Uniform Financial Accounting for Iowa LEAs and AEAs 2004 Edition

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A complete copy of the federal handbook can be viewed on the website of the U.S. Department of Education. For more information on the federal handbook, see Appendix .

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CHAPTER 1: INTRODUCTION

This 2004 revision of the Uniform Financial Accounting for Iowa LEAs and AEAs manual is adapted from the 2003 revision of the National Center for Education Statistics (NCES) handbook, *Financial Accounting for State and Local School Systems*, which reflects the many changes that have taken place since its last update in 1990. It is anticipated that the federal handbook, and subsequently the Iowa manual, will receive periodic updates to ensure that contemporary issues are regularly incorporated into the accounting guidance for schools.

The federal handbook represents a national set of standards and guidance for school system accounting through January 2003, incorporating guidance from Governmental Accounting Standards Board (GASB) statements through 39. Its purpose is to help ensure that education fiscal data are reported comprehensively and uniformly.

The federal handbook recognizes that statutes and regulations regarding school accounting differ from state to state. Those differences require states to adapt the guidance that appears in the federal handbook. Iowa has made those adaptations to the federal handbook in this manual so that all Iowa LEAs and AEAs can follow the guidance in this Iowa manual. Information on Iowa statutory authority of various Iowa entities was added, an account code listing was added, additional codes specific to Iowa reporting were added, and the chapter on student activity accounting was revised to reflect Iowa law.

Statutory Authority

Iowa LEAs and AEAs operate under Dillon's Rule which states that school corporations possess and can exercise the following powers and no others: Those granted in express words, those necessarily implied or necessarily incident to the powers expressly granted, and those absolutely essential to the declared objects and purposes of the school corporation—not simply convenient or desire, but indispensable (Merriam v. Moody's Executors, 25 Iowa 163, 170 (1868)). This manual is not intended to include all aspects of financial operation. The LEA or AEA should also refer to the *Uniform Administrative Procedures manual* for additional guidance.

Iowa Public LEAs and AEAs are required to follow *Uniform Financial Accounting for Iowa LEA and AEAs*. Information has been combined from the Iowa Code, Iowa Administrative Code, Opinions of Attorney Generals, Department of Education rules, regulations and directives that have in effect the force of law, U.S. Department of Education guidance, Generally Accepted Accounting Principles (GAAP), legislative intent, and similar authoritative sources.

Chapter 257 of the Iowa Code is generally regarded as the School Finance section of the Code. Included in that chapter and Iowa Code section 273.9 is the requirement for LEAs to include expenditures for the program and services provided through AEAs in the budgets of the LEAs.

Following are selected state statutory responsibilities for LEA and AEA budgeting and accounting.

Duties of the Director of the Department of Education

Approve, coordinate, and supervise the use of electronic data processing by school districts. [256.9(11)]

Interpret the school laws and rules relating to the school laws. [256.9(16)]

Prepare forms and procedures as necessary to be used by district boards, school officials, principals, teachers, and other employees, and to insure uniformity, accuracy, and efficiency in keeping records in both pupil and cost accounting, the execution of contracts, and the submission of reports, and notify the district board or school authorities when a report has not been filed in the manner or on the dates prescribed by law or by rule that the school will not be accredited until the report has been properly filed. [256.9(18)]

Determine by inspection, supervision, or otherwise, the condition, needs, and progress of the schools under the supervision of the department, make recommendations to the proper authorities for the correction of deficiencies and the educational and physical improvement of the schools, and request a state audit of the accounts of a school district, school official, or school employee handling school funds when it is apparent that an audit should be made. [256.9(19)]

Duties of the School Budget Review Committee

The school budget review committee may confer with local school boards or their representatives and make recommendations relating to any budgeting or accounting matters, and direct the director of the department of education or the director of the department of management to make studies and investigations of school costs in any school district. [257.31(1)]

The committee shall adopt recommendations relating to the implementation by school districts of procedures pertaining to the preparation of financial reports in conformity with generally accepted accounting principles and submit those recommendations to the state board of education. [257.31(4)]

The committee may recommend that two or more school districts jointly employ and share the services of any school personnel, or acquire and share the use of classrooms, laboratories, equipment, and facilities as specified in section 280.15. [257.31(15)]

An area education agency budget review procedure is established for the school budget review committee created in section 257.30. [257.32]

Duties of the State Board of Education

Adopt rules under chapter 17A for carrying out the responsibilities of the department. [256.7(5)]

The state board shall consider the recommendations of the SBRC and adopt rules specifying procedures and requiring the school districts to conform to generally accepted accounting principles commencing with the school year beginning July 1, 1996. [257.31(4)]

The state board shall review the proposed budget of each area education agency and shall before April 1, either grant approval or return the budget without approval with comments of the state board included. An unapproved budget shall be resubmitted to the state board for final approval not later than April 15. [273.3(12)]

Duties of the Department of Management

To prescribe forms on which each municipality (including LEAs), at the time of preparing estimates required under section 24.3, shall be required to compile in parallel columns data and estimates for immediate availability to any taxpayer upon request. [8.6(1)]

To insure uniformity, accuracy, and efficiency in the preparation of budget estimates by municipalities subject to Chapter 24, the comptroller shall prescribe the procedures to be used and instruct the appropriate officials of the various municipalities on implementation of the procedures. [8.6(1)(d)]

Duties of the Office of the Auditor of State

Each school officer shall install and use in the office a system of uniform blanks and forms as prescribed by law (see duties of the director of the department of education and the department of management above). State auditors shall assist the school officers in installing the system. [11.23]

The financial condition and transactions of all school offices in school districts shall be examined at least once each year. The examination shall cover the fiscal year next preceding the year in which the audit is conducted. The examination of school offices shall include an audit of activity funds. Examinations shall be made as determined by the governmental subdivision either by the auditor of state or by certified public accountants, certified in the state of Iowa, and they shall be paid from the proper public funds of the governmental subdivision. A school district desiring to contract with or employ

Certified Public Accountants (CPA) shall utilize procedures which include a request for proposals (RFP). [11.6(1,2,3)]

The auditor of state may at any time cause to be made a complete or partial reaudit of the financial condition and transactions of any school corporation is one of the following conditions exists:

a) The auditor of state has probable cause to believe such action is necessary in the public interest because of a material deficiency in an audit of the governmental subdivision filed with the auditor of state or because of a substantial failure of the audit to comply with the standards and procedures established and published by the auditor of state.

b) The auditor of state receives from an elected official or employee of the governmental subdivision a written request for a complete or partial reaudit of the governmental subdivision.

c) The auditor of state receives a petition signed by at least fifty eligible electors of the governmental subdivision requesting a complete or partial reaudit of the governmental subdivision. [11.6(4)]

The auditor of state may, within three years of filing, during normal business hours upon reasonable notice of at least twenty-four hours, review the audit work papers prepared by a certified public accountant in the performance of an audit or examination conducted. [11.6(5)]

An audit required by 11.6 shall be completed within nine months following the end of the fiscal year that is subject to the audit. [11.6(6)]

CPAs shall immediately notify the auditor of state regarding any suspected embezzlement or theft. {11.6(7)]

Auditors shall have the right while making examinations to examine all papers, books, records, and documents of any of the officers and shall have the right, in the presence of the custodian or the custodian's deputy, to have access to the cash drawers and cash in the official custody of such officer, and a like right, during business hours, to examine the public accounts of the school in any depository which has public funds in its custody pursuant to the law. [11.10]

All examinations shall be made without notice to the office examined. On every examination inquiry shall be made as to the financial condition and resources of the school; whether the cost price for improvements and material in the school is in excess of the cost price for like things in other schools of the state; whether the school authorities are complying with the law; and whether the accounts and reports are being accurately kept. [11.11]

All reports shall be open to public inspection, including copies on file in the office of the state auditor, and refusal on the part of any public official to permit such inspection when such reports have been filed with the state auditor, shall constitute a simple misdemeanor. [11.19]

Developing an Accounting System using the Chart of Accounts

The accounting system is the means by which financial data are captured during operations, recorded in the books of account, and then analyzed to produce the various kinds of reports needed. Financial transactions can be classified to facilitate their accumulation of the categories needed on the required reports. The guidelines here provided a classification structure which will meet local needs and will provide comparability of reported data when reports from different LEAs are combined, compared, or both.

Uniform Financial Accounting classifies three basis types of financial activity: revenues and other sources of funds; expenditures and other uses of funds; and transactions affecting the balance sheet only. For each type of transaction, the specific account code is made up of a combinations of classifications called dimensions. Each dimension describes one way of classifying financial activity. Each dimension is described in detail in Chapter 6. The following table shows the dimensions possible and required for each financial transaction for Iowa school districts and AEAs.

Dimension	Format	Revenues and other sources of funds	Expenditures and other uses of funds	Balance Sheet
Fund	XX	Required	Required	Required
Facility (required for districts with charter schools)	XXXX	Recommended	Recommended	Recommended
Function	XXXX	Optional	Required	Optional
Program	XXX	Optional	Required	Optional
Project	XXXX	Required	Required	Required
Object	XXX	Not applicable	Required	Not applicable
Source	XXXX	Required	Optional	Optional
Account	XXX	Not applicable	Not applicable	Required
Subject Matter		Optional	Optional	Optional
Job Classification		Not applicable	Optional	Optional

Note: Facility is a combination of operational unit and level of instruction.
Note: Districts and AEAs may add dimensions to the above list for any local purpose.

Districts and AEAs may link the dimensions in any order, providing that all the required dimensions for the financial transaction are utilized. The suggested structure is:
Revenues and other fund sources: Fund—facility—project—source
Expenditures and other fund uses: Fund—facility—function—program—project—object
Balance sheet accounts: Fund—facility—project—account

CHAPTER 2: USES OF INFORMATION

This chapter defines the need for and advantages of a fiscal data system that is appropriately aligned with a comprehensive education information system. In addition, it describes useful applications of education information, in particular, information that can influence education management and policy decisionmaking. Finally, the chapter identifies frequent users of education information who can benefit from the kinds of data envisioned by this handbook.

FINANCIAL REPORTING AND A SYSTEM OF EDUCATION INFORMATION

Successful management of any large organization requires extensive and effective use of information. Information about education ranges from staff and student information to extensive financial information, which may also encompass school facility and program-level information. A comprehensive education information system can provide many benefits for education management:

- ***Using data to influence decisionmaking.*** Good decisions are based on inquiry and analysis. Information technologies are available to make good decisionmaking possible for school-based administrators, as well as for external users of education information, such as legislators and patrons.
- ***Using data to target specific areas for improvement.*** Timely and accurate data can help decisionmakers at all levels focus on improvement strategies.
- ***Using disaggregated data to examine wide-ranging goals.*** Disaggregating data for analysis helps identify programmatic and fiscal inequities and determine what the baselines for improvement should be.
- ***Using data in rapid program evaluation.*** To have an impact, program evaluation must be timely as well as complete. When program and other data are compiled and linked in an accurate and well-designed retrieval system, the goals of schooling can be more effectively and efficiently met.
- ***Using data for budgetary control.*** Greater control and more informed decisionmaking are possible when all costs of school operations are available.
- ***Using data to examine relationships between cost and effectiveness.*** Information technologies allow graphic representations of these data.
- ***Using data to improve administrative time management and mandated reporting.*** When core databases are built around the NCES Common Core of Data Elements, improvements in administrative efficiency and time management can be significant.

The benefits of an extensive data system are especially apparent in the relationship between programs and costs. For appropriate, cost-effective, and timely decisions about students and schools and programs to be made, accurate and complete information must be widely available to the many users of education data, such as the research community, school administrators, school boards, policymakers, school improvement teams, creditors and potential creditors, and the general public. The advantage of a comprehensive education information system to school finance is that it allows a complete, accurate, and timely display of the distribution and use of resources, with direct educational program implications. At a time when significant questions are being raised about spending on schools, a more comprehensive data system has real value in its potential to uncover the answers to these questions. Because education finance has such an important impact on society, it is a central focus of policy debate and decisionmaking at all levels of government—processes that are greatly hampered without a uniform data system.

The value of a comprehensive data system is further evident in examining the distribution of resources (fiscal equity) and the use of those resources (productivity)—two of the major foci of school financial accounting information. Since 1971 (*Serrano* v. *Priest* 487 P.2d 1241 [1971]), legal challenges to state school finance systems have required states to revise funding formulas to

better ensure equitable funding among school districts, and those same challenges have forced states to attempt to define what constitutes an adequate education. The assumption that a more equal distribution of resources will lead to increased equity in the uses of finite resources continues to be debated—in the courts, in the media, and among the general public. [For an overview of court cases regarding education reforms, see *Overview and Inventory of State Education Reforms: 1990 to 2000* (NCES 2003–020).]

School financial accounting systems are an important source of information for measuring the costs of an equitable and adequate education in each school district. Recently, the emphasis on accountability has turned the spotlight on achievement in schools, with adequacy and equity (expressed only in terms of resource inputs) no longer sufficient to satisfy legislators, taxpayers, parents, or members of the general public. The focus of much school financial information today is how much it costs to achieve a minimum acceptable level of educational *performance* for all students. The clear trend is to understand fiscal and programmatic data in terms of the particular need of specific groups, such as students with disabilities or limited proficiency in English or those who come from economically disadvantaged families (Reschovsky and Imazeki 1997, 144).

Although conceptually it is convenient to maintain a separate financial system with well-defined elements, most of the operational and policy questions that need to be answered in the modern era rely heavily on data that cross into other areas as well. To be useful, definitions of school financial data must align with other aspects of the education information system. An aligned and comprehensive education information system should provide the data necessary to answer questions about key areas of school finance:

- How much is spent on education?
- Who pays for education?
- How are funds allocated?
- How are educational resources linked to student achievement?

The ability to answer these questions demands a system of education information that comprises much more than just the finance component; in essence, an education information system should also include at least the student records system, the staff records system, the property system, the curriculum or program component, and the community services component. Instructional management systems can be (and frequently are) linked to student records systems to provide policymakers with greater analytical capability so that they can make the appropriate, cost-effective, and timely decisions expected in today's complex and competitive policy arena.

The data system needed to support these complex conditions argues for the need to benchmark data across time and argues for "best practices." These strenuous conditions place a premium on the standardization of information systems. Standardization is critical if the operations of one school district or state department of education are to be compared over time or with those of another, or if data from the operations of many school districts or state departments of education are to be consolidated for comparison.

One emerging policy issue that poses a major challenge for education information is the escalating debate on how to increase school productivity. Inadequate data have made it difficult to assess and evaluate educational productivity. Detailed financial information is necessary before an understanding of educational productivity can begin. But financial data that are not presented in the context of other important information will paint a very incomplete picture. An education information system with school finance data linked to student outcome indicators is essential to an understanding of how resources are being used and how they can be used more

effectively.

At the federal level, for example, the National Center for Education Statistics (NCES) collects public education finance data through the National Public Education Financial Survey (NPEFS) and the School District Financial Survey (F-33). The NCES is the primary federal entity for collecting, analyzing, and reporting data related to education in the United States and other nations. The NCES is a branch of the Institute of Education Sciences in the U.S. Department of Education and is authorized to collect data by Congress through the Education Sciences Reform Act of 2002 (P.L. 107-279), 20 U.S.C. 9543.

The Common Core of Data (CCD) Survey started collecting data beginning with the school year 1981–82 survey collection. The NPEFS survey is part of the CCD. The F-33 survey is a U.S. Bureau of the Census survey, part of the Annual Survey of Local Governments. The NCES supports this collection effort to ensure that all districts are included in each year's collection. The data items on both surveys are based on the account codes presented in this handbook, and each item on the survey forms is defined through reference to the account codes presented here in chapter 6. [Additional information regarding these surveys including instructions for completing them can be found on the Internet sites listed in appendix B.]

