field, enter the revenue amount budgeted for the fiscal year, and press OK (represented as a checkmark) to save the record.

*How to Adjust the Budget for a Revenue Ledger Record*

To delete a revenue record, go the Revenue Ledger and select the Revenue Budgets page. From this page, in the Selection Criteria section, enter criteria identifying the revenue records. In the List section from the criteria search, select the budget record that needs to be adjusted and press Adjust Budget. Tab through the Budget Unit and Accounts fields to display the Current Budget, Receipts, Receivables, and Balance. Enter a description of the adjustment in the Description field, and enter the adjustment in the Budget Adjustment field.

*How to View Revenue Period Balances*

To view a revenue period balance, go the Revenue Ledger and select the Revenue Budgets page. From this page, in the Selection Criteria section, enter criteria identifying the revenue records. Then select the desired revenue record and press Period Balances. This action will display the desired revenue period balance. Enter the adjustment amount using a positive number for an increase or a negative number for a decrease. Only the adjustment should be entered. Do not enter the new (resulting) annual budget. For example, to decrease the Current Budget of 10,000 to 9,000, enter -1,000. Press OK (represented by a checkmark) to post the adjustment to the Revenue Ledger. The system calculates the new amount after the adjustment is posted. If the next record from the Revenue Budgets page's List section needs adjustment, leave the Continuous checkbox selected, otherwise, clear the checkbox.

*How to Transfer Revenue Budget Amounts*

To transfer a revenue period balance, go the Revenue Ledger and select the Revenue Budgets page. From this page, in the Selection Criteria section, enter criteria identifying the revenue records. Then select the desired revenue record that needs adjustment and press Transfer. This will display the Post Budget Transfer page. Enter a number in the Transfer Number Field to identify the transfer. If number is not added in the number field, the system will default to the next available sequential number in the Fund Accounting Profile. Add a description of the transfer in the Description field, and a transfer tracking number in the Control Number filed.

Transfers can be tracked by access Transaction options (menu path: Fund Accounting > Entry & Processing > Detailed Displays > Transactions). Uncheck the Continuous checkbox, unless funds are being transferred for most of the records found in the search. Press OK (represented by a green checkmark) to access the Transfer Section. Tab through the Budget Unit and Account fields, and enter a brief description about the transfer in the Description field. In the amount field, enter the amount that is being transferred from the current budget unit-account combination. On the next row, enter the Budget Unit, Account, and description for the budget unit-account combination receiving the transfer. Tab through to the To Amount field and enter the amount being transferred to the current budget unit-account combination.

*How to Generate the Revenue Ledger Short List Report*

To generate the Revenue Ledger Short Listing report, go the Revenue Ledger and select the Revenue Budgets page. From this page, in the Selection Criteria section, enter criteria identifying the revenue records. Press print when the search is complete, and the report will be produced.

*How to Delete a Revenue Record*

To delete a revenue record, go the Revenue Ledger and select the Revenue Budgets page. From this page, in the Selection Criteria section, enter criteria identifying the revenue records. Select the revenue record that is to be deleted. An error prompt will display if the revenue record does not equal zero, or if the record has had transactions recorded against it.

## 12 State Allocation Rules

This section identifies when school, SD, or SU data will be allocated based "a factor" to split up some of the information (e.g., district-wide level data or the yet to be created other level data). Expenses recorded using the Location wide level will be allocated out to Elementary and secondary using the appropriate Student counts for the location code in the transaction. This needs to be done to allow AOE to calculation Allowable tuition. Schools will use enrollment counts when calculating allowable tuition. SD and SUs will use enrollment counts for the grades they operate and average daily membership counts for grades they tuition. These formulas are subject to change in the future. Under 16 V.S.A. § 4010, the State defines the allocation as:

**§ 4010. Determination of weighted membership**

(a) On or before the first day of December during each school year, the Secretary shall determine the average daily membership of each SD for the current school year. The determination shall list separately:

(1) Resident prekindergarten children;

(2) Resident students being provided elementary or kindergarten education; and

(3) Resident students being provided secondary education.

(b) The Secretary shall determine the long-term membership for each SD for each student group described in subsection (a) of this section. The Secretary shall use the actual average daily membership over two consecutive years, the latter of which is the current school year.