The data collected from the NPEFS collection are used in the formula for allocating Title I and other federal grants to school districts, as specified under the authority of section 153(a)(1)(I) of the Education Sciences Reform Act of 2002 (P.L. 107-279), 20 U.S.C. 9543, which authorizes the NCES to gather data on the financing of education. The NCES collects data annually from state education agencies through NPEFS. In addition to finance data, the NPEFS survey also collects average daily attendance data. Average daily attendance is the denominator in the average state per pupil expenditure figures required by the Title I legislation. Because these data are used in the allocation formula, established deadlines, definitions, and editing procedures are rigidly enforced. Survey deadlines are announced in the *Federal Register*, and the definitions are based on the account codes and definitions presented in this handbook.

USEFUL INFORMATION

The potential value of both extensive and useful data about education is enormous due to the magnitude of expenditures for education at the state and local levels. As measured in total funding or in number of people employed, education is the largest policy arena for state and local governments with growing interest at the federal level.
The demand of policymakers at the local, state and federal levels for quality and useful data and outcome measures to evaluate fiscal and programmatic policy changes drives the need for data systems to become more and more comprehensive. Data are constantly used to make decisions with immediate impacts and long-term implications. For example, financial reports of state and local education agencies are used to compare actual financial results with legally adopted budgets; assess financial conditions and results of operations; assist in determining compliance with finance-related laws, rules, and regulations; assist in evaluating efficiency and effectiveness of processes; and plan for the future. The GASB defines financial reporting as the means of communicating financial information to users (GASB Concepts Statement 1, Objectives of Financial Reporting, paragraph 32). For this communication to be effective, financial information must have the following basic characteristics (Governmental Accounting Standards Concepts Statement 1, Objectives of Financial Reporting, paragraphs 63 through 68):

- ***Understandability.*** Information should be simple but not oversimplified. Explanations and interpretations should be included where necessary.

- ***Reliability.*** Information should be verifiable and free from bias. It should be comprehensive; nothing should be omitted that is necessary to represent events and conditions, nor should anything be included that would cause the information to be misleading.
- ***Relevance.*** There must be a close logical relationship between the information provided and the purpose for which it is needed.
- ***Timeliness.*** Information should be available soon enough after the reported events to affect decisions.
- ***Consistency.*** Once a principle or a method is adopted, it should be used for all similar events and conditions. If a principle or a method has changed, the nature and reason for the change as well as the effect of the change should be explained.
- ***Comparability.*** Procedures and practices should remain the same across time and reports. If differences occur, they should be due to substantive differences in the events and conditions reported rather than arbitrarily implemented practices or procedures for data collection.

These standards imply wide uses of data and require carefully designed policies to help guide decisions about who uses a system of information (and how, why, and when they do so). Some policies are codified in law or regulations; others are official statements, executive orders, or agency directives. Government information policies are guided by two complementary, but sometimes conflicting, purposes: stewardship and usefulness. Stewardship encourages policies that regard government information as a public good, such as personal privacy and records management, whereas usefulness promotes policies that encourage the dissemination of information to improve the quality and lower the cost of government services, such as public access and interagency information sharing. Stewardship policies address confidentiality, information security, data quality and integrity, and long-term preservation of information. Usefulness policies address interagency and intergovernmental sharing, public access, public-private information partnerships, and reuse of information.

These issues are made more complex by the rapid technological advancements that further challenge traditional policies and generate new questions. The Internet, in particular, has fueled policy debates that were unimagined a decade ago, raising questions of appropriateness, privacy, and ethics. Local, state, and federal laws require that certain types of information (e.g., individual student and staff records) be protected from unauthorized release. Education information systems continually struggle to achieve balance so that under the best circumstances, the struggle results in higher quality data that are more useful for the general public and policymakers.

USERS OF SCHOOL FINANCE INFORMATION

For data collection to be purposeful and useful, it must fit the needs of its users. Users of school finance information may be divided into three major groups: those to whom the school districts and state departments of education are primarily accountable (the general public); those who directly represent the general public (legislative and oversight bodies); and those who lend or participate in the lending process (investors and creditors) (GASB Statement #1, paragraphs 35 through 37). These groups have different needs for these data, although all are concerned with the design and implementation of an entire educational system that is both programmatically and fiscally effective and efficient.

The General Public

One of government's primary goals is to promote the general welfare of all its citizens. Public education, although not mandated by the U.S. Constitution, is a response to the need for an educated public to participate in a representative democracy. One objective of the general public is therefore to purchase the maximum amount of service with a minimum amount of taxes.

Therefore, to help fulfill a government's duty to be accountable, school financial reporting should help the general public determine whether its objective is being met.

As noted previously, defining and measuring school productivity and student achievement are exceedingly difficult. Mathematics and reading scores have long borne the burden of determining "productivity," but the reauthorization of the Elementary and Secondary Education Act of 2002 reflected a much broader range of concerns, including school readiness, graduation rates, and increased participation in higher education by minorities, as well as a host of social concerns, such as the cessation of drug use and violence. Although these aims cannot be perfectly quantified, a comprehensive education information system can help respond to the need of the general public to know what is actually going on in schools and how their tax dollars are being spent.

Although few in the general public will reflect at great length beyond the superficial aspects of the relationship between dollars spent and results produced, one subset of the general public consists of individuals whose scope and depth of interest in education data go far beyond that of the typical citizen. Education researchers (whether in government, universities, or schools) are at the "high demand" end of the information-use spectrum. Their collective need for data is great and accordingly must be weighed against the cost of providing the data. At the same time, it is difficult to know ahead of time where the real payoffs will emerge. Fortunately, a well-designed and comprehensive information system that is populated by data that are valid, reliable, and timely and that provides reasonable access in a format that researchers can use will serve the specialized constituency and the broader public as research is translated into public policy.

Legislative and Oversight Bodies

At the local level, school administrators rely on financial information to evaluate past performance, to aid in day-to-day decisionmaking, and to inform the general public of the schools' resourcefulness and stewardship. Employees, particularly program coordinators but also classroom teachers and noninstructional employees, use financial information to plan budgets and to request additional funding or to redirect existing funds. Additionally, financial information embedded in a comprehensive education information system allows administrators to assess the areas of greatest need and plan how best to allocate education resources in the future.

In addition, school boards and other local governing units have both a responsibility for and an intense interest in the operation of the school system. The local school board is responsible for establishing policies and for overseeing and appraising the administrator as he or she carries out these policies. The school board thus needs timely warning of situations that may need corrective action. The board also needs information as a basis for judging both the efficiency of the administration and its effectiveness in complying with policies and restrictions. Some of this information can be provided by general purpose financial reports, but comparable information about other school districts is needed as a basis for informed comparison.

Other units of government also rely on information for policy directions. On average the U.S. Congress and state legislatures provide about half of the resources for the operation of school districts in the nation today, with the percentage even higher in some states. Accordingly, they need information on the schools' operation as a basis for deciding whether to commit additional resources, and how much. Additionally, governance units need cumulative information (in comparable format) about the operations of groups of school districts in order to formulate funding policies. To this end, legislators are interested in such data-based matters as

- the ways in which local, state, and federal programs interact within specific operational areas;
- profiles of school finance structures as they relate to tax resources; and

- the impact (and cost) of programs resulting from specific legislative initiatives.

From this overview, it is clear that the defining characteristics of a useful accounting and data reporting system of interest to state and federal legislators are comparability of data, ability to achieve a variety of classifications, and timeliness in reporting.

Investors and Creditors

Finally, in governmental accounting, investors and creditors are considered to include bondholders and prospective bondholders, commercial banks, vendors, and others who have extended credit, or who are considering extending credit, to the school district. Typically, these data users are interested in the financial position of the school organization, its operating performance, and its likely sources and uses of funds as indications of the probability that the bonds or loans will be repaid in full and on time.

Investors and creditors need information about available and possible future financial resources, actual and contingent liabilities, and the overall debt position of an institution to evaluate the institution's ability to continue to provide resources for long-term debt service. They review operating results and cash flow data (both currently and over time) to look for trends that may indicate strengths and weaknesses in the ability of the government to repay debt. Trend analysis helps investors and creditors project future revenues and predict possible allocation of those revenues.

SUMMARY

All three user summary groups are interested in comparing original or modified budgets with actual results. For example, to assess accountability, citizens and legislative and oversight bodies want to ensure that resources were used in accordance with appropriations. Spending in excess of budgeted amounts may indicate poor financial management, weak budgetary practices, or uncontrollable and unforeseen circumstances. Underspending may indicate effective financial management by providing the necessary quality and quantity of services within the available appropriations. Situations in which actual expenditures are less than budgeted may also represent a decision by management to accumulate a surplus of resources for future use. A comprehensive education information system gives a broad view of budgetary concerns, rather than simply a "bottom line." As a result, this revision of the *Financial Accounting for State and Local School Systems Handbook* is intended to assist in the creation and improvement of a comprehensive data system that results in better academic and fiscal performance in America's schools.

CHAPTER 3: BUDGETING

A major element of financial data activity rests in the act of budgeting. Budgeting is the process of allocating finite resources to the prioritized needs of an organization. In most cases, for a governmental entity, the budget represents the legal authority to spend money. Adoption of a budget in the public sector implies that a set of decisions has been made by the governing board and administrators that culminates in matching a government's resources with the entity's needs. As such, the budget is a product of the planning process.

The budget also provides an important tool for the control and evaluation of sources and the uses of resources. Using the accounting system to enact the will of the governing body, administrators are able to execute and control activities that have been authorized by the budget and to evaluate financial performance on the basis of comparisons between budgeted and actual operations. Thus, the budget is implicitly linked to financial accountability and relates directly to the financial reporting objectives established by the GASB.

The planning and control functions inherent to any organization, including schools, underscore the importance of sound budgeting practices for the following reasons:

- The type, quantity, and quality of goods and services provided by governments often are not subject to the market forces of supply and demand. Thus, enacting and adhering to the budget establishes restrictions in the absence of a competitive market.
- These goods and services provided by governments are generally considered critical to the public interest and welfare.
- The scope and diversity of operations in an organization make comprehensive financial planning essential for good decisionmaking.
- The financial planning process is critical to the expression of citizen preferences and is the avenue for reaching consensus among citizens, members of the governing board, and staff on the future direction of the governmental unit's operations.

The link between financial planning and budget preparation gives the budget document a unique role in governmental organizations. Budgets in the public arena are often considered the definitive policy document because an adopted budget represents the financial plan used by a government to achieve its goals and objectives. When a unit of government legally adopts a financial plan, the budget has secured the approval of the majority of the governing board and reflects

- public choices about which goods and services the unit of government will or will not provide,
- the prioritization of activities in which the unit of government will be involved,
- the relative influence of various participants and interest groups in the budget development process, and
- the governmental unit's plan for acquiring and using its resources.

In an educational environment, budgeting is an invaluable tool for both planning and evaluation. Budgeting provides a vehicle for translating educational goals and programs into financial resource plans—that is, developing an instructional plan to meet student performance goals should be directly linked to determining budgetary allocations. The link between instructional goals and financial planning is critical to effective budgeting and enhances the evaluation of budgetary and educational accountability.

OBJECTIVES OF BUDGETING

Performance evaluation allows citizens and taxpayers to hold policymakers and administrators in governmental organizations accountable for their actions. Because accountability to citizens often is stated explicitly in state laws and state constitutions, it is a cornerstone of budgeting and financial reporting. GASB recognizes the importance of accountability with the following objectives in GASB Concepts Statement 1, *Objectives of Financial Reporting,* paragraph 77.

- Financial reporting should provide information to determine whether current-year revenues were sufficient to pay for current-year services.
- Financial reporting should demonstrate whether resources were obtained and used in accordance with the entity's legally adopted budget. It should also demonstrate compliance with other finance-related legal or contractual requirements.
- Financial reporting should provide information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity.

Meeting these objectives requires budget preparation that is based on several concepts recognizing accountability. Accountability is often established by incorporating these objectives into legal mandates that require state and local public sector budgets to

- be balanced so that current revenues are sufficient to pay for current services;
- be prepared in accordance with all applicable federal, state, and local laws; and
- provide a basis for the evaluation of a government's service efforts, costs, and accomplishments.

Although some form of a balanced budget requirement is generally necessary to ensure long-term fiscal health in any organization, variations such as the use of fund balance reserves to pay for current services may be appropriate over a short period. Generally, however, all departures from this fundamental objective must be in accordance with applicable state and local laws and policies.

Given the importance of demonstrating compliance with the approved budget, the financial reporting system must control the use of financial resources and ensure that budgetary appropriations and allocations are not exceeded. To demonstrate compliance, accounting systems are usually operated on the same basis of accounting used to prepare the approved budget. Thus, the actual financial information captured by the accounting system is in a form comparable to the approved budget. Through budgetary integration, the financial accounting system becomes the primary tool to prove financial accountability.

Finally, the budget is evaluated for its effectiveness in attaining the organization's stated goals and objectives. Evaluation typically involves an examination of how funds were expended, the outcomes that resulted from the expenditure of funds, and the degree to which these outcomes achieved the stated objectives. This phase is fundamental in developing the subsequent year's budgetary allocations. In effect, budget preparation not only is an annual exercise to determine the allocation of funds, but also is part of a continuous cycle of planning and evaluation to achieve the stated goals and objectives of the organization.

BUDGETARY APPROACHES

Over the past 30 years, governmental entities in the United States have used a variety of budget approaches and formats. The development of more advanced budget philosophies reflects growth in both the scope and the complexity of governmental operations and the simultaneous need for systems that are capable of translating the variety of policy decisions into financial plans. For

more information on budgetary approaches, The National Advisory Council on State and Local Budgeting provides additional guidelines. Various budgeting models continue to be commonly used and fall predominantly into categories of (1) line-item, or "traditional," budgeting; (2) performance budgeting; (3) program and planning ("programming") budgeting (PPB); (4) zero-based budgeting (ZBB); and (5) site-based budgeting. In addition, many governments use a variety of hybridized versions to address the specific needs of the organization. Although these approaches are considered distinct in terms of the underlying preparation process, actual formats of the prepared budgets may be quite similar; for example, the format of a site-based budget may be quite similar to the format of a line-item budget. Each of the five basic approaches has relative advantages and limitations.

Line-Item Budgeting

Line-item budgeting is still the most widely used approach in many organizations, including schools, because of its simplicity and its control orientation. It is referred to as the "historical" approach because administrators and chief executives often base their expenditure requests on historical expenditure and revenue data. One important aspect of line-item budgeting is that it offers flexibility in the amount of control established over the use of resources, depending on the level of expenditure detail (e.g., fund, function, object) incorporated into the document.

The line-item budget approach has several advantages that account for its wide use. It offers simplicity and ease of preparation. It is a familiar approach to those involved in the budget development process. This method budgets by organizational unit and object and is consistent with the lines of authority and responsibility in organizational units. As a result, this approach enhances organizational control and allows the accumulation of expenditure data at each functional level. Finally, line-item budgeting allows the accumulation of expenditure data by organizational unit for use in trend or historical analysis.

Although this approach offers substantial advantages, critics have identified several shortcomings that may make it inappropriate for certain organizational environments. The most severe criticism is that it presents little useful information to decisionmakers on the functions and activities of organizational units. Since this budget presents proposed expenditure amounts only by category, the justifications for such expenditures are not explicit and are often unintuitive. In addition, it may invite micro-management by administrators and governing boards as they attempt to manage operations with little or no performance information. However, to overcome its limitations, the line-item budget can be augmented with supplemental program and performance information.