(c) The Secretary shall determine the weighted long-term membership for each SD using the long-term membership from subsection (b) of this section and the following weights for each class:

Prekindergarten 0.46

Elementary or kindergarten 1.0

Secondary 1.13

(d) The weighted long-term membership calculated under subsection (c) of this section shall be increased for each SD to compensate for additional costs imposed by students from economically deprived backgrounds. The adjustment shall be equal to the total from subsection (c) of this section, multiplied by 25 percent, and further multiplied by the poverty ratio of the district.

(e) The weighted long-term membership calculated under subsection (c) of this section shall be further increased by 0.2 for each student in average daily membership for whom English is not the primary language.

Subsection (f) repealed effective July 1, 2020.

(f) For purposes of the calculation under this section, a district's equalized pupils shall in no case be less than 96 and one-half percent of the actual number of equalized pupils in the district in the previous year, prior to making any adjustment under this subsection.

(g) The Secretary shall develop guidelines to enable clear and consistent identification of students to be counted under this section.
(h) On December 1 each year, the Secretary shall determine the equalized pupil count for the next fiscal year for district review. The Secretary shall make any necessary corrections on or before December 15, on which date the count shall become final for that year.
(i) The Secretary shall evaluate the accuracy of the weights established in subsection (c) of this section and, at the beginning of each biennium, shall propose to the House and Senate Committees on Education whether the weights should stay the same or be adjusted. The provisions of 2 V.S.A. § 20(d) (expiration of required reports) shall not apply to the report to be made under this subsection. (Added 1997, No. 60, § 18, eff. July 1, 1998; amended 1999, No. 49, § 2, eff. June 2, 1999; 2003, No. 68, § 39, eff. June 18, 2003; 2003, No. 130 (Adj. Sess.), § 11; 2007, No. 62, § 7; 2007, No. 66, § 19; No. 82, §§ 7, 8; 2013, No. 92 (Adj. Sess.), § 236, eff. Feb. 14, 2014; 2013, No. 142 (Adj. Sess.), § 32; 2013, No. 174 (Adj. Sess.), § 53; 2015, No. 46, § 22, eff. July 1, 2016; 2015, No. 46, § 24, eff. July 1, 2020.)

Under 16 V.S.A. § 4028, the State pays funds to LEAs in the following manner:

**§ 4028. Fund payments to SDs**

(a) On or before September 10, December 10, and April 30 of each school year, one-third of the adjusted education payment under Section 4011 of this title shall become due to SDs; except that districts that have not adopted a budget by 30 days before the date of payment under this subsection shall receive one-quarter of the base education amount, and upon adoption of a budget shall receive additional amounts due under this subsection.
(b) Payments made for special education under Chapter 101 of this title, for career technical education under Chapter 37 of this title, and for other aid and categorical grants paid for support of education shall also be from the Education Fund.
(c)(1) Any district that has adopted a school budget that includes high spending, as defined in 32 V.S.A. § 5401(12), shall, upon timely notice, be authorized to use a portion of its high spending penalty to reduce future education spending:

(A) By entering into a contract with an operational efficiency consultant or a financial systems consultant to examine issues such as transportation arrangements, administrative costs, staffing patterns, and the potential for collaboration with other districts;
(B) By entering into a contract with an energy or facilities management consultant; or
(C) By engaging in discussions with other SDs about reorganization or consolidation for better service delivery at a lower cost.

(2) To the extent approved by the Secretary, the Agency shall pay the district from the property tax revenue to be generated by the high spending increase to the district's spending adjustment as estimated by the Secretary, up to a maximum of $5,000.00. For the purposes of this subsection, "timely notice" means written notice from the district to the Secretary by September 30 of the budget year. If the district enters into a contract with a consultant pursuant to this subsection, the consultant shall not be an employee of

the district or of the Agency. A copy of the consultant's final recommendations or a copy of the district's recommendations regarding reorganization, as appropriate, shall be submitted to the Secretary, and each affected town shall include in its next town report an executive summary of the consultant's or district's final recommendations and notice of where a complete copy is available. No district is authorized to obtain funds under this section more than one time in every five years.