Performance Budgeting

A different focus is seen in performance budgeting models. In a strict performance budgeting environment, budgeted expenditures are based on a standard cost of inputs multiplied by the number of units of an activity to be provided in that time period. The total budget for an organization is the sum of all the standard unit costs multiplied by the units expected to be provided. Although this strict approach may be useful for certain types of operations, many organizations require a more flexible performance approach. For example, expenditures may be based simply on the activities or levels of service to be provided and a comparison of budgeted and historical expenditure levels.

The performance approach is generally considered superior to the line-item approach because it provides more useful information for legislative consideration and for evaluation by administrators. Further, performance budgeting includes narrative descriptions of each program or activity—that is, it organizes the budget into quantitative estimates of costs and

accomplishments and focuses on measuring and evaluating outcomes. Finally, the performance approach eases legislative budget revisions because program activities and levels of service may be budgeted on the basis of standard cost inputs.

However, performance budgeting has limitations owing to the lack of reliable standard cost information inherent in governmental organizations. Further, the performance approach does not necessarily evaluate the appropriateness of program activities in relation to reaching an organization's goals or the quality of services or outputs produced. Consequently, the performance approach has become most useful for activities that are routine in nature and discretely measurable (such as vehicle maintenance and accounts payable processing)—activities that make up only a relatively modest part of the total educational enterprise. But in sum, performance budgeting may offer considerable enhancement to the line-item budget when appropriately applied.

Program and Planning (Programming) Budgeting (PPB)

Program budgeting refers to a variety of different budgeting systems that base expenditures primarily on programs of work and secondarily on objects. It is considered a transitional form between traditional line-item and performance approaches, and it may be called modified program budgeting. In contrast to other approaches, a full program budget bases expenditures solely on programs of work regardless of objects or organizational units. As these two variations attest, program budgeting is flexible enough to be applied in a variety of ways, depending on organizational needs and administrative capabilities.

Program budgeting differs from approaches previously discussed because it is much less control- and evaluation-oriented. Budget requests and reports are summarized in terms of a few broad programs rather than in the great detail of line-item expenditures or organizational units. PPB systems place a great deal of emphasis on identifying the fundamental objectives of a governmental entity and on relating all program expenditures to these activities. This conceptual framework includes the practices of explicitly projecting long-term costs of programs and the evaluation of different program alternatives that may be used to reach long-term goals and objectives. The focus on long-range planning is the major advantage of this approach, and advocates believe that organizations are more likely to reach their stated goals and objectives if this approach is used.

However, several limitations exist in the actual implementation of this approach, including changes in long-term goals, lack of consensus regarding the fundamental objectives of the organization, lack of adequate program and cost data, and the difficulty of administering programs that involve several organizational units. Yet despite its limitations, program budgeting is often used as a planning device while budget allocations continue to be made in terms of objects and organizational units—a process that has been adopted in many schools throughout the nation. As with performance budgeting, PPB information may be used to supplement and support traditional budgets in order to increase their informational value.

Zero-Based Budgeting

The basic tenet of zero-based budgeting (ZBB) is that program activities and services must be justified annually during the budget development process. The budget is prepared by dividing all of a government's operations into decision units at relatively low levels of the organization. Individual decision units are then aggregated into decision packages on the basis of program activities, program goals, organizational units, and so forth. Costs of goods or services are attached to each decision package on the basis of the level of production or service to be provided to produce defined outputs or outcomes. Decision units are then ranked by their

importance in reaching organizational goals and objectives. Therefore, when the proposed budget is presented, it contains a series of budget decisions that are tied to the attainment of the entity's goals and objectives.

The central thrust of ZBB is the elimination of outdated efforts and expenditures and the concentration of resources where they are most effective. This is achieved through an annual review of all program activities and expenditures, which results in improved information for allocation decisions. However, proper development requires a great deal of staff time, planning, and paperwork.

Experience with the implementation of this approach indicates that a comprehensive review of ZBB decision packages for some program activities may be necessary only periodically. Additionally, a minimum level of service for certain programs may be legislated regardless of the results of the review process. As a result, ZBB has had only modest application in schools, although the review of program activities makes ZBB particularly useful when overall spending must be reduced.

Site-Based Budgeting

Site-based budgeting is widely considered the most practical for budgeting within the school district environment, by providing greater control and reporting of school-level data. This budgetary approach (which may be used in combination with any of the four discussed above) emphasizes the decentralization of budgetary decisionmaking. Site-based budgeting places local managers and other staff at the center of the budget preparation process, making them responsible for both the preparation and the maintenance of the budget.

Site-based budgeting is popular in many school settings. Within a school system, site-based budgeting generally involves granting increased budgetary authority to the school. Resources are allocated to the site, with budget authority for programs and services granted to the school's principal and staff. Campuses are normally allocated a certain level of resources that they have the authority to allocate to educational and support services. These budgetary allocations are meant to cover those areas over which campus decisionmakers have control. For example, schools that have authority over staffing decisions may be allocated funds for staff costs using the site-based budgeting approach. In contrast, school districts that make staffing decisions centrally may not allocate funds to the individual school site for staff costs.

The main advantage of site-based budgeting is that those who best understand the needs of a particular organization are empowered to make resource allocation decisions. This decentralization of budgetary authority may also increase local accountability. Another potential advantage of site-based budgeting is the increased level of participation of the public and staff in budget development. Many site-based budgeting systems create committees composed of staff and community members to determine budgetary allocations. These committees give members a voice from the inception of the budget process, rather than merely when the budget is presented for public review and approval.

Although site-based budgeting may provide substantial benefits, it also has limitations. First, organizations with limited resources may not be capable of granting a meaningful level of site-based budgetary authority. Even if an organization does have discretionary resources, it may be difficult to determine the areas of the budget for which local decisionmakers should be held accountable. Finally, site-based budgeting may be burdensome to some local managers, may increase conflict between staff or departments, or may limit the organization's ability to ensure quality and sufficiency in the services it provides. These problems can be avoided somewhat

through the careful design of site-based budgeting guidelines and through training for new budget stakeholders.

Outcome-Focused Budgeting

Consistent with the evaluation objective, government budgeting is becoming increasingly outcome-focused. Fiscal austerity, coupled with intense competition for governmental resources, has precipitated an effort to ensure more effective use of resources at all levels of government. Outcome-focused budgeting is the practice of linking the allocation of resources to the production of outcomes. The objective is to allocate government's resources to those service providers or programs that use them most effectively.

Outcome-focused budgeting is closely linked to the planning process in governments. For a government entity to focus on outcomes, goals and objectives must be identified and tied to budget allocations for the achievement of those objectives. This premise argues that mission-driven (synonymous with outcome-focused) governments are superior to those that are rule-driven because they are more efficient, are more effective in producing desired results, are more innovative, are more flexible, and have higher employee morale (Osborne and Gaebler 1993). In the context of increased governmental scrutiny of governmental costs, including schools, this model may receive more emphasis in the future.

OPERATING BUDGET RESPONSIBILITIES AND GUIDELINES

The development of annual budgets is part of a continuing planning process. The advent of site-based decisionmaking in some states has increased the integration of planning and budgeting at the school level; however, state laws generally allow considerable district autonomy in budget preparation. The organizational structure of a district, including the size and complexity of its administration and the degree of centralization, will affect the budgetary approach, the budget development process, and the final budget document. Beyond the requirements for federal and state programs, the budget preparation process and related responsibilities will largely be determined by the local school board and superintendent.

The following chapter contains information related to the significant aspects, phases, and outputs of the school district budgeting process. Although it is not meant to establish standards or requirements for districts, the chapter may be useful in the development of sound budgeting procedures. Given the diversity of budgetary and financial reporting found in the individual states, the process described here may be customized to conform to particular local and state requirements. Additionally, the following discussion is typical of districts that use a site-based budgeting approach.

Roles and Responsibilities

The local school board and the superintendent should establish a meticulous budget preparation process and guidelines. Thus, the delegation of budget responsibilities among administrators (districtwide) and schools (site-based) should be deliberately designed to require consensus at the highest levels of management. Because individuals may serve in a variety of roles in the budget development process, the division of duties may differ among districts. It is important, however, to clearly define the staff assignments and parameters if the budget development process is to operate efficiently. With the advent of site-based decisionmaking, individuals lacking previous budget experience need clear direction in order to provide effective input.

Preparation of Budget Guidelines

Budget preparation guidelines typically are prepared by the assistant superintendent for business

and finance or by an employee with similar responsibilities, such as a chief business official or a budget administrator, with direction from the school board, the superintendent, and other district and school administrators. A presentation with subsequent board approval of the budget process, guidelines, and calendar may be legally required or may be a locally imposed procedure. However, as a minimum the guidelines should contain the following elements:

- A budget transmittal letter from the superintendent, which provides the overall context for budget development at the school level
- A budget overview, which explains the budgeting philosophy and approach, outlines the budget development process, and refers to major assumptions and changes in the budgetary process from the previous year
- Fiscal limitations to be observed, such as maintenance of service levels, specific percentage increases or decreases in resource allocations, and personnel hiring guidance
- A budget calendar of critical dates for budget completion, submission, and review
- Instructions concerning expenditure items to be budgeted at the school level and the detail required for submission
- A copy of standard budget preparation worksheets, submission forms, and diskettes
- A list of the account codes necessary for preparing the budget

Many of these elements may be combined into a budgetary overview included in the budgeting guidelines. In addition to these elements, the preparation guidelines may also contain the following:

- Guidelines for estimating standard school resource allocations, which are determined by the budgetary approach used by the district and the availability of resources
- Guidelines for estimating the costs of specific expenditure categories, such as salaries and benefits, supplies, or fixed charges
- Instructions for submitting school budgets to the district office, including the number of copies, due dates, and personnel to contact for assistance

Preparation of the Budget Calendar

The budget calendar provides critical dates for the preparation, submission and review of school budgets. It is prepared during the planning process by the district budget office. A variety of simple techniques may be used to build the calendar, beginning with the previous year's calendar and modifying it for the current year. Problems that occurred in the prior year's budget cycle should be identified for changes to the current year's calendar. Additionally, changes in the budget development process should be incorporated into the current year's calendar. If the process has been substantially altered, creating an entirely new calendar may be necessary. The following steps may be used to prepare a new budget calendar:

- Determine the necessary level of detail. If several calendars are used with varying levels of detail, they should be summarized in a master calendar to ensure that all activities and dates are consistent and compatible.
- Identify all activities that must be included in the calendar and arrange them chronologically.
- Assign completion dates to each activity. Although some districts may assign only completion dates, others may also assign suggested or mandatory start dates for certain activities to ensure their timely completion.

FINANCIAL FORECASTING AND PLANNING

Financial forecasting is the practice of projecting the quantitative impact of trends and changes in an operating environment on future operations. Therefore, it is an integral part of all ongoing planning efforts. Financial forecasting is important for several reasons:

- Forecasting facilitates planning efforts by quantifying the future costs/benefits of strategic decisions. Thus, budgetary priorities may be evaluated on the basis of their long-term impacts.
- Forecasting clarifies trends, needs, and issues that must be addressed and evaluated in the preparation of budgets. For example, enrollment forecasting may reveal growing student populations and focus attention on the need for increased resource allocations for staff, facilities, or both.
- Forecasting enhances decisionmaking at all levels of administration. Forecasts provide valuable insight into future issues, which allows administrators to be proactive. It creates the framework for anticipatory management.

Although financial forecasting should be a continuing process, it is most important as a component of budget development. Forecasts of projected enrollments, property tax base and revenues, costs associated with salary adjustments, and so on, are important elements in setting baseline budgetary guidelines and creating the basis for the assumptions used to prepare budgets. Additionally, forecasting provides fiscal impact analysis that may be integrated into the budget development process. Thus, current budgetary decisions may be evaluated for their long-term results.

When used before forecasts are prepared, several action steps may increase the reliability of the forecasts:

- ***Clarify the intended purpose of the forecast.*** The prospective audience may require a certain set of data and related assumptions.
- ***Match the time frame with the purpose of the forecast.*** Time frames for forecasts will vary according to the purpose (i.e., type) of forecast being prepared.
- ***Ensure the accuracy of basic data.*** Original source data should be used rather than extrapolated or summarized versions. Sources should be documented and verified if questions concerning data validity arise.
- ***Specify the underlying assumptions.*** Assumptions should be explicit in the forecasts with proper documentation based on actual data.
- ***Be consistent in calculations.*** Spreadsheet programs are recommended for preparing forecasts to ensure the accuracy and consistency of calculations.
- ***Examine data critically.*** A scan of the data may reveal anomalies or errors that may adversely affect forecasts. Further, a comparison of initial values and forecasted values should be completed to ensure the reasonableness of forecasted values.
- ***Recognize that forecasting requires insight and intuition.*** Some variables or forecasting assumptions will always be a best guess. However, experience provides a basis for this type of estimation (Miller and McClure).

A variety of financial and related forecasts are necessary to the preparation of a comprehensive budget. These include, but are not limited to,

- student enrollment projections,
- revenue and expenditure projections,
- cash flow projections,
- assessed property value projections, and
- debt service cost projections.

Cash Forecasts

The cash forecast is critical to ensuring that a fiscal crisis, such as failure to meet financial obligations, will not result from a cash shortage. An accurate forecast indicates potential cash shortages and thereby provides an opportunity for preemptive corrective actions. It also benefits the investment program by allowing the extension of maturities of investments. Longer

investment maturities typically result in higher interest earnings. Projections of operating cash needs should be developed for the fiscal year on a monthly or biweekly basis, depending on the payroll cycle, and should consider the timing of federal and state aid payments, local property tax levies and collections, lunchroom sales, sales taxes, and interest earnings and disbursements. This type of cash flow analysis will reveal the short-term borrowing necessary to address anticipated shortages. The associated cost of short-term borrowing should be included as a budgeted expenditure in the fiscal period in which the interest is scheduled for payment.

Cash forecasting is also necessary for activities or programs that extend to multiple operating periods, such as major facilities construction and acquisition. Capital projects are typically financed from proceeds of bonds, loans, certificates of participation, or other long-term debt instruments. Cash projections for the period of activity should incorporate funding proceeds and related capital expenditures based on contractual arrangements with regard for the timing of cash flows.

Fund Balance Forecasts

Fund balance forecasting for governmental funds results from the budget development process. Periodic monitoring of balances is provided through budgetary integration with the accounting system and is necessary to ensure compliance with statutory and contractual fund balance requirements.

PLANNING FOR ANNUAL AND MULTIYEAR CONSTRUCTION AND GRANT PROGRAMS

The following steps are basic to the planning process for both annual and multiyear construction and grant programs.

- Review the stated goals and objectives to determine that they are the basis for the entity's activities and operations. Although normally developed during the strategic planning process, the goals and objectives should be periodically reviewed for appropriateness.
- Conduct formal or informal needs assessments or both. Most strategic plans include one or more needs assessments. The criteria used are normally developed locally; however, some granting agencies may require the use of certain criteria. A methodology that provides objective measurement of the needs of the unit under review is necessary and should include financial and other forecasts in order to properly identify those needs.
- Design programs to attain the goals and objectives on the basis of the results of the needs assessment(s). The assessment process should identify and prioritize needs. From the results of this process, program plans should be developed that meet the organization's needs. Program planning should use an integrated approach to prevent the duplication of efforts, ensure the efficient use of resources, and ensure that all identified needs are addressed.
- Prepare program budgets to support the implementation plans. With a program plan in place, a budget can be developed. The traditional budgetary approach has been to appropriate only those monies necessary for the costs of the program or project in its first fiscal year. At year-end, the appropriation expires and monies must be reallocated for each subsequent year of the program or project. This approach is unnecessarily complex and may distract administrative and board focus from important budgetary issues. To avoid these problems, the development of multiyear program budgets, whether for capital or special programs, is recommended if state and local statutes permit multiyear budgeting.

BUDGETS FOR MULTIYEAR CONSTRUCTION PROJECTS

The development of multiyear construction budgets has two fundamental stages. The first stage involves extensive planning to identify facilities needs. This may be accomplished through the

process outlined in the previous chapter on financial forecasting and planning. A committee may be created specifically for capital planning or as part of a strategic planning effort. Identification of capital needs may also come from maintenance staff or from a contracted evaluation. The evaluations should identify the costs for a particular program, and from these inputs, a determination can be made regarding whether to pursue a construction project. Once this decision is made, the second stage involving budget development can begin. This process does not necessarily need to be incorporated into the annual budget process.

PREPARATION OF CONSTRUCTION PROJECT BUDGETS AND RELATED FINANCING

Following the decision to initiate a capital acquisition program, funding mechanisms should be explored. This often involves some form of bonded indebtedness; however, building programs may be funded with accumulated fund balances in appropriate funds. Alternatively, capital leases may be used under certain circumstances. In situations in which bond financing is used, the bond initiative must be reviewed and approved by the governing board before it is placed on the ballot. The size of the bond initiative for a particular program may be determined by estimates of aggregate costs generated during the planning process and may not include detailed project budgets until funding has been secured. However, depending on the local political environment, bond initiatives may require detailed cost estimates that specifically identify the projects to be funded from the proceeds before the bond issue can be placed on the ballot.

Financial advisers and bond attorneys may be consulted on the size, applicable tax regulations, marketing, and selling of bond issues. Other considerations include tax rate limitations or debt ceilings that may affect the amount of bonded debt that can be undertaken.

When funding has been secured, detailed project budgets should be developed. Individual budgets covering the life of each project are necessary for the proper monitoring of the related activity. Although cost estimates developed during the planning process may be used to determine the size of the bond initiative, actual project budgets must contain more detailed information. Architects, contractors, and staff should be involved in budget preparation, and it will be necessary to identify factors such as shifts in student populations, additional facility or site requirements, and so on, which may cause significant differences between the actual project budget and the cost estimates developed during the planning process. Construction project budgets using a multiyear format should be reviewed periodically by administrators with regular reports provided to the board on the progress of each project. Bond attorneys and financial advisers also need to be informed periodically of the progress of projects using debt funds.

In summary, the budgeting process is an integral part of the sound financial management of any organization. Adequately planning and managing the entity's resources play important roles as the movement for greater accountability expands in importance. Sound budgeting techniques, such as site-based budgeting, are being emphasized as school district administrators and funding agencies require a heightened level of justification for annual expenditures and decentralized decisionmaking. Site-based budgeting gains its popularity among administrators for its unique ability to effectively target funding because campus management largely makes the resource allocation decisions. However, regardless of which budgeting technique is adopted, some benefits of preparing and managing a budget remain the same: greater control and accountability over financial resources as well as the demonstration that administrators are actively planning for future needs.

CHAPTER 4: GOVERNMENTAL ACCOUNTING

Unlike most private sector organizations, governmental entities must be responsive to a number of different groups and organizations, including elected officials, other units of governments, investors, creditors, and citizens that are focused on monitoring their activities. All forms of monitoring include collecting and interpreting data, and this oversight function is often performed through information provided in governmental reports. Among the most important types of communication is the annual financial report, which presents the financial position, operating results, and cash flows for a particular accounting period. All governments, including school districts, develop their annual financial reports in accordance with principles established by standard-setting authorities to provide consistency and comparability for users.

For governments to achieve the objective of accountability, financial information must be both relevant and reliable for reasonably informed users. Financial reports must satisfy numerous and diverse needs or objectives, including short-term financial position and liquidity, budgetary and legal compliance, and issues having a long-term focus such as capital budgeting and maintenance. Additionally, differences exist in the amount of detail that various users need.

Following a decade of research and analysis, the GASB recently concluded that to meet the varied needs of a wide range of users, governmental reports must provide information regarding the public entity as a whole in addition to the traditional fund financial statements. Accordingly, in June 1999 GASB introduced a new financial reporting model in Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. The new model integrates the traditional focus of governmental fund financial statements relating to fiscal accountability (and the modified accrual basis of accounting) with new forms of reporting (e.g., governmentwide financial statements). The two levels of financial reporting are intended to

- provide more relevant information that will result in greater accountability by state and local governments and
- enhance the understandability and usefulness of the annual financial reports to users of these reports to enable them to make more informed economic, social, and political decisions.

This chapter provides an overview of governmental accounting and financial reporting, including the new requirements, as well as a discussion of current approaches used in compiling financial reports. In particular, the following elements are included:

- Governmental GAAP Hierarchy
- Measurement Focus and Basis of Accounting
- Fund Structure
- Internal Control Structure
- Other Issues Affecting Educational Entities

It is important for governments to provide effective financial information to constituencies in a consistent and clear format. Specifically, the information provided by governments should contribute to accountability in the following areas:

- Financial position and results of operations
- Actual financial results compared with adopted budgets
- Compliance with finance-related laws, rules and regulations
- Efficiency and effectiveness of operations
- Maintenance of governmental assets

Consistency in financial reporting by governments is provided through accounting standards. GASB is the standard-setting authority of generally accepted accounting principles (GAAP) for state and local governments, including school districts. In cases for which no GASB pronouncement is applicable, other authoritative sources of guidance exist. The following chapter presents a hierarchy of GAAP in descending order of authoritative literature for governments. The hierarchy was established in Statement of Auditing Standards (SAS) 69, *The Meaning of Presents Fairly in Conformity with Generally Accepted Accounting Principles in the Independent Auditor's Report*, effective March 15, 1992, and issued by the American Institute of Certified Public Accountants (AICPA).

GOVERNMENTAL GAAP HIERARCHY

- Category (a) consists of GASB Statements and Interpretations and AICPA and Financial Accounting Standards Board (FASB) pronouncements that have been specifically made applicable to state and local governmental entities by GASB Statements or Interpretations (periodically incorporated in the Codification of Governmental Accounting and Financial Reporting Standards).
- Category (b) consists of GASB Technical Bulletins and AICPA Industry Audit and Accounting Guides and Statements of Position that have been specifically made applicable to state and local governments by the AICPA and approved by the GASB.
- Category (c) consists of AICPA Accounting Standards Executive Committee (AcSEC) Practice Bulletins that have been specifically made applicable to state and local governments by the AICPA and approved by the GASB. Also included are consensus positions of groups of accountants organized by the GASB that attempt to reach consensus on accounting issues applicable to statement and local governmental entities. (GASB has not organized such a group as of the date this handbook was released.)
- Category (d) includes GASB Implementation Guides published by GASB staff. Additionally, practices that are widely recognized and prevalent in state and local government are included in this category.
- In the absence of a pronouncement covered by Rule 203 or another source of established accounting principles, other accounting literature, such as the following, may be considered, depending on its relevance to the circumstances:
    - GASB Concepts Statements
    - Pronouncements referred to in categories (a) through (d), SAS 69, paragraph 10, of the hierarchy for nongovernmental entities when not specifically made applicable to state and local governments:
        - FASB Concepts Statements
        - AICPA Issues Papers
        - Statements of the International Accounting Standards Committee
        - Pronouncements of other professional associations or regulatory agencies
        - Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids
    - Accounting textbooks, handbooks, and articles

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

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Traditionally, the majority of governmental financial information has been maintained and

reported in the fund financial statements on the modified accrual basis of accounting or the accrual basis for business-type activities. The recently enacted GASB Statement 34 establishes additional reporting (the governmentwide statements) that represents a major shift in the focus and content of governmental financial statements. Collecting and reporting additional financial information required by the governmentwide statements add to the complexity of financial reporting activities and have significant implications for the traditional focus and basis of accounting used in governmental financial statements.

The new governmentwide financial statements consist of a Statement of Net Assets and a Statement of Activities and are prepared using the economic resources measurement focus and the accrual basis of accounting. Thus, revenues are recognized in the accounting period in which they are earned and become measurable without regard to availability, and expenses are recognized in the period incurred, if measurable.

Governmental fund financial statements continue to be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become available and measurable, and expenditures are recognized in the period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due. [Codification of Governmental Accounting and Financial Reporting Standards, section 1100.110.] Proprietary fund financial statements continue to be prepared using the economic resources measurement focus and the accrual basis of accounting.

Like proprietary fund financial statements, fiduciary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Table 1 summarizes the measurement focus and basis of accounting for each reporting element and type of fund.

Table 1. Measurement Focus and Basis of Accounting for Financial Statements

Financial Statements	Measurement Focus	Basis of Accounting
Governmentwide Financial	Statements Economic Resources	Accrual
Governmental Funds Financial Statements	Current Financial Resources	Modified Accrual
Proprietary Funds Financial Statements	Economic Resources	Accrual
Fiduciary Funds Financial Statements	Economic Resources	Accrual

GASB Statement 20, as amended by Statement 34, allows a government the option of applying FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements, to enterprise funds and governmentwide financial statements. The election is made on a fund-by-fund basis; however, consistency in the application within a particular entity fund is encouraged. A state government may make the determination of which option will apply to all LEAs and AEAs within that state.

FUND STRUCTURE

For governmental entities to ensure the proper segregation of resources and to maintain proper accountability, an entity's accounting system should be organized and operated on a fund basis. Each fund is a separate fiscal entity and is established to conduct specific activities and objectives in accordance with statutes, laws, regulations, and restrictions or for specific purposes. A fund is defined in GASB Codification Section 1300 as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with

special regulations, restrictions, or limitations.

Statement 34 modified the structure of two categories of funds used by local governmental entities. Specifically, the new reporting model introduces two new types of funds:

- ***Permanent funds*** (in the governmental fund category). Permanent funds are required to be used to report resources that are legally restricted to the extent that only earnings (and not principal) may be used for purposes that support the reporting government programs.
- ***Private-purpose trust funds*** (in the fiduciary fund category). Private-purpose trust funds should be used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

The new model eliminates expendable and nonexpendable trust funds to focus fiduciary reporting on resources held for parties external to the reporting government: individuals, private organizations, and other governments. Fiduciary funds, therefore, cannot be used to support the government's own programs.

With the incorporation of these changes, three categories of funds remain:

- Governmental funds are those through which most governmental functions are accounted for. The acquisition, use, and balances of the government's expendable financial resources and the related current liabilities—except those accounted for in proprietary funds—are accounted for through governmental funds (general, special revenue, capital projects, debt service, and permanent funds).
- Proprietary funds are used to account for a government's ongoing organizations and activities that are similar to those often found in the private sector. All assets, liabilities, net assets, revenues, expenses, and transfers relating to the government's business and quasi-business activities—in which changes in net assets or cost recovery are measured—are accounted for through proprietary funds (enterprise and internal service funds). Generally accepted accounting principles for proprietary funds are similar to those applicable to businesses in the private sector; the measurement focus is on determining operating income, financial position, and cash flows.
- Fiduciary funds are used to account for assets held by a government in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

Additional information on the governmental fund structure may be found in chapter 5.

Major Funds

The concept of major fund reporting is introduced and defined by GASB Statement 34 to simplify the presentation of fund information and to focus attention on the major activities of the entity. Rather than require each type of fund to be individually presented, Statement 34 requires the individual presentation of *only* major funds, with all other funds combined into a single column. This reduces the number of funds presented on the face of the financial statements and directs the focus on the significant funds of the reporting entity. Major fund reporting is applied only to governmental (i.e., general, special revenue, debt service, capital projects, and permanent funds) and enterprise funds. Internal service funds are excluded from the major fund reporting requirements. Fiduciary fund information is presented by type of fund rather than by major funds.

GASB defines major funds as those meeting the following criteria:

- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category (governmental funds) or type (enterprise funds).

- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Both criteria must be met in the same element (assets, liabilities, etc.) for both the 10 percent and 5 percent tests for a fund to be defined as major. However, Statement 34 permits a government to designate a particular fund that is of interest to users as a major fund and to individually present its information in the basic financial statements, even if it does not meet the criteria. However, a government does not have the option to NOT report a fund as major if it meets the criteria above.

It should be noted that in applying the major fund criteria to enterprise funds, the reporting entity should consider both operating and nonoperating revenues and expenses, as well as gains, losses, capital contributions, additions to permanent endowments, and special items. When the major fund criteria are applied to governmental funds, revenues do not include other financing sources and expenditures do not include other financing uses. However, special items would be included.

INTERNAL CONTROL STRUCTURE

An integral part of proper accounting procedures rests in issues of controls and begins with internal accountability structures. The AICPA's Statement on Auditing Standards No. 78, *Consideration of Internal Control in a Financial Statement Audit: An Amendment to Statement on Auditing Standards No. 55*, (which incorporates the Committee of Sponsoring Organizations Report, Internal Control Framework) indicates 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. In addition, the nature of internal control is such that even appropriate methods and systems will not guarantee that an entity's objectives will be achieved.

Internal control is a process—affected by an entity's board of trustees, management, and other personnel—designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

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

As a result, internal control consists of five interrelated components:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

Control Environment

The control environment is established on the basis of the attitude of management toward internal control. It is the basis for all other elements of the system of internal control. AICPA Statement on Auditing Standards No. 78 states that the control environment "sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure." As such, a management philosophy that is dedicated to establishing a sound business process and operating controls

would tend to create a stronger internal control environment than a philosophy that is unaware of or unconcerned with internal controls.

The collective effort of various factors affects the control environment, including the following:

- Integrity and ethical values
- Commitment to competence
- Governing board or audit committee participation
- Management's philosophy and operating style
- Organizational structure
- Assignment of authority and responsibility
- Human resource policies and practices

The substance of internal controls is more important than the form because of the risk that controls may not be effectively implemented or maintained.

Risk Assessment

Risk assessment is the entity's identification and analysis of risks relevant to the achievement of its objectives and forms a basis for determining how the risks should be managed. Risks can arise or change as a result of the following factors:

- Changes in operating environment
- New personnel
- New or revamped information systems
- Rapid growth
- New technology
- New grant programs, building projects, or other activities
- Organizational restructuring
- Accounting pronouncements
- Federal regulations
- Finance-related statutes

Given the dynamic nature of governmental operating environments, the ability to anticipate and mitigate risks from these changes is a key factor in measuring the strength of internal controls. To the extent that the design of controls for new operations is an important aspect of planning efforts, an entity's level of internal control may be enhanced.

Control Activities

Control activities are the policies and procedures that help ensure that management directives are carried out. Control activities can be divided into four categories:

- Performance reviews
- Information processing
- Physical controls
- Segregation of duties

The application of controls, such as the segregation of duties, is affected to some degree by the size of the organization. In small entities, procedures will be less formal than in large entities. Additionally, certain types of control activities may not be relevant in small entities.

Information and Communication

Information and communication represent the identification, capture, and exchange of

information in a form and time frame that enable people to carry out their responsibilities. Information systems encompass procedures and documents that do the following:

- Identify and record all valid transactions
- Describe, on a timely basis, transactions in sufficient detail to permit proper classification for financial reporting
- Measure the value of transactions in a manner that permits their proper recording in the financial statements
- Permit the recording of transactions in the proper accounting period
- Present properly the transactions and related disclosures in the financial statements

Senior management should deliver a clear message to employees about their responsibilities and role in the internal control system. Employees should also have a means for communicating the effectiveness and efficiency of these systems to upper levels of management.

Monitoring

Monitoring is a process that assesses the quality of internal control performance over time. Ongoing monitoring activities include regular management and supervisory activities and other actions taken during the normal performance of management's responsibilities. Further, periodic reviews of internal controls and related activities, performed with internal personnel or external resources, may be undertaken. The nature and timing of these evaluations depend on the effectiveness of ongoing activities and the risk that internal controls are not performing as intended by management. Deficiencies in the system of internal controls should be reported to the appropriate level of management.