(d) Notwithstanding 2 V.S.A. § 502(b)(2), the Joint Fiscal Office shall prepare a fiscal note for any legislation that requires a SU or SD to perform any action with an associated cost, but does not provide money or a funding mechanism for fulfilling that obligation. Any fiscal note prepared under this subsection shall be completed no later than the date that the legislation is considered for a vote in the first committee to which it is referred. (Added 1997, No. 60, § 18, eff. July 1, 1998; amended 1997, No. 71 (Adj. Sess.), § 70, eff. July 1, 1999; 1997, No. 71 (Adj. Sess.),§ 118, eff. March 11, 1998; 1997, No. 147 (Adj. Sess.), § 159(b); 1999, No. 152 (Adj. Sess.), § 166b; 2003, No. 68, § 20, eff. June 18, 2003; 2005, No. 38, § 10, eff. June 2, 2005; 2007, No. 66, § 10; 2009, No. 44, § 19, eff. May 21, 2009; 2013, No. 92 (Adj. Sess.), §§ 243, 302, eff. Feb. 14, 2014; 2013, No. 174 (Adj. Sess.), § 68, eff. June 4, 2014; 2015, No. 23, § 41.)

## 13 Glossary

**Abatement -** A complete or partial cancellation of an expenditure or revenue.

**Account -** A record of transactions affecting a specific item.

**Accounting period -** A period of time for which records are maintained and at the end of which financial statements are prepared covering the period**.**

**Account number -** Numbers and/or letters that are assigned to the ordinary titles of accounts for classification of accounts and ease of reference.

**Accounts payable -** Amounts due and owed to private persons, business firms, governmental units, or others for goods or services received and/or services rendered prior to the end of the fiscal year. Includes amounts billed but not paid. Does not include amounts due to other funds of the same LEA.

**Accounts receivable -** Amounts due and owed to private persons, business firms, governmental units, or others for goods or services received and/or services rendered prior to the end of the fiscal year. Includes amounts billed but not received. Does not include amounts due to other funds of the same LEA.

**Accounting system -** The methods and records established to identify, assemble, analyze, classify, record and report transactions and to maintain accountability for the related assets and liability.

**Accrual basis -** The basis of accounting under which revenues are recorded when earned and expenditures are recorded as soon as they result in liabilities for benefits received, notwithstanding that the receipt of the revenue or the payment of the expenditure may take place, in whole or in part in another accounting period.

**Accumulated depreciation -** A contra-asset account used to report the accumulation of depreciation. (See also Depreciation)

**Adult basic education -** A program of public education adapted to the needs of persons who are beyond compulsory school age and who have not completed secondary education.

**Allocation -** Division or distribution in accordance with a predetermined plan.

**Allowable costs -** Costs that meet the specific criteria of a granting agency (AOE for example).

**Allowance -** A provision for valuing an asset at net, such as an allowance for bad debts. The allowance for bad debts would be deducted from accounts receivable to reflect the receivables that are likely to be collectable.

**Apportionment -** Allocation of state or federal aid, district taxes, or other moneys among LEA's or other governmental units.

**Appraisal -** An estimate of property value made by the use of systematic procedures based on physical inspection and inventory, engineering studies, and other economic factors.

**Appropriation -** An authorization, granted by the governing board, to make expenditures and to incur obligations for special purposes. An appropriation is usually limited in purpose amount, and the time period during which it may be expended.

**Arbitrage -** The profit earned (i.e., interest earnings in excess of interest costs) from the investments of the proceeds of lower-interest tax-exempt securities in higher yielding taxable securities.

**Asset -** A probable future economic benefit obtained or controlled by a particular entity as a result of past transactions or events

**Audit -** A searching investigation of the accounting records and the other evidence supporting the financial statements to determine whether those statements present a fair and reasonably complete picture of the organizations financial position and its Activities during the period being audited.

**Audit finding -** In the context of a financial audit, a weakness in the internal controls or an instance of noncompliance with applicable laws and regulations that is presented in the audit report in conformity with GAGAS.

**Auditor's report -** In the context of a financial audit, a statement by the auditor describing the scope of the audit and the audit standards applied in the examination, and setting forth the auditor's opinion on the fairness of presentation of the financial information in conformity with GAAP or some other comprehensive basis of accounting.

**Average daily membership (ADM) -** The average enrollment of pupils who are legal residents of the district attending public schools or for whom the district must reimburse the Secretary during the annual census period (the first 40 days of the school year in which the school is actually in session).

**Balance sheet -** The financial statement disclosing the assets, liabilities, and equity of an entity at a specific date in conformity with GAAP.

**Basic financial statements -** Those financial statements, including notes, necessary for the fair presentation of the financial position and the results of operation of an entity in conformance with GAAP. They include a balance sheet, an "all inclusive" operating statement, a budget comparison statement (for all governmental funds for which a budget has been adopted) and a statement of changes in financial position (for proprietary funds, pension trust funds, and nonexpendable trust funds).

**Basis of accounting -** A term used to refer when revenues, expenditures, expenses, and transfers-and the related assets and liabilities-are recognized in the accounts and reported in the financial statements. Specifically it relates to the timing of the measurements made, regardless of the nature of the measurement, on either the cash or accrual method.

**Bond -** A certificate containing a written promise to pay a specified sum of money, called the *face value*, at a fixed time in the future, called the *date of maturity*, and specifying interest at a fixed rate, usually payable periodically.

**Book value -** The cost or stated costs of assets less accumulated depreciation as shown by the books of accounts.

**Budgeting -** A plan of financial operation consisting of an estimate of proposed revenue and expenditures for a given period and purpose. The term usually indicates a financial plan for a single fiscal year.

**Budget transfer -** Changes amount budgeted items. They do not increase or decrease the total budget.

**Capital assets -** See Fixed Assets**.**

**Capital outlay -** Amounts paid for fixed assets or additions to fixed assets, including land or existing buildings, remodeling of buildings, or initial and additional equipment.

**Capital projects fund -** A fund created to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary or trust funds.

**Cash -** Currency, checks, postal and express money orders, and bankers' drafts on hand or on deposit with an official or agent designated as custodian of cash and bank deposits. Any restriction or limitation as to the availability of cash should be indicated.

**Cash basis -** A basis of accounting under which the transactions are recognized only when cash is received or disbursed.

**Chart of accounts -** A systematically arranged list of accounts that are applicable to a specific LEA. All account names and numbers, if any, are listed numerical order.

**Check -** A bill of exchange drawn on a bank and payable on demand; a written order on a bank to pay on demand a specific sum of money to a named person, to his or her order, or to a bearer out of money on deposit to the credit of the maker. A check differs from a warrant in that a warrant is not necessarily payable on demand and may not be negotiable; a check differs from a voucher in that a voucher is not an order to pay. A voucher-check combines the distinguishing characteristics of a voucher and a check; it shows the propriety of a payment and is an order to pay.

**Classification -** The naming or identification of an item or a category, such as the designation of the particular account into which a receipt or an expenditure is to be recorded or the separation of data into acceptable groupings so that financial facts can be stated more clearly**.**

**Code -** (1) A distinguishing reference number or symbol; (2) a statement of the laws of a specific field (e.g., *Educational Code, Penal Code, Civil Code, and Labor Code)*.

**Collaborative program -** A program created pursuant to an agreement between two or more supervisory unions for the purpose of cooperatively providing special education services

**Combining statements-by fund type -** The second of the financial reporting pyramid's three reporting levels containing GAAP financial statements. Such statements are presented for each fund type for which the government maintains more than one fund. They include GAAP financial statements for each fund of a particular fund type in separate adjacent columns and a total column which duplicates the column for that fund type in the combined statements-overview.

**Compensated absences -** Absences for which compensation is paid (e.g., vacation and sick leave).

**Compensatory services -** Educational services, not including special educational services, for students who require additional assistance in order to benefit from regular classroom instruction and includes education services for children at risk of school failure.

**Compliance auditing -** Auditing for compliance with applicable laws and regulations. Test of compliance with laws and regulations are substantive tests there this term should not be confused with the similar term "compliance testing" which refers to testing for compliance with internal control procedures.

**Component unit -** An organization that is legally separate and for which the elected officials of the primary government are financially accountable or for which the nature and significance of its relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**Comprehensive annual financial report (CAFR) -** The official annual report of a governmental entity. It includes (a) the five combined financial statements in the combined statements-overview and their related notes and (b) combining statements by fund type and individual fund and account group financial statements prepared in conformity with GAAP and organized into a financial reporting pyramid. It also includes supporting schedules necessary to demonstrate compliance with finance related legal and contractual provisions, required supplementary information, extensive introductory material and a detail statistical section. Every reporting governmental entity should prepare a CAFR.

**Contra account -** An account to record offsetting transactions (e.g., abatements).

**Contract -** An agreement between two or more people or entities to do something. Contracts are usually in writing and are enforceable by law.

**Contracted services -** Expenditures for services rendered under contract by personnel who are not on the payroll of the LEA, including all related expenditures covered by the contract.

**Corrective action plan -** A plan local officials are required to submit to appropriated state and federal officials under the Single Audit Act. It details how material noncompliance or weaknesses found in the audit will be eliminated or why corrective action is not necessary.