Management should clearly assign responsibility and delegate authority with sufficient care to ensure that

- persons who perform control procedures are held accountable for their performance by those who monitor these activities, and
- persons who monitor the performance of control procedures are held accountable by senior management, the governing board, or the audit committee.

If accounting information is routinely used in making operating decisions, management is likely to establish effective controls and hold lower-level managers and employees accountable for performance. In addition, if management routinely uses accounting information in measuring progress and operating results, significant variances between planned and actual results are likely to be investigated. This review may detect the causes of the variances and affect the steps necessary to correct procedures that failed to prevent misstatements.

Common Types of Control Procedures

Numerous control procedures and monitoring activities are performed by individuals in governmental entities to accomplish particular objectives. All these controls, however, can be classified within one of the basic categories of controls described below. Detailed control procedures or monitoring activities may be included in each of these categories, depending on the size of the entity and the sophistication of the particular control environment.

Access Controls

Certain controls prevent access to assets by unauthorized persons. Often these controls are physical in nature. For example, an organization might store inventories of supplies and commodities in locked storage areas, store currency in a vault or a locked drawer, and use alarm systems to restrict access by unauthorized individuals. If controls to prevent unauthorized access

to assets are not effective, assets may be lost or stolen. If detective control procedures such as physical inventory counts are appropriately performed, shortages should be discovered in a timely manner.

In some cases, unauthorized access to assets may be gained through vulnerable accounting records—especially records maintained on computer systems. For example, if warehouse requisitions can be issued through a computer terminal, access to inventory may be gained through the system. Controls over unauthorized access to assets through computer records may be physical (e.g., terminals are kept in a locked room) or logical (e.g., access to the computer program or data files may be obtained only with the proper password or other user-identification method). Monitoring the control procedures that address unauthorized access includes observing physical control procedures, reviewing established access privileges with the manager of information systems, or reviewing reports of attempted computer access violations. Internal auditors often perform such activities.

Access controls, however, do not prevent individuals who have authorized access to assets from misappropriating them. Individuals who have authorized access to both assets and related accounting records may be in a position to conceal shortages of assets in the records. However, if duties are properly segregated, persons with access to assets will not have access to related accounting records, which may be altered to conceal shortages.

Controls over authorized access to assets are important to an organization, not only to prevent thefts, but also to ensure that assets are committed only after proper consideration by individuals who are knowledgeable and experienced. Authorization and approval are types of controls designed to prevent invalid or inappropriate transactions from occurring. An example is a procedure designed to ensure that disbursements are made only when authorized orders for goods and services have been received. In many systems, access to computerized records (e.g., shipping requests) can result in improper access to assets; therefore, procedures must be designed to limit access to computerized records.

Reconciliation and Comparison of Assets with Records
Reconciling and comparing assets with accounting records establish a system of independent verification, either through preparing an independent control document used to reconcile accounting records and assets or by directly comparing accounting records with related assets. Examples of these procedures include the reconciliation of physical inventory to accounting records and the preparation of a bank reconciliation.

Analytical Reviews
The purpose of analytical reviews is to evaluate summarized information by comparing it with expected results. Management personnel often perform analytical reviews to determine whether the entity is performing as planned. For example, a common analytical review procedure is the comparison of budgeted to actual performance, with investigation of any significant or material variances as determined by the analyst. Often, analytical reviews may be used to monitor other underlying control procedures.

Authorization and Approval
Authorization and approval procedures prevent invalid transactions from occurring. Thus, this type of control typically involves authorization or approval of transactions at specific dollar thresholds and manual (e.g., requiring signatures of authorized individuals) or automated (e.g., password protected) authorizations for computer transactions. The effectiveness of these procedures often depends on general computer controls over information security.

Reviews of Output
Reviews of output should be performed by district personnel who have the knowledge and experience to identify errors. Such reviews could be performed in both computer and manual systems. These reviews check the validity and accuracy of output by comparing it in detail with expected results. For example, a purchasing manager may compare recorded amounts or quantities purchased with separate records of purchase orders.

Transactional Reviews
Transactional reviews check the validity and accuracy of transaction processing by comparing it in detail with expected results. Reviews often use exception reports (usually computer-generated), which list items that failed to be processed because they did not meet specified criteria. For example, a computer-generated check may be rejected if it exceeds some dollar amount and requires a manual signature. Monitoring these types of control procedures involves reviews of results performed by management.

General Computer Controls
Computer systems frequently have common areas of control and related control procedures referred to as general computer controls. These controls directly or indirectly affect all systems that operate within a computer-processing environment. General computer controls include the usual elements of effective internal control, that is, an individual or group responsible for control procedures and monitoring activities. Managers of the information systems function usually monitor the performance of general computer controls. Monitoring activities include observation, exception reporting, reviews of work performed, reviews of program changes, oversight by information system steering committees, and the monitoring of user complaints. For example, the effectiveness of programmed control procedures such as edit checks and approvals depends on general computer controls that ensure that program changes are not made improperly. General computer controls include controls over computer operations; systems acquisition, development, and maintenance; information security; and information systems support, as detailed below:

- ***Computer operations.*** The computer operations staff is responsible for the day-to-day processing activities of the entity's system. It ensures that jobs are scheduled and processed as planned, data are properly stored on the system or tapes, and reports are distributed in a timely and accurate fashion.
- ***Systems acquisition, development, and maintenance.*** The systems acquisition, development, and maintenance staff is responsible for planning, acquiring or developing, testing, and implementing new application systems and changes to existing application systems. Such controls are usually important in larger processing environments where there is more development and maintenance activity. The systems are more complex and there is less reliance on purchased software.
- ***Information security.*** The information security function is responsible for administering and maintaining an entity's information security program, including both physical and logical security. The primary goal of such a program is to ensure that access to program data, online transactions, and other computing resources is restricted to authorized users.
- ***Information systems support.*** Information systems support includes such functions as system software maintenance, database administration, communications and network management, end-user computing, and other groups with technical and administrative support responsibilities.

Certain governmental entities may use external service organizations for executing and recording certain transactions, such as payroll processing. In such situations, the entity needs to ensure that the service organization has adequate controls over processing the transactions.

In the final analysis, maintaining the internal control environment and related control procedures is an integral part of management's responsibilities. In the context of governmental accounting and reporting, the control environment has a direct impact on an entity's ability to collect and present accurate financial information. Thus, the internal control environment and related procedures are key areas of concern to an entity's external auditor.

OTHER ISSUES AFFECTING EDUCATIONAL ENTITIES

School districts are the most common special governmental units. In some states, school districts operate as a fiscally dependent part of another local governmental entity such as a city or county; in other states, school districts are legislatively independent with authority to levy taxes and set budgets. School districts may or may not have common boundaries with another political subdivision. Regardless of whether districts are component units of another financial reporting entity, are joint ventures of several reporting entities (such as consolidated educational agencies), or meet the definition in GASB Codification, Section 2100 as separate reporting entities, many school districts prepare separate financial statements to accomplish one or more of the following:

- Support state or federal aid applications
- Report financial activities to parent, taxpayer, and citizen groups
- Prepare a financial report for use in an official statement for bond issuance purposes

Although school districts are a common type of government, they face a number of unique issues that make them distinct from states, cities, counties, or other local governmental entities. These issues often result in internal control and operational challenges that district management must address. The following chapter outlines a number of unique educational issues; however, this list is not exhaustive.

- ***Attendance reporting.*** Most school districts receive state aid on the basis of average daily membership (ADM), average daily attendance (ADA), or a similar pupil count method. Iowa uses certified resident enrollment for state aid purposes. Certified enrollment, ADM and ADA data typically are determined at individual school sites and then reported to a central attendance unit. That unit prepares reports for state aid and, in many cases, for federal aid, such as impact aid. Incorrect attendance reporting can lead to the allocation of too much or too little aid.
- ***Student activity funds.*** Some school districts may have funds or accounts at individual schools handled by school principals or club advisors. These funds present a unique control challenge to school districts given their decentralized nature and the production of financial records and reports by non-accounting personnel. Additional guidance on these issues is given in chapter 8.
- ***U.S. Department of Education requirements.*** Federal reporting requirements and others mandated by state-level education agencies are typically more detailed than the account code structures of cities and other local governments. Thus, district accounting systems must have the ability to account for transactions at a level of detail beyond that required by other governments. This issue is particularly complex for school district payroll systems, given the plurality of funding sources for district personnel and reporting requirements for personnel costs.
- ***School lunch programs.*** Most school districts participate in the U.S. Department of Agriculture (USDA) free or reduced-price food programs. These programs require school districts to segregate food service programs from other programs. School districts 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). (Guide to Implementation of GASB Statement 34 and Related Pronouncements Q&A, Q152) Because the federal agricultural commodity program involves purpose restrictions in the use of the resources, the value of inventory remaining on hand at fiscal year-end should be reflected as a reservation of fund balance/restriction of net assets. (Statement 33, paragraph 14) USDA-donated commodities may

also pose accounting and reporting problems because of restrictive federal rules regulating the use of these commodities.

- ***Site-based management initiatives.*** Over the past decade, many states and school districts have implemented site-based management initiatives. These initiatives have been designed to delegate to individual schools greater levels of authority to determine the use of financial resources. As a result, local administrators may control and report on the use of financial resources, even though they may lack financial management skills. This issue creates a challenge to district management in controlling financial resources and ensuring that reported results are correct.
- ***Educational accountability.*** Educational accountability has become a key policy issue at both state and national levels and has resulted in a number of recent reforms. Several educational accountability reforms have required school districts to collect and present school-level financial information. In addition, school-level financial information is often related to non-financial information (e.g., student achievement) in published reports and is used for comparison purposes. As a result, school districts must increasingly focus on ensuring that financial information reported by schools is accurate and consistent across the district.

In conclusion, school districts, like other governmental entities, must annually compile financial data and report on their financial position. Accounting and reporting standards for this information are set forth by a number of oversight agencies, including GASB, FASB, and AICPA. A major change in reporting requirements for governments was recently established by GASB Statement 34. This accounting standard requires governmental agencies, including school districts, to increase their financial reporting to include governmentwide financial statements as well as the traditional fund reporting. Although this new reporting model does not change the basic internal control expectations for governments, GASB Statement 34 presents new financial reporting challenges for school districts.

CHAPTER 5: FINANCIAL REPORTING

All uses of data are based on accurate, timely, and relevant information. Financial reporting is the communication of information regarding a governmental unit's accounting activities. Financial reporting encompasses a broad range of reporting activities including, but not limited to, presentation of the government's annual financial statements, grant applications and related reports, financial information submitted to state and federal regulatory and granting agencies, budget to actual comparison reports, management reporting, and other financial reports for internal and external use. The variety of these financial reports is evidence of the wide demand for financial information from both internal and external users. As a result, the financial reporting systems and activities of governments must be capable of producing financial information in a variety of formats and levels of detail.

Although the financial reporting activities of governmental entities, including schools, must fulfill a range of user needs, this chapter outlines the financial reporting requirements under Generally Accepted Accounting Principles (GAAP). Therefore, this chapter deals primarily with the preparation and presentation of the governmental annual financial statements and related GASB reporting standards. As discussed in the previous chapter, GASB Statement 34 has significantly modified the basic reporting requirements for governmental entities. The new reporting model requires the following financial statements and related information:

- Management's Discussion & Analysis (MD&A) as Required Supplementary Information (RSI)
- Basic Financial Statements:
    - Governmentwide Financial Statements
    - Fund Financial Statements
    - Notes to Financial Statements
- Required Supplementary Information Other Than MD&A

The basic financial statements and the required supplementary information constitute the minimum requirements for external financial statements. GASB Statement 34 requires new types of financial reporting in response to the various needs of financial statement users. The financial statement components and targeted users are shown in table 2.

Table 2. Financial Statement Components and User Groups

Financial Statement Components	Primary User Group
Required Supplementary Information (including MD&A)	Citizenry, Legislators and Oversight Bodies, Financial Community
Governmentwide Financial Statements	Citizenry and Legislators
Fund Financial Statements	Oversight Bodies, Legislators and Financial Community

The following sub-section outlines the major financial statement elements and identifies the major requirements for presenting a government's annual financial statements.

FINANCIAL STATEMENT ELEMENTS

Although the content, presentation, and basis of accounting may vary according to the reporting requirements of Statement 34, the basic elements of the financial statements remain the same. The major elements of the financial statements (i.e., assets, liabilities, fund balance/net assets, revenues, expenditures, and expenses) are discussed below, including the proper accounting treatments and disclosure requirements. However, the narrative does not exhaustively discuss all reporting requirements that school districts may face. School district personnel, therefore, should refer to the actual GASB statements or other definitive sources for detailed disclosure requirements and reporting formats.

Assets
Assets are defined as a probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. The following typically represent the major asset categories:

- Cash and Investments
- Receivables
- Prepaid Items
- Inventory
- Capital Assets

Cash and Investments
Cash and investments often represent a large portion of the assets on a government's balance sheet. Because of the importance of these assets, proper management based on sound investment policies and strategies is vital. The investment of excess funds is often governed by statute. Many state governments have adopted legal frameworks that restrict the investment activities of local governments, including school districts. These restrictions often place limitations on the types of investments allowed, regulate procedures used to manage investments, and require governing bodies to institute certain review procedures.

The following discussion about cash and investments does not illustrate all the possible investment scenarios that a local government might use. However, the following five general rules may protect a school district from problems related to investment decisions.

- For public funds, the investment objectives have traditionally been safety of principal first, then liquidity, followed by yield.
- All investments should be made with consideration of the district's cash requirements and cash flows.
- The district must understand the investment instrument, the investment mechanics, and the associated risk of the investment. Knowing the factors and variables that affect the market value of each investment will help the district determine investment policies and strategies.
- School district personnel should know with whom they are dealing before purchasing an investment. This means researching any financial institutions or brokers/dealers that the district uses.
- Proper protection of investments includes acquiring legal ownership or custody of securities. It also includes ensuring that deposits have been properly insured and collateralized.

Certain words in common usage have more limited definitions when they are used for accounting and financial reporting. Within the context of governmental accounting, the following definitions describe the specific content of accounts used by governmental entities:

- Cash is considered to be the most liquid (readily available) asset owned by an entity and represents readily available cash held by the organization.
- Cash equivalents are short-term, highly liquid investments (readily convertible to known amounts of cash) that are so near to maturity that they present an insignificant risk of changes in value resulting from changes in interest rates. Generally only investments with original maturities of three months or less qualify under this definition. Items commonly considered cash equivalents are treasury bills, commercial paper, short-term deposits in financial institutions, and money market funds. However, investments that qualify as cash equivalents are not all required to be treated as cash equivalents. Therefore, an entity should establish a policy concerning the classification of qualified investments as cash equivalents, which may be no more liberal than the

authoritative definition except as discussed below under pooling of cash and investments. The policy must be disclosed in the notes to the financial statements.

- Investments are defined as securities and similar assets acquired primarily to earn income or profit. A security is a transferable financial instrument that evidences ownership or creditor status. Securities that are often held by or pledged to school districts generally include U.S. Treasury bills, notes, and bonds; federal agency and instrumentality obligations; direct obligations of a state or its agencies; commercial paper; negotiable and non-negotiable certificates of deposit; fully collateralized repurchase agreements; and prime domestic bankers' acceptances.

The pooling of cash and investments provides several advantages, including better physical custody and control, enhanced investment opportunities, and ease of operations. It may also simplify custody, collection, and disbursements. In certain instances, the pooling of cash and investments may be prohibited in contractual clauses such as bond indentures or through legal restrictions. If the school district pools cash for investment purposes, the resulting pooled cash and investments may qualify as a cash equivalent for participating funds, even though some of the pooled investments would not individually meet that definition.

Financial Statement Presentation and Disclosure. The complexity and range of investment potential and the large amounts of cash and other assets present in most governmental units emphasize the need to carefully capture and present these data in usable form. Cash and investment balances are segregated into individual funds and, depending on contractual requirements, may be classified as restricted assets. If a fund overdraws its share of a pooled cash account, the overdraft should be reported as a liability of that fund. Fund overdrafts of this type should be reported as interfund payables and receivables.

Disclosures for cash and investments normally include, in addition to the GASB Statement 3 disclosures (see following chapter), the valuation basis of investments (e.g., investments are stated at fair value that approximates market). Changes in fair value are included as a component of investment income.

The detailed disclosure requirements for cash and investments have been established in GASB Statement 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* (issued in April 1986); GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions* (issued in May 1995); and GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (issued March 1997). These GASB statements and the entity's external auditor should both be consulted regarding disclosure requirements for cash and investments.

Receivables

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

- Property taxes
- State and federal grants
- Intergovernmental revenues (due from other governmental entities)
- Interest income

The accounting for revenues and related accounts receivable in governmental entities 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 in which the maximum period may not be more than 60 days. The availability period will be disclosed in the notes. Each entity 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. All Iowa LEAs and AEAs are required to use 60 days.

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.

GASB Statements 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, may have an impact on a governmental entity's reporting of revenues related to certain non-exchange transactions. Entities should consult the statements and their external auditors to determine the impact.

Property Taxes Receivable. Property taxes are generally assessed to finance expenditures of a specific fiscal year. On the assessment date or levy date, the property taxes become a lien against the assessed property. Property taxes should be recorded in the governmental funds by using the modified accrual basis of accounting (recorded when they are both measurable and available). The amount of the property taxes receivable is based on the assessed value of the property, the current property tax rate, and an estimate of the uncollectible portion. When taxes are levied, the revenue and related receivable should be recognized, net of estimated uncollectible amounts. A receivable is usually recognized at the time an enforceable legal claim arises. The revenue is usually recognized in the first period in which the use of the revenues is permitted or required.

If taxes that are levied to finance a subsequent fiscal period are collected in the current period, the amount collected should be recorded as deferred revenue. In the next fiscal year, a journal entry will be recorded to recognize the revenue amount that was collected in advance.
In the fund financial statements, when property taxes are delinquent but expected to be collected, they should be reported as deferred revenues if it is estimated that the taxes will not be available to pay current obligations of the governmental fund. This situation indicates that the delinquent property taxes are not expected to be collected within 60 days of the close of the fiscal year, although a shorter availability period may be used.

Due From State. This receivable represents amounts from state resources that exceed the amounts received during the fiscal year for which the school district has met all eligibility requirements. A district 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.

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 that are expected to be available to finance current liabilities. Such revenues are usually accounted for in 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.

Due From Other Governments or Agencies. In some instances, districts become eligible for revenue from other local governments 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 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 revenue 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 government that generate interest earnings regardless of the expected payment date.

Inventory

Governmental accounting generally requires that amounts spent to purchase goods be recorded as an expenditure at the time of the purchase. An exception to this general rule is made for inventory. If the amount of inventory on hand at year-end is significant, the value of such inventory should be recorded as an asset. This is considered the "Purchase Method" whereupon fund balance is reserved for the amount of inventory. Inventory may also be recorded as an expenditure when it is consumed rather than when it is purchased. Under the "Consumption Method," purchase transactions are first recorded in the inventory account. As inventory is actually used, an entry to recognize the expenditure is posted to the appropriate accounts. This method is required for the proprietary funds.

It is not uncommon for school districts to have a relatively high level of inventory at the end of the fiscal year, since this often coincides with the start of a new school year. In addition to the balance sheet presentation, note disclosure regarding the method of accounting for inventory should be made. Districts often distribute inventoried supplies to schools prior to fiscal year-end to accommodate the beginning of the new academic school year. Such inventories may either be included in inventory at year-end or be expensed in the year of distribution.

For the entity-wide statements, the consumption method must be used. If the purchase method is used in the governmental funds and the consumption method produces a different result, the difference should be included in the reconciliations of governmental funds to governmental activities. (Second Statement 34 Q & A, Q23)

Inventories in school districts generally represent goods that are insignificant individually, but are significant as a whole. These items may be described as follows:

- Consumable goods that have a relatively short shelf life. Common examples are office supplies, paper, computer supplies, building and maintenance supplies, and science lab supplies.
- Items that are expected to be used within a short time, including cafeteria foods such as commodities received from the United States Department of Agriculture (USDA).
- Tangible personal property that is durable but does not meet the entity's criteria for capitalization as an asset. Examples are textbooks, calculators, and physical education equipment.

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

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

For internal control purposes, these two functions should be performed by individuals (or departments, if the district is of sufficient size) that are organizationally independent. The results of the two processes should then be reconciled by personnel external to these functions. This segregation of duties will improve the internal controls over inventory and may mitigate the risks of theft or defalcation.

Accounting for and Control of Inventory. Governmental entities have several options for physical counts of inventory. Independent auditors are required by generally accepted auditing procedures to conduct physical observations of inventories at least annually when such inventories are material to the district's operations. The physical observations should be conducted as of the balance sheet date or as of a single date that is within a reasonable time before or after the balance sheet date. The independent auditor is usually present at the time of the inventory to assess the effectiveness of the inventory-taking procedures and to determine the reliance that the independent auditor can place on the entity's representations relating to the physical condition and quantities of the inventory. The most common physical inventory count methods are

- cycle counts,
- full counts taken at fiscal year-end, and
- full counts taken at times other than fiscal year-end.

Accounting for Commodities. School districts 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). (Guide to Implementation of GASB Statement 34 and Related Pronouncements Q&A, Q152). Because the federal agricultural commodity program involves purpose restrictions in the use of the resources, the value of inventory remaining on hand at fiscal year-end should be reflected as a reservation of fund balance/restriction of net assets. (Statement 33, paragraph 14).

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 deferred revenues. (Statement 33, paragraph 21).

Pension Assets
The advanced funding of pension plans is an intangible asset, which is recognized by an employer for contributions to a pension plan, which were greater than pension expense. This asset will be amortized against the pension costs of the employer when due.

Capital Assets
Governmental entities are responsible for accounting for, controlling, and reporting both current and capital assets. Capital assets have certain properties that distinguish them from other types of assets:

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

Capital assets may include the following:

- Land and land improvements
- Easements
- Buildings and building improvements
- Vehicles
- Machinery and equipment
- Technological assets such as computers and network equipment
- Works of art and historical treasures (discussed separately below)
- Infrastructure (discussed separately below)

The emphasis in governmental accounting for capital assets is on control and accountability. Accordingly, a variety of data relating to an entity's capital assets must be maintained to ensure control and accountability over them:

- Quantity and types of assets
- Location of assets
- Life expectancy of assets

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

Basis of Capital Assets. Capital assets are included in the financial records at cost. In some situations, the purchase or acquisition documents may not be available for capital assets already on hand. If reliable historical records are not available, an estimate or appraisal of the original cost based on other information, such as price index levels at time of acquisition, may be used. The intent of such valuation is to record a fair value at the date of acquisition and not expend excessive resources in ascertaining exact costs. If capital assets are acquired by gift, then the fair value on the date received is the appropriate amount to include in the capital asset records.

Capital assets may be acquired by several methods:

- Purchase
- Lease-purchase
- Construction
- Tax foreclosures
- Gifts and contributions

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

Capital Asset Reporting. GASB Statement 34 establishes reporting requirements for general government capital assets. Previously, financial statement presentation for capital assets of the general government was limited to the general fixed asset account group in the combined balance sheet. No depreciation was recognized on these assets. However, Statement 34 establishes the following new reporting requirements for capital assets:

- Depreciable capital assets should be reported in the Statement of Net Assets (a governmentwide statement) at historical cost, net of accumulated depreciation.

- The historical cost should include the ancillary charges necessary to place the asset into its intended location and condition for use, including freight and transportation charges, site preparation costs, and professional fees that directly relate to the acquisition of the asset.
- Depreciable capital assets may be reported on the face of the Statement of Net Assets as a single item or by major class. Detailed information will be reported in the notes.
- Significant nondepreciable capital assets that are inexhaustible, such as land, certain nondepreciable site improvements, and infrastructure assets reported using the modified approach should be reported separately from depreciable capital assets on the statement of net assets. GASB has defined an inexhaustible capital asset as one whose economic benefit or service is used up so slowly that its estimated useful life is extraordinarily long. Construction-in-progress should be included with nondepreciable capital assets in the Statement of Net Assets.
- Accumulated depreciation may be reported on the face of the Statement of Net Assets, parenthetically or as a separate line item reducing capital assets. However, regardless of the statement presentation in the Statement of Net Assets, the notes to the financial statements should disclose balances and changes in accumulated depreciation for the period by major asset class, as well as information regarding depreciation methods used.

Capitalization Thresholds, Estimated Useful Lives, and Depreciation Methods for Capital Assets

Given the new requirements in Statement 34 to depreciate general capital assets, governments must establish a range of policies regarding capitalization thresholds for capital assets, estimates for useful lives, and depreciation methods. Statement 34 does not prescribe policies for any of these areas; however, note disclosure is required. Management is granted discretion to determine appropriate policies for control purposes in accordance with the laws and regulations under which the entity operates. Some states have established specific regulations surrounding capital assets; therefore, school districts should consult state sources in establishing new policies. Iowa districts will find the recommendations of the GASB 34 Implementation Committee in the Appendix.

Capitalization Thresholds. Capitalization threshold refers to the dollar value threshold at which purchases of assets will be capitalized in the financial records of the governmental entity rather than be recorded as an expenditure/expense at the time of purchase. Many assets having useful lives greater than one year do not have values that are material to the entity's financial statements. Additionally, the costs of tagging, tracking, and accounting for numbers of immaterial items may be considered excessive by the entity. As a result, many local governments establish capitalization thresholds that exclude reporting these items as capital assets and instead rely on systems other than the financial management system for tracking and control purposes (e.g., PC inventories, building equipment lists, maintenance systems).

In determining an appropriate capitalization threshold, entities should consider the following factors:

- Total value of all capital assets
- Impact of the new/revised capitalization threshold on values reported in the statement of net assets
- Value of any related debt (financial statement presentations may be misleading if significant assets acquired through debt are excluded by the capitalization threshold)
- Costs associated with tracking and reporting assets
- Applicable state or federal requirements (typically for grant funds)

Several resources exist to guide governmental entities in making informed decisions related to asset capitalization thresholds, including industry guidelines for specific assets, state auditors' and comptrollers' guidelines for state agencies, and the implementation guide produced by the

Association of School Business Officials International (ASBO). These resources are typically available via state web sites.

Finally, local governmental entities should review applicable state and federal requirements related to asset capitalization in determining appropriate policies. For example, the federal government uses a dollar threshold of $5,000 for federal grant management purposes. This threshold may have an impact on an entity's policies, particularly as it relates to capital assets that are acquired with federal grant funds.

Estimated Useful Lives. The estimated useful life of an asset is the period (of months or years) that the asset will be used for the purpose for which it was purchased. In determining the estimated useful life of an asset, consideration must be given to the asset's present condition and intended use, maintenance policy, and how long the asset is expected to meet service and technology standards. School districts may use general guidelines obtained from professional or industry organizations, information on comparable assets of other school districts/governments, and internal historical data. The determination of appropriate estimated useful lives is a management decision that is affected by a number of factors:

- Experience with asset management
- Plans for asset use
- Property management practices
- Asset maintenance practices
- Applicable federal or state regulations

Many sources of information on estimated useful lives are available to assist in establishing appropriate policies in this area. These sources include, but are not limited to, the following:

- GASB Statement 34 implementation guides issued by state education agencies and other key state agencies, including state auditors and comptrollers. Many of these agencies have web sites that contain information about the useful lives of various asset classes in the state. Further, many of these web sites may be accessed through the GASB web site at http://www.GASB.org/.
- Statement 34 Implementation Guide for schools issued by ASBO, International. This guide discusses capitalization policies and depreciation methods at length.

A periodic reassessment of the estimated useful lives of capital assets may be appropriate. Any change in the useful life of a capital asset should be applied prospectively in accordance with Accounting Principles Board Opinion 20.

Depreciation Methods. GASB Codification Section 1400.113 states that "depreciation expense should be measured by allocating the net cost of depreciable assets (historical cost less estimated salvage value) over their estimated useful lives in a systematic and rational manner." Although GASB requires governmental entities to depreciate capital assets (other than nonexhaustible assets), the Statement does not prescribe the method. As a result, depreciation methods are a management decision that should be based on the resources necessary to determine the various calculations and the capabilities of asset management systems. In addition to composite or group methods, any established depreciation method may be used (e.g., straight-line, sum-of the-years' digits, or double-declining balance).
Depreciation may be calculated for individual assets or it may be determined for a

- class of assets,
- network of assets, or
- subsystem of a network.

The depreciation method can vary for different categories of assets.

To simplify the calculations involved, the composite method may be used to calculate depreciation expense. It is applied to a group of similar assets or dissimilar assets in the same class, using the same depreciation rate, but not across classes of assets. The estimated life for the group may be based on the individual weighted average, the simple average of the useful lives of the assets in the group, or the weighted average or assessment of the life of the group as a whole. This method assumes no salvage value for assets; therefore, it simplifies the calculations and the recording of asset dispositions.

Works of Art and Historical Treasures. Works of art, historical treasures, and similar assets are a special class of capital assets that may require developing a specific capitalization and depreciation policy. These assets are defined as items held singly or in collections that meet all of the following conditions (Statement 34, paragraph 27):

- Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- Protected, kept unencumbered, cared for, and preserved.
- Subject to an organization policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Historical buildings, monuments, and fountains are capital assets that may qualify as works of art, historical treasures, or similar assets if they meet the requirements above. School districts that have collections meeting the criteria above may choose not to capitalize these collections of works of art or historical treasures.

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

Technology Assets. Technology-related assets are a class of capital assets that may require special treatment and reporting by school districts based on local or state reporting and accountability requirements or policies. Although technology 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 school districts have resulted in an increased level of interest by policymakers and citizens related to the use of resources dedicated to these purposes. Thus, many school districts have instituted special accounting and reporting practices associated with expenditures for technology-related assets.

To facilitate the proper accounting and reporting of technology expenditures by school districts, chapter 6 (Account Classification Descriptions) of this handbook establishes a number of expenditure and asset reporting codes. As chapter 6 outlines, school districts should account for technology-related expenditures according to the following principles:

- Expenditures related to the technology and media-related activities that support instruction (function code 2230) should be segregated from those associated with administrative technology (function code 2580).
- Expenditures associated with purchased services to support technology should be distinguished from other types of purchased and professional services. Expenditure object codes 351 and 352 have been established for this purpose.

- Expenditures associated with the rental of computer and other technology equipment should be distinguished from other types of rentals. Expenditure object code 443 has been established for this purpose.
- Communications expenditures should include all costs associated with voice, data, and video communications charges regardless of the media used (expenditure object code 530).
- Technology supplies should be segregated from other types of supplies. Expenditure object code 650 has been established for this purpose.
- Purchases of technology capital equipment should be specifically tracked for analysis purposes. Expenditure object code 734 has been established for this purpose.

Using these codes to account for and report on technology-related costs will allow school districts to

- capture information on both instructional and administrative technology costs and
- accumulate the total expenditures associated with technology for operating purposes (expenditure object codes 351, 352, 443, 530, and 650) and capital purchases (expenditure object code 734).

Although chapter 6 addresses many of the key issues related to tracking and reporting on technology-related costs, school districts will still need to establish capitalization and depreciation policies for technology assets. School districts should capitalize only those technology assets that meet their local policies in this area. Non-capital technology purchases should be treated as supplies for reporting purposes (use expenditure object code 650).