**Cost -** The amount of money or its equivalent value paid or agreed to be paid for property or services. Cost may be incurred even before money is paid; that is, as soon as a liability is assumed. Ultimately, however, money or its equivalent must be given in exchange. The cost of some property or service may in turn become part of the cost of another property or service. For example, the cost of materials will be reflected in the cost of articles made from such materials.

**Cost accounting -** The method of accounting which provides for assembling and recording of all elements of cost incurred to accomplish a purpose, to carry out an activity or operation, or to complete a unit of work or a specific job.

**Credit -** The right side of a double-entry posting. Credits will reduce assets, deferred outflows of resources, and expenditures and increase liabilities, deferred inflows of resources, revenue, and fund balance.

**Current assets -** Assets that are available or can be made readily available to meet the cost of operations or to pay current liabilities.

**Current liabilities -** Amounts due and payable for goods and services received prior to the end of the fiscal year. Current liabilities should be paid within a relatively short period of time, usually within a year.

**Current loans -** Loans payable in the same fiscal year in which the money was borrowed

**Debit -** The left side of a double-entry posting. A debit will increase assets and expenditures and reduce liabilities, revenue, and fund balance.

**Debt service -** Expenditures for the retirement of debt and for interest on debt.

**Debt service fund -** A fund established to account for the accumulation of resources for, and the payment of, general long term debt principal and interest. Sometimes referred to as a Sinking Fund.

**Defeasance -** The legal release of a debtor from being the prime obligator under the debt. The release is done either by the courts or the creditor.

**Deferred charges -** Expenditure that are not chargeable to the fiscal period in which they were made but that are carried as an asset on the balance sheet pending amortization or other disposition. Deferred charges differ from prepaid items in that they usually extend over a long period of time (more than five years) and are not regularly recurring costs of operation.

**Deferred revenue -** Amounts for which asset recognition criteria have been met, but for which revenue recognition criteria has not been met. Under the modified accrual basis of accounting, amounts that are measurable, but not available are one example of deferred revenue.

**Deficit -** (1) The excess of a fund's liabilities over its assets. (2) The excess of expenditures over revenues during an accounting period, or in the case of proprietary funds, the expenses over revenues for an accounting period.

**Depreciation -** (1) Expiration in the service life of fixed assets attributable to wear and tear, deterioration, action of the physical elements, and obsolescence. (2) That portion of the cost of a fixed asset which is charged as an expense during a particular fiscal period.

**Direct costs/expenses -** Costs/expenses specifically traceable to a particular product or service.

**Disbursements -** Payments by currency, check, or warrant. (The term is not synonymous with expenditures.)

**Double entry accounting -** A system of bookkeeping requiring that for every entry made to the debit side of an account(s), an entry or entries be made for an equal amount to the credit side of the account(s)

**Early education -** Experiential learning adapted to the intellectual, social, physical, and language development needs of children who have, or will have reached the age of three on or before January 1 of the current school year.

**Elementary education -** A program of public school education adapted to the needs of pupils in kindergarten and the first six grades.

**Employee benefits -** Amounts paid by the LEA on behalf of employees. These amounts are not included in the gross salary but are over and above. They are fringe-benefit payments; although not paid directly to employees, they are nevertheless part of the cost of salaries and benefits. Examples are (1) group health or life insurance payments; (2) contributions to employee retirement; (3) OASDI (Social Security) taxes; (4) workers' compensation payments; and (5) payments made to personnel on sabbatical leave.

**Encumbrances -** A budgetary term indicating a commitment related to unperformed (executory) contracts for goods and services.

**Enterprise fund -** (1) A fund established to account for operations financed and operated in a manner similar to a private business. In this case the governing body intends that the cost of providing goods and services on a continuing basis be financed or recovered primarily from user charges. (2) A fund established because the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net incomes appropriate.

**Entitlement -** The amount that a legal school system is entitled pursuant to an allocation formula contained applicable statues.

**Expendable trust fund -** A trust fund whose resources, both principal and interest, may be expended. They are accounted for in the same manner as governmental funds are,

**Expenditures -** The cost of goods delivered or services rendered, whether paid or unpaid, including expenses, provision for debt retirement not reported as a liability of the fund from which retired, and capital outlay.

**Expenses -** Outflows or other using up of assets or incidences of liabilities from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's central operations.

**Fair value of investments -** The amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale.

**Federal education assistance -** Assistance provided by a federal agency in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations.

**Fees -** Amounts collected from or paid to individuals or groups for services or for use of a school or other facility.