Infrastructure Assets. Infrastructure assets are long-lived capital assets that are normally stationary in nature and that can be maintained for a significantly greater number of years than most capital assets. Infrastructure assets include

- roads,
- bridges,
- drainage systems,
- water and sewer systems, and
- lighting systems.

Parking lots and related lighting systems may be defined by the entity as part of the associated building, rather than as infrastructure. Most school districts have no or an immaterial amount of infrastructure assets.

Reporting Requirements. Infrastructure assets have several reporting requirements:

- Governmental entities are required to capitalize and report *major* general infrastructure assets that were acquired in fiscal years ending after June 30, 1980, or that received major renovations, restorations, or improvements during that period. Governments with revenues of less than $10 million (annually) are not required to report their infrastructure assets retroactively.
- Prospective reporting of general infrastructure assets is required for all entities at the date of implementation of Statement 34.
- Statement 34 defines major general infrastructure at the network or subsystem level on the basis of the following criteria:
    - The cost or estimated cost of the subsystem is expected to be at least 5 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999.
      or
    - The cost or estimated cost of the network is expected to be at least 10 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999.
- The reporting of nonmajor networks is encouraged, but not required.

In determining when to implement the retroactive infrastructure asset reporting requirements, governmental entities should consider the value of any related debt that will be reflected in the Statement of Net Assets.

Valuation of Infrastructure Assets. Infrastructure assets are reported at historical cost or estimated historical cost. If a determination of the historical cost is not viable because of incomplete records, an estimated historical cost may be determined in the following ways:

- Using standard costing, which relies on available records from the period of acquisition to estimate asset cost. These records may include historical documents such as invoices for similar assets and vendor catalogs from the acquisition period.
- Calculating the current replacement cost of a similar asset and deflating this cost back by using price-level indexes to the year or average year of acquisition. Refer to the web site http://www.fhwa.dot.gov/programadmin/publicat.htm for the *Price Trends for Federal-Aid Highway Construction,* published by the U.S. Department of Transportation, Federal Highway Administration, Office of Program Administration, Office of Infrastructure.

Depreciation of Infrastructure Assets. GASB Statement 34 allows two distinct approaches to reporting infrastructure assets in the Statement of Net Assets. The standard approach requires governmental entities to capitalize all major infrastructure assets and depreciate them over their useful lives. This approach does not differ from the accounting and reporting treatment of other types of capital assets. Alternatively, entities may elect to use a modified approach to infrastructure asset reporting under a specific set of conditions. The modified approach allows governmental entities to capitalize assets yet avoid the depreciation of their eligible infrastructure assets if they meet two criteria:

- The entity has a qualifying asset management system that
    - has an up-to-date inventory of infrastructure;
    - performs consistent and complete condition assessments every three years, the results of which are summarized using a measurement scale; and
    - can estimate, on an annual basis, the cost to maintain and preserve the infrastructure assets at the disclosed condition level.
- The entity documents that the eligible infrastructure assets are being preserved approximately at or above a condition level established and disclosed by the government.

The modified approach is not limited to general infrastructure assets, that is, infrastructure assets associated with governmental activities. Eligible infrastructure assets of enterprise funds that were previously depreciated may also be reported using the modified approach.

If entities choose the modified approach for reporting general infrastructure assets, they are required to present information on condition and on estimated versus actual maintenance as required supplementary information (RSI).

If the governmental entities report eligible infrastructure assets using the modified approach, additional schedules and disclosures are required as RSI.

Entities should consult their external auditors and the detailed disclosure requirements outlined in Statement 34 to determine policy decisions concerning the modified approach of infrastructure asset reporting.

LIABILITIES

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. Although governments are required to record liabilities in the period in which they are incurred, it is necessary to distinguish between 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. GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, provides that governmental fund liabilities include those that are due and payable in full when incurred. Additionally, the matured portion of long-term indebtedness to the extent that it is expected to be liquidated with expendable available financial resources should also be recorded as a fund liability. This applies to the matured portions of formal debt issues as well as to other forms of general long-term indebtedness, such as compensated absences, capital leases, and claims and judgments. The unmatured portion of the long-term indebtedness represents a general long-term liability.

Interpretation No. 6 clarifies financial reporting guidance relative to governmental funds. Because proprietary funds use an accrual basis of accounting for liability recognition, all obligations of the fund should be reflected as fund liabilities.

The following sub-section identifies the primary obligations typical of most governments.

Accounts Payable

Accounts payable are those liabilities incurred in the normal course of business for which goods or services have been received but payment has not been made as of the end of the fiscal year.

Salaries and Related Benefits Payable

Expenditures should be recorded and reported in the period in which the liability has been incurred. Therefore, unpaid salaries and related benefits that have not yet been paid at the close of the accounting period should be accrued.

Due to/From Other Funds

Each fund is a separate self-balancing set of accounts. Therefore, amounts due to/from other funds generally arise from interfund loans or interfund services used/interfund services provided between funds. For instance, one fund may make an advance to another fund, or one fund may provide services to another without payment at the time the services are provided. Although interfund receivables and liabilities may be classified as current or noncurrent depending on the terms for repayment, all such transactions must be reflected as fund receivables and liabilities. The advancing fund should reserve fund balance for the noncurrent portion of amounts due from another fund.

Compensated Absences

Paragraphs 31 and 119 of Statement 34 provide guidance for the accounting and financial reporting of compensated absences on both a short-term and a long-term basis. Compensated absences include future vacations, sick leave, sabbatical leave, and other leave benefits.
The need for a governmental entity to accrue a liability for vacation leave or other similar compensated absences is based on the following criteria:

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

Requirements for accruing a liability for sick leave or similar compensated absences is attributed to services already rendered and it is probable that payment will be made at termination. Therefore, sick leave benefits that have been earned but will only be used as sick leave should not be accrued. Liabilities for compensated absences should be calculated at the end of each fiscal year and adjusted (and recorded) to current salary rates, unless payment will be made at rates other than the current salary rate. This liability also includes the employer's share of social security and Medicare taxes as well as others. A fund liability for the governmental funds may be recorded only when amounts are due and payable. Any liability not due and payable is recorded as a governmentwide liability. For proprietary funds, all of the liability is a fund liability.

Deferred Compensation and Pension Plans

A deferred compensation plan allows employees to defer the receipt of a portion of their salary and, therefore, the associated tax liability on that salary. Authorization for deferred compensation plans is established by the Internal Revenue Service (IRS) and is listed in Internal Revenue Code Chapter 457.

Employees of many school districts participate in statewide retirement systems. However, districts may establish deferred compensation plans and other pension plans at their discretion, some of which are locally funded. School districts may also provide pension benefits to employees through locally funded pension plans. Locally funded pension plans should be accounted for in a Pension and Other Employee Benefits Trust Fund. If the school district has significant administrative or fiduciary responsibility for a deferred compensation plan, such as managing the plan's investments, a pension and other employee benefits trust fund should be used. This is not the case for most school districts. If a governmental entity does not have significant administrative or fiduciary responsibility, the plan should not be reported in the entity's funds.

Debt

Governmental entities borrow money on a short-term basis either to meet operating cash needs or in anticipation of long-term borrowing at later dates. School districts usually borrow money on a long-term basis to finance capital acquisitions or construction or infrastructure improvements. Borrowings may also occur for the initial funding of a risk-retention program or the payment of a claim or judgment. In some states, but not Iowa, borrowings may occur for the financing of an accumulated operating deficit.

Short-term debt obligations and long-term debt obligations are defined (based on the initial maturity of the obligation) as follows:

- Short-term obligations are loans, negotiable notes, time-bearing warrants, or leases with a duration of 12 months or less, regardless of whether they extend beyond the fiscal year. Using the current financial resources measurement focus, short-term debt should be reflected in the balance sheet of the governmental fund that must repay the debt. The presentation of the liability on the balance sheet of a governmental fund implies that the debt is current and will require the use of current financial resources. Bond anticipation notes may be classified as long-term debt if the criteria of FASB Statement No. 6, *Classification of Short-Term Obligations Expected to be Refinanced*, are met.
- Long-term obligations are loans, negotiable notes, time-bearing warrants, bonds, or leases with a duration of more than 12 months. Noncurrent obligations that will be repaid from revenues generated by proprietary funds should be recorded in the related proprietary fund, whereas noncurrent obligations to be repaid from governmental funds should be reported only on the governmentwide statement of net assets.

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

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

Recording of Long-Term Debt in Different Types of Funds

The accounting for debt-related transactions differs depending on whether the debt is related to proprietary and fiduciary funds or a governmental fund.

Long-Term Liabilities in Proprietary and Fiduciary Funds. GASB Codification Section 1500.102 states:

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

The proceeds of the debt will thus be recorded as an increase in cash and long-term debt accounts; there will be no effect on operations. If the debt was issued at a discount, the discount should be recorded as a reduction from the face value of the debt and amortized over the term of the debt. All debt issue costs should also be recorded as a deferred charge and amortized over the term of the debt. Currently, the only specific accounting guidance on debt transactions in proprietary funds is Statement 23, *Accounting and Reporting for Refundings of Debt Reported by Proprietary Activities,* discussed later in this chapter. Therefore, generally accepted accounting principles for commercial enterprises should be followed for debt transactions in proprietary and fiduciary funds.

Long-Term Liabilities in Governmental Funds. A clear distinction should be made between long-term fund liabilities and general long-term liabilities. Long-term liabilities of proprietary funds and fiduciary funds should be accounted for in those funds and presented in the fund financial statements. Long-term liabilities for the proprietary funds, but not the fiduciary funds, should also be reported in the governmentwide statements. However, general long-term liabilities of the entity should be accounted for and reported only in the governmentwide statement of net assets.

Types of Debt Instruments

Debt instruments have different characteristics, terms, legal authority, and so forth. A summary description of the types of debt follows.

Bonds

- ***General obligation bonds*** are issued for the construction or acquisition of major capital assets. The security pledged for the bonds is the general taxing power of the government. General obligation bonds are usually either term bonds, which are due in total on a single date, or serial bonds, which are repaid in periodic installments over the life of the issue.
- ***Revenue bonds*** are issued to acquire, purchase, construct, or improve major capital facilities. The revenue generated by the facility or the activity supporting the facility is pledged as security for the repayment of the debt.

Other Types of Debt

- ***Tax anticipation notes and other revenue anticipation notes*** are often issued to pay current operating expenditures prior to the receipt of the revenues. The proceeds from the revenue sources are pledged as security for the notes.
- ***Installment financing*** may be used for either constructing or acquiring property. The security for the financing is the property being acquired or constructed.
- ***Leases*** are agreements between two parties that convey the use of property for a specified period of time. A lease must be classified as capital if it meets the criteria of FASB Statement 13, *Accounting for Leases*, or as operating if it does not qualify as a capital lease. Capital leases are considered to be debt financing; operating leases are not. Capital leases are in substance an acquisition of an asset. This determination is made using the following criteria:
    - The ownership of the property transfers to the lessee at the end of the lease term, or
    - The lease contains a bargain purchase option, or
    - The lease term is equal to 75 percent or more of the estimated useful life of the leased property, or
    - At the inception of the lease, the present value of the minimum lease payments is equal to 90 percent or more of the fair value of the leased property.

When a lease satisfies one of the criteria above, an asset and a liability should be recorded. If the lease obligation is incurred by a governmental fund, the asset and the liability will be reported in the governmentwide statement of net assets. The initial value of the asset should be recorded as the lesser of the fair value of the leased property or the present value of the net minimum lease payments.

Generally accepted accounting principles require governmental entities to disclose a range of information related to both capital and operating leases in the annual financial statements. The GASB Codification should be consulted for detailed disclosure requirements.

Extinguishment of Debt

GASB has established a range of accounting and reporting requirements for debt refundings. These requirements are presented primarily in GASB Codification Section D20 and GASB Statement 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*.

The extinguishment of debt is the reacquisition or calling of the debt or the removal of the debt prior to or at the maturity of the debt. When debt is extinguished, the entity either has no further legal responsibilities under the original debt agreement or continues to be legally responsible for the debt but the extinguishment is considered an in-substance defeasance (retirement). GASB Statement 23 concludes that debt is considered to be extinguished when one of the following criteria is met:

- The debtor pays the creditor and is relieved of all its obligations with respect to the debt, or
- The debtor is legally released as the primary obligor under the debt either judicially or by the creditor, and it is probable that the debtor will not be required to make future payments with respect to the debt under the guarantees, or
- The debtor irrevocably places cash or other assets with an escrow agent in a trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt, and the possibility that the debtor will be required to make future payments on that debt is remote. In this circumstance, usually referred to as "in-substance defeasance," debt is extinguished even though the debtor is not legally released as the primary obligor under the debt obligation.

The most common method of debt extinguishment is an advance refunding.

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

- take advantage of lower interest rates,
- extend maturity dates,
- revise payment schedules, or
- remove or modify restrictions contained in the old debt agreements.

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

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

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

Certain disclosures are required on defeasance of debt. GASB Codification Section D20.111 requires that a general description of the transaction should be provided in the notes to the financial statements in the year of refunding and that the disclosure should include at a minimum the following:

- The difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding.
- The economic gain or loss resulting from the transaction.

FUND BALANCE/NET ASSETS

Fund Financial Statements

Within governmental funds, equity is reported as *fund balance;* proprietary and fiduciary fund equity is reported as *net assets.* Fund balance and net assets are the difference between fund assets and liabilities reflected on the balance sheet or statement of net assets. Because of the

current financial resources measurement focus of governmental funds, fund balance is often considered a measure of available expendable financial resources. This is a particularly important measure in the general fund because it reflects the primary functions of the government and includes both state aid and local tax revenues. The relative amount of unreserved fund balance reflected in the general fund is used by rating agencies as a measure of financial strength of the government. Declines in the amount of unreserved fund balance may signal deterioration in the financial condition of the entity.

Governmental fund balances are categorized as follows:

- Reserved
- Unreserved
    - Designated
    - Undesignated

Reserved Fund Balances

Reservations of fund balance should be used in governmental financial reporting to identify the portion that is

- not available for appropriation or expenditure (e.g., reserve for inventories, reserve for long-term receivables) and/or
- legally earmarked by external parties or entities for a specific future use, that is, a legal restriction on the use of assets (e.g., reserve for encumbrances).

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

Examples of reservations of fund balance follow:

- Inventories
- Debt service
- Endowments
- Prepaid items
- Outstanding encumbrances
- Construction
- Federal and state programs

The aggregate fund balance in the debt service fund is legally reserved for the payment of bonded indebtedness and is not available for other purposes until all bonded indebtedness is liquidated. The fund balance of the capital projects fund reflects an amount designated for construction and major renovation projects, and it usually represents unexpended proceeds from the sale of bonds that have restricted uses. However, in all instances in which the name of the fund communicates the legal segregation, the fund balance should be reported as unreserved.

Unreserved Fund Balances

Unreserved fund balance is the difference between the total and reserved fund balance. It has two components: designated and undesignated. The unreserved fund balance of the general fund represents the balance available for legal appropriation and expenditure for general operating expenditures.

Prudent financial management requires accumulating a sufficient undesignated, unreserved fund balance in the general fund representing available expendable financial resources to meet the net

cash outflows during the fiscal year.

Designated, Unreserved Fund Balances. Portions of fund balance may be designated by management to reflect tentative plans or commitments of governmental resources. *Designations* generally reflect board action to earmark the balance for purposes that will be fulfilled at a later time, but specific board action is not required. Designations represent planned actions, rather than actual commitments. Because they typically arise from internal actions (management decisions) rather than actions external to the entity (encumbrances), designations are reported as part of unreserved fund balance.

The amount and nature of the designation should be explained in a

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

Designations may be related to

- construction or other capital expenditures,
- claims and judgments, or
- self-insurance contingencies.