**Fiduciary fund type -** The trust and agency funds use to account for assets held by a school system in a trustee capacity or as an agent for individuals, private organizations, or other

**Financial resources -** Cash and other assets that in the normal course of operations will become cash.

**Fiscal year -** A period of one year, the beginning and the ending dates of which are fixed by statute. For LEAs, it is the period beginning July 1 and ending on June 30.

**Fixed assets -** Long-lived tangible assets. Includes buildings, equipment, and land.

**Full time equivalent (FTE) -** The ratio of time expended in a part-time position to that of a full-time position. The ratio is derived by dividing the amount of time of employment required in the part-time position by the amount of employed time required in a corresponding full-time position.

**Function -** A group of related activities aimed at accomplishing a major service or regulatory program for which the school system is responsible.

**Fund -** A fiscal and accounting entity with a self-balancing set of accounts in which cash and other fiscal resources. All related liabilities, residual equities or balances, and changes therein, are recorded and segregated to carry on specific activities or attain certain objectives in accordance with special regulations, restrictions, or limitations.

**Fund balance -** The difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. The fund equity of governmental and trust funds.

**General fund -** The fund used to account for all financial resources not required to be accounted for elsewhere.

**General ledger -** A book, file, or other device that contains the accounts needed to reflect, in summary and in detail, the financial position, the results of financial operations, and the changes in equities of a fund or an account group used by an LEA.

**Generally accepted accounting principles (GAAP) -** The uniform minimum standards and guidelines for financial accounting and reporting. Encompasses the conventions, rules, and procedures necessary to define accepted accounting practice. The primary authoritative body on the application of GAAP to state and local governmental entities is the Governmental Accounting Standards Board (GASB).

**Generally accepted auditing standards (GAAS) -** Standards established by the AICPA for the conduct and reporting of financial audits.

**Generally accepted government auditing standards (GAGAS)** Standards established by the Government Accountability Office in its publication *Standards for Audit of Governmental Organizations, Programs, Activities, and Function*, "yellow book" for the conduct and reporting of both financial and performance audits. The GAGAS for financial audits incorporates and builds upon GAAS.

**Gift -** Anything of value received from any source for which no repayment or service to the contributor is expected.

**Governmental accounting -** The composite activity of analyzing, recording, summarizing, reporting and interpreting the financial transactions of governments.

**Governmental Accounting Standards Board (GASB) -** The authoritative accounting and financial reporting standard-setting body for government entities.

**Governmental fund types -** Funds used to account for the acquisition, use, and balances of expendable financial resources and the related current liabilities except for those accounted for in proprietary or fiduciary funds. There are four governmental fund types: general, special revenue, debt service, and capital projects.

**Grade level -** Assigned classifications of students according to age and school progress (e.g., kindergarten, or first grade).

**Grants -** Contributions or gifts of cash or other assets from another government to be used or expended for a specific purpose.

**Indirect costs -** See Overhead.

**Indirect cost rate (ICR) -** A method for claiming reimbursement of indirect costs from federal and state categorical funds. It is the ratio (expressed as a percentage) of the indirect costs to direct base costs.

**Interest -** A fee charged to a borrower for the use of money.

**Interfund accounts -** Accounts in which transactions between funds are reflected. These include interfund transfer accounts and interfund receivable and payable accounts.

**Interfund borrowing -** The movement of cash from one fund to another with the expectation that the borrowing is temporary and will be repaid. Interfund borrowing does not affect the fund balance of either the borrowing fund or the lending fund.

**Interfund transactions -** Transactions between funds of the same school systems. They include (1) Quasi External Transactions, (2) Reimbursements, (3) Residual Equity Transfers, and (4) Operating Transfers.

**Interfund transfers -** All interfund transactions except loans, quasi-external transactions, and reimbursements. They can be classified as Residual Equity Transfers or Operating Transfers.

**Internal audit -** An appraisal activity within an LEA that (1) determines the adequacy of the system of internal control; (2) verifies and safeguards assets; (3) determines the reliability of the accounting and reporting system; (4) ascertains compliance with existing policies and procedures; and (5) appraises the performance of activities and work programs.

**Internal control structure -** Policies and procedures established to provide reasonable assurance that specific government objectives will be achieved.

**Internal service fund -** A fund used to account for the financing of goods and services provided by one department or agency to other departments or agencies of a school system, or to other governments on a cost reimbursement basis.

**Inventory -** An asset account reflecting the cost of goods held for resale or for use in operations.

**Investments -** Usually, securities and real estate held for the purpose of generating revenues, such as interest, dividends, or rental payments.

**Invoice -** An itemized statement of charges for merchandise sold or services rendered to the purchaser.

**Journal -** Any accounting record in which the financial transactions of an LEA are formally recorded for the first time (e.g., the cash receipts book, check register, and general journal).

**Liabilities -** Probable future sacrifices of economic benefits arising from present obligations to transfer assets or provide services in the future.

**Local education agency (LEA) -** An education agency that exists primarily to operate schools or to contract for education services. Normally such publicly operated agencies may levy taxes for school purposes. This term is used synonymously with the terms "school district", "school system", and "local basic administrative unit".

**Long-term liabilities -** Liabilities which will mature subsequent to the fiscal period under consideration, normally one year.

**Management's discussion and analysis (MD&A) -** The narrative introducing the financial statements and providing an analytical overview of the LEA's financial performance for the year. It should contain sufficient information for users of the financial statements to evaluate whether the financial position of the LEA has improved or deteriorated as a result of the year's activities.

**Measurement focus -** The accounting convention that determines (1) which assets and liabilities are included on a governmental balance sheet and where they are reported there, and (2) whether an operating statement presents information on the flow of financial resources (revenues and expenditures) or information on the flow of economic resources (revenue and expenses).

**Modified accrual basis -** The accrual basis of accounting adapted to the governmental fund's measurement focus. Under it, revenues and other financial resources are recognized when they become susceptible to accrual, that is when they are both measurable and available to finance expenditures of the current period. Available means collectible in the current period or soon there- after to be used to pay liabilities of the current period. Expenditures are recognized when the fund liability occurs.

**Notes to the financial statements -** The disclosures required for a fair presentation of the financial statements of a school system, in conformity with GAAP and not included on the face of the financial statements themselves. The notes are an integral part of the GPFS.

**Object -** The service or commodity obtained as a result of a specific expenditure.

**Obligations -** Amounts of orders placed, contracts awarded, services received, and similar transactions during a given period, which will require payment during the same or future period.

**Operating budget -** Plans of current expenditures and the means of financing them. The annual operating budget is the primary means a school system can control its fiscal affairs. Every school system should have an approved annual budget.

**Operating statement -** The financial statement that discloses the financial results of operations of a school system during a specific reporting period in conformity with GAAP.

**Operating transfers -** All interfund transfers other than residual equity transfers (e.g. legally authorized transfers from a fund receiving revenue to a fund that will expend it.)

**Other financing sources -** Governmental fund general long-term debt proceeds, operating transfers in, and material proceeds of fixed asset dispositions. Such amounts are classified separately from revenues.

**Overhead -** Those elements of cost necessary in the production of the goods or service which are not directly traceable to the product or service. Usually they relate to those expenses which do not become an integral part of the product or service such as rent, heat, light, supplies, management, etc.

**Personal property -** All property except real property. (See also Real property.)

**Petty cash -** A sum of money set aside for the purpose of making change or immediate payments of small amounts. (See also revolving cash fund.)

**Posting -** The act of transferring to an account in a ledger the data, either detailed or summarized, contained in a book of original entry.

**Prepaid expenses -** Expenditures for which payment has been made but for which benefits have not been realized as of a certain date (e.g., prepaid rent, prepaid interest, and premiums on unexpired insurance).

**Present value -** The discounted value of a future amount of cash, assuming a given rate of interest.

**Program -** A plan of activities and procedures designed to accomplish a predetermined objective.

**Proprietary fund -** Used to account for a government's ongoing organizations and activities that are similar to those found in the business sector (i.e. enterprise and internal service funds). These funds use the accrual basis of accounting.

**Prorating -** The allocating of expenditures or revenue from a single source to two or more accounts to show the correct distribution of charges or revenue.

**Public school -** Any school which provides elementary or secondary education and which receives its principal support from public funds. It also includes private schools to which a Vermont School District pays tuition from public funds on behalf of a pupil.

**Purchase order -** A document issued to a vendor that authorizes the delivery of specified merchandise or the performance of certain services and the making of a charge for them.

**Real property** - Property consisting of land, buildings, minerals, timber, landscaping, and all improvements thereto.

**Rebate** - See Abatement or Refund.

**Receipts** - Cash received.

**Reclassification** - Redesignation of the current year's revenue or expenditure items previously posted to one account and later determined to be more properly charged to a different account.

**Refund -** An amount paid back or credit allowed because of an over-collection or the return of an object.

**Reimbursements -** (1) Repayments of amounts remitted on behalf of another party. (2) Interfund transfers that constitute reimbursements to a fund for an expenditure or expense initially made from it but that properly applied to another fund. These transactions are recorded as expenditures or expenses in the reimbursing fund and as a reduction of an expenditure or expense in the fund reimbursed.

**Reporting entity -** The oversight unit and all component units that are combined in the Comprehensive Annual Financial Report.

**Requisition -** A document submitted initiating a purchase order to secure specified articles, services, or issuance of materials from stores or a warehouse.

**Reserved fund balance -** That portion of a fund balance that is not appropriable for expenditure or are legally segregated for a specific future use.

**Residual equity transfers -** Nonrecurring or non-routine transfers of equity between funds (e.g. contribution of enterprise fund or internal service fund capital by the general fund).

**Restricted funds -** Money whose use is restricted by legal requirement or by the donor.

**Revenue -** Additions to assets which (1) do not increase any liability; (2) do not represent the recovery of an expenditure; (3) do not represent the cancellation of certain liabilities without a corresponding increase in other liabilities or a decrease in assets; and (4) do not represent contributions of fund capital in enterprise or internal service funds.

**Revolving cash fund -** An account used primarily for emergency or small disbursements and reimbursed periodically through properly documented expenditures, which are summarized and charged to proper accounting classifications.

**School board -** The Board of Directors elected to manage the schools of a school district. It includes the prudential committee of an incorporated school district, the supervisory union board of directors, and the supervisors of unorganized towns and gores.

**School year -** The year beginning July 1 and ending the next June 30.

**Secondary education -** A program of public school education of six years adapted to the needs of pupils that have completed their elementary education.

**Securities -** Bonds, notes, mortgages, or other forms of negotiable or nonnegotiable instruments.

**Short-term debt -** Debt with a maturity of one year or less.

**Special education -** Specifically designed instructions, at no cost to the parents, to meet the unique requirements of an eligible child with a disability, including classroom instruction, instruction in physical education, home instruction, and instruction hospitals and institutions.

**Special revenue fund -** A fund used to account for the proceeds of specific revenue sources (other than expendable trusts or capital projects) that are legally restricted for expenditures for specific purposes.

**Statement of revenue and expenditures -** The financial statement that is the governmental fund and expendable trust fund GAAP operating statement.

**Statement of revenue and expenses -** The financial statement that is the proprietary fund, nonexpendable trusts, and pension trust fund GAAP operating statement.

**Superintendent of schools -** The chief executive officer of a school district or supervisory union.

**Supervisory district -** A supervisory union which consists of only one school district which may be a unified school district.

**Supervisory union -** An administrative, planning, and educational service unit which consists of two or more school districts.

**Supply -** An item of an expendable nature that is consumed, wears out, or deteriorates in use; or one that loses its identity through fabrication or incorporation into a different or more complex unity or substance.

**Tax role -** The list showing the amount of taxes levied against each taxpayer or property.

**Taxes -** Compulsory charges levied by a governmental unit for the purpose of financing services performed for the common benefit.

**Taxes receivable -** An asset account representing the uncollected portion of taxes levied.

**Transfer -** Interdistrict or interfund payments or receipts not chargeable to expenditures or credited to revenue. (See also Interfund transfers.)

**Trial balance -** A list of all balances of the accounts in a ledger kept by double entry. If the totals of the debit and credit columns are equal or, if their net balance agrees with a control account, the ledger is said to be in balance.

**Trust funds -** Funds used to account for assets held by a government in a trustee capacity.

**Tuition -** An amount charged for educational services provided to a student.

**Unit cost -** The total expenditure for a product, program, or service divided by the total quantity obtained or some other quantitative measure (e.g., the total expenditure for desks divided by the number of desks equals the cost per desk).

**Vocational education -** Education which is designed to provide the student with knowledge, skills, and attitude necessary to assist them in making occupational choices and for employment following completion of the program.

**Voucher -** A written document that evidences the propriety of transactions and usually indicates the amounts that are to be recorded.

**Warrant -** An order drawn by the legislative body or an officer of a government upon its treasurer, directing the latter to pay a specified amount to the person named or to the bearer.

**Warrants payable -** The amount of warrants issued, outstanding, and unpaid.

**Withholding -** The process of deducting from a salary or wage payment an amount, specified by law or regulation, representing the individual's estimated federal or state income tax that the employer must pay to the taxing authority.