Undesignated, Unreserved Fund Balances. Undesignated, unreserved fund balance is the difference between total fund balance and the portion that is reserved and designated. This is the balance available for legal appropriation and expenditure if a government budgets on a GAAP basis for its governmental funds.

Within proprietary and fiduciary fund statements of net assets, net asset balances are classified into three components:

- ***Invested in capital assets, net of related debt*** represents the net amount invested in capital assets (original cost, net of accumulated depreciation, and capital-related debt).
- ***Restricted*** represents the amount of net assets for which limitations have been placed by creditors, grantors, contributors, laws, and regulations. For example, school districts that account for food services within an enterprise fund may have restrictions related to certain proceeds or commodities imposed by the USDA. Internal actions through enabling legislation and constitutional provisions may also lead to restricted net assets.
- ***Unrestricted*** is the amount of net assets that is not restricted or invested in capital assets, net of related debt.

Governmentwide Financial Statements: Statement of Net Assets

The difference between an entity's assets and liabilities in the Statement of Net Assets represents its net assets. Net assets have three components:

- Invested in capital assets, net of related debt
- Restricted net assets
- Unrestricted net assets

Table 3 defines each component.

Table 3. Net Asset Classification

Invested in Capital Assets, Net of Related Debt	Restricted Net Assets	Unrestricted Net Assets
All capital assets (including restricted capital assets) net of accumulated depreciation and reduced by outstanding balances of debt relating to the acquisition, construction, or improvement of these assets If the entity has capital assets but no related debt, the account should be titled "invested in capital assets" so that readers are not misled.	Net assets on which limitations have been placed by creditors, grantors, contributors, laws, and regulations of other governments. Also, internal actions may lead to restricted net assets in some cases such as constitutional provisions or enabling legislation.	All other net assets not included in the "Invested in capital assets, net of related debt" category or the "Restricted net asset" category. Internal designations may not be shown in this statement.

REVENUES

The accounting and financial reporting for revenues within a governmental entity is determined by the economic substance of the underlying transactions. Generally accepted accounting principles have established criteria for recognition based on the classification and characteristics of the transaction.

Within governmental entities, 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 a governmental entity, 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 existing guidance in the accounting and financial reporting of nonexchange transactions within governments, GASB issued Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions,* and Statement 36, *Recipient Reporting for Certain Shared Nonexchange Revenues* (an amendment of Statement 33). These standards establish recognition criteria for nonexchange transactions reported on the accrual basis or the modified accrual basis of accounting.

Statement 33 describes 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 a government at one level provides resources to a government at another level and requires the recipient to use them 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 school districts.
- 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.

GASB Codification Section 1600.106 states that 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 after the end of the period, but in time to pay liabilities outstanding at the end of the current period.

Revenues in the proprietary funds are recognized using the accrual basis of accounting, (i.e., in the period in which they are earned). They are classified either as operating or nonoperating revenues. Operating revenues are generated by the primary activity of the fund. Conversely, nonoperating revenues are not generated by the primary activity of the fund, but by other means, such as through grants or interest earnings.

Governmental entities account for a variety of revenues that generally may be presented in the financial statements of governmental funds in three broad categories.

- ***Local and intermediate sources*** are those revenues that are collected from the citizens of the district's service area and governmental and nongovernmental entities both within and outside the school 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.

Proprietary fund revenues include charges for services, charges to other funds for services rendered, and grant revenues.

Governmentwide Reporting

GASB Statement 34 introduces a number of new reporting concepts for revenues in the governmentwide statements. Essentially, revenues must be classified as either program or general revenues on the Statement of Activities. The following sub-section outlines 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 government'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 governments, 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 government. An example is a grant to purchase a school bus.

Program revenues are reported at gross amounts. The Statement of Activities also reports program expenses net of applicable program revenues. GASB Statement 37 clarified that difference captions and additional categories for program revenues may be used.

General Revenues

All revenues are general revenues unless they are required to be reported as program revenues. General revenues are reported in the governmentwide statement of activities after program revenues have been subtracted from functional expenses.

Classification of Revenues

Programs are financed from essentially four sources (see table 4):

- ***Type A.*** Those who purchase, use, or directly benefit from the goods or services of the program
- ***Type B.*** Parties outside the reporting government's citizenry
- ***Type C.*** Taxpayers (regardless of whether they benefit from a particular program)
- ***Type D.*** The governmental institution itself (primarily investment income)

Table 4. Classification of Revenues

Source Type	Program Revenue	General Revenue
Type A	Yes	No
Type B	Yes, if restricted	Yes, if unrestricted
Type C	No	Yes
Type D	No	Yes (usually)

FUND FINANCIAL STATEMENTS—REPORTING OF EXPENDITURES/EXPENSES

Expenditures

GASB Codification Chapter 1600.116 defines expenditures as decreases in net financial

resources. 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 by proprietary funds.

In governmental funds, expenditures are usually 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 (e.g., employee sick and vacation pay). Such liabilities result from current services received from employees; however, the payment of the liabilities usually does not occur until a future date. As a result, compensated absences relating to employees whose salaries are accounted for in governmental funds are not recorded as expenditures and liabilities of the fund until the due date for payment of the compensated absences. GASB Interpretation No. 6 clarifies the guidance for recognizing certain liabilities and expenditures in governmental funds, including general long-term indebtedness such as compensated absences. The matured portion of long-term indebtedness, to the extent it is expected to be liquidated with expendable available financial resources, should be recorded as a fund liability and expenditure. The unmatured portion of the long-term indebtedness represents a general long-term liability to be presented in the governmentwide financial statements.

Types of Expenditures and Accounting Treatments

The major types of expenditures are operating, capital, debt service, and intergovernmental charges. *Operating expenditures* for governmental agencies include a wide range of expenditures. Often the largest portion relates to payroll and related employee benefits. The modified accrual basis of accounting requires that proper accruals are made for the amount of unpaid salaries and related benefits earned by employees at year-end because these liabilities will be paid early in the next reporting period.

The other types of operating expenditures should be accounted for in the same manner, with the recording of a liability when the goods or services are received and necessary accruals made at year-end.

- ***Capital expenditures*** relate to the acquisition of capital assets. Such expenditures may be recorded in the General Fund, Special Revenue Funds, or Capital Projects Funds, 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 funds if they are financed from grants. Major projects, such as the construction of a school building financed by the proceeds of debt, should be accounted for in a Capital Projects Fund. Costs associated with acquiring capital assets in governmental funds are recorded as capital outlay expenditures when the liability is incurred, usually on receipt of the related asset.
- ***Debt service expenditures*** represent the payment of principal and interest needed to service debt. Such payments are usually recorded as expenditures in the Debt Service Fund on the due date. In some states, but not Iowa, the General Fund may also be used if a Debt Service Fund is not required. The modified accrual basis of accounting provides that accruals for interest are not usually allowed. When funds have been transferred to the Debt Service Fund in anticipation of making debt service payments shortly after the end of the period (no more than 30 days), it is acceptable to accrue interest and maturing debt in the Debt Service Fund in the year the transfer is made. This option is available only if monies are legally required to be set aside in a Debt Service Fund and if used on a consistent basis.

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

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

Expenses

Expenses are defined as the outflows or expiration of assets or the incurrence of liabilities during a period from providing or producing goods, rendering services, or carrying out other activities that constitute the entity's primary operations.

Proprietary funds recognize expenses using the accrual basis of accounting (i.e., when the related liability is incurred) without regard for the timing of the payment. This recognition criterion is consistent with the following guidelines discussed in Financial Accounting Standards Board (FASB) Concepts Statement No. 5. Although FASB Concepts Statements do not represent authoritative guidance for governments, the discussion is useful in classifying expense transactions within proprietary funds.

- ***Associating cause and effect.*** Some expenses (such as the cost of goods sold) are recognized on recognition of revenues that result directly and jointly from the same transactions or other events as the expenses.
- ***Systematic and rational allocation.*** Some expenses (such as depreciation and insurance) are allocated by systematic and rational procedures to the periods during which the related assets are expected to provide benefits.
- ***Immediate recognition.*** Many expenses (such as selling and administrative salaries) are recognized during the period in which cash is spent or liabilities are incurred for goods or services that are used up either simultaneously with acquisition or soon after.

As examples, the major types of governmental expenditures are accounted for differently in proprietary fund expenses as follows:

- ***Capital.*** Capital asset acquisition in proprietary funds is accounted for using the flow of economic resources method. Amounts disbursed for the acquisition of capital assets are not recorded as an expense. Instead, the appropriate property, plant, or equipment asset account is debited on the purchase. Depreciation expense is recorded to reflect the allocation of the cost of the assets to operations over the service life of the asset.
- ***Debt service.*** Principal payments on debt do not represent expenses for proprietary funds, but rather are recorded as a reduction of the obligation. Payments of interest represent expenses to be accounted for on the accrual basis of accounting. Accrual of interest at year-end is usually necessary to reflect the proper amount of expense for the period.

GOVERNMENTWIDE STATEMENTS—REPORTING OF EXPENSES

Governmental entities are required to present the governmentwide financial statements on the accrual basis of accounting. Thus, the Statement of Activities reflects the expenses of the entity for the reporting period. Entities are required to report all expenses by activities and programs (by function), except certain indirect expenses, as explained below. GASB has defined direct expenses as those that are specifically associated with a service, program or department and thus are clearly identifiable to a particular function. Direct expenses include both operating and nonoperating expenses, including depreciation and amortization of assets.

Functions, such as general administration or data processing services, may include indirect expenses of other functions. Governmental entities are not required to allocate indirect expenses to other functions, but may choose to do so. If indirect expenses are allocated, direct and indirect expenses should be presented in separate columns. A column totaling direct and indirect expenses may be presented, but is not required. Indirect expenses may be allocated to any of the primary government's functions. Although there are no standards for determining an allocation methodology, there should be a reasonable basis for expense allocations.

Depreciation expense should be included in the statement of activities as follows:

- ***Capital assets that can specifically be identified with a function.*** Depreciation should be included in the direct expenses of that function.
- ***"Shared" capital assets.*** Depreciation should be prorated as direct expenses of the appropriate functions on some reasonable allocation basis.
- ***Capital assets that essentially serve all functions.*** Depreciation is not required to be included in the direct expenses of the various functions but may be reflected as a separate line captioned "unallocated depreciation" in the Statement of Activities or as part of the general government function. If an entity chooses to use a separate line in the Statement of Activities to report unallocated depreciation expense, it should clearly indicate in the footnotes to the financial statements that this line item does not include direct depreciation expenses of the other functions. Because school buildings often serve multiple functions, many school districts are reporting the depreciation as "unallocated depreciation" for these assets.
- ***General infrastructure assets.*** Depreciation should not be allocated to the various functions, but should be reported as a direct expense of the function that the reporting government normally associates with capital outlays or as a separate line in the Statement of Activities.
- ***Interest expense.*** Interest on general long-term liabilities, including interest on capital leases or other vendor financing arrangements, should be considered an indirect expense. Interest on long-term debt should be included in direct expenses only when borrowing is essential to the creation or continuing existence of a program.

The difference between a "shared" capital asset and one that "essentially serves all functions" is the number of functions involved. As the number of functions increases, the ease, practicality, and usefulness of assigning depreciation to those functions decreases. Therefore, the depreciation of assets that serve many, or essentially all, functions is not required to be included in the direct expenses of those functions. A shared capital asset is generally used by only a few functions, and its use can be specifically identified to those functions.

FINANCIAL STATEMENTS

GASB Statement 34 does not mandate that governments prepare and publish an annual financial report. However, the Statement establishes new financial reporting requirements for governmental entities by restructuring much of the information that entities have presented in the past. The impact of this Statement on the presentation of the annual financial statements is depicted in table 5. The table identifies the differences between the Statement 34 presentation

and that of the previous governmental reporting model used to prepare a Comprehensive Annual Financial Report (CAFR). Many of the CAFR schedules and presentations provide information beyond that required by Statement 34.

Table 5 (GASB Statement 34) compares the contents of the CAFR under the new reporting model per GASB Statement 34 with the contents of the CAFR under the previous model. Comparisons identify key components of each chapter for an overall comparison of the chapter between models. The table is not intended to be an item-by-item comparison of the models.

Table 5. GASB Statement 34—Contents of a Comprehensive Annual Financial Report

Contents of the CAFR Under the New Reporting Model per Statement 34	Contents of the CAFR Under the Previous Reporting Model
INTRODUCTORY CHAPTER Table of Contents Letter of Transmittal GFOA Certificate of Achievement Organization Chart Principal Officials Other Material Deemed Appropriate by Management (if applicable)	**INTRODUCTORY CHAPTER** Table of Contents Other Material Deemed Appropriate by Management (if applicable) Letter of Transmittal GFOA Certificate of Achievement Organization Chart Principal Officials
FINANCIAL CHAPTER Auditor's Report Management's Discussion & Analysis Basic Financial Statements Governmentwide Financial Statements Statement of Net Assets Statement of Activities Fund Financial Statements Governmental Funds Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances Reconciliation to Governmentwide Statements Proprietary Funds Statement of Net Assets Statement of Revenues, Expenses, and Changes in Net Assets Reconciliation to Governmentwide Statements (if applicable) Statement of Cash Flows (using the direct method) Fiduciary Funds (and similar Component Units) Statement of Fiduciary Net Assets Statement of Changes in Fiduciary Net Assets Discretely Presented Component Units Fund Financial Statements as RSI if component unit does not issue separate financial statements	**FINANCIAL CHAPTER** Auditor's Report General Purpose Financial Statements (GPFS): Combined Balance Sheet–All Fund Types, Account Groups, and Discretely Presented Component Units Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—All Governmental Fund Types and Discretely Presented Component Units Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual—Governmental fund types of the primary government for which an annual budget has been legally adopted Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity)—All Proprietary Fund Types and Discretely Presented Component Units Combined Statement of Cash Flows—All Proprietary Fund Types and Discretely Presented Component Units Trust Funds may be reported as above as appropriate or may be reported separately

Contents of the CAFR Under the New Reporting Model per Statement 34	Contents of the CAFR Under the Previous Reporting Model
Notes to Financial Statements *General Disclosure Requirements* (Similar to Notes to Financial Statements per the old reporting model as applicable) *Additional Disclosures in Summary of Significant Accounting Policies* (Paragraph 115 of GASB Statement 34) Definition of operating and nonoperating revenues Description of governmentwide financial statements including measurement focus & basis of accounting used Government's policy for applying restricted and unrestricted resources Description of types of transactions included in program revenues, policies for allocating indirect expenses to functions and elimination of internal activity in the statement of activities Description of modified approach, if applicable Policy for asset capitalization and estimation of useful lives GASB 20 policy for proprietary funds and governmentwide activities *Additional Disclosures in Summary of Significant Accounting Policies* Required by GASB Statement 38 Activities accounted for in major funds, internal service, and fiduciary fund types columns Length of time used to define "available" for revenue recognition Required Disclosures about Capital Assets (Paragraphs 116–120 of the Statement) Separately disclosed for governmental and business-type activities: Beginning and ending balances and acquisitions and dispositions for the year for each major class of capital asset and the related accumulated depreciation reported Required Disclosures on Non-capitalized Assets (Paragraph 118)	**Notes to Financial Statements** Two types of disclosure are necessary in the CAFR Notes to the financial statements that are essential for fair presentation of the GPFS (Combined Statements—Overview) level Narrative explanations Notes Essential to the Fair Presentation of GPFS include Summary of Significant Accounting Policies Description of the component units of the financial reporting entity and their relationships to the primary government Revenue recognition policies Encumbrance accounting and reporting methods Policies for reporting infrastructure Policies for capitalization of interest on fixed assets Definition of cash and cash equivalents Policy regarding use of FASB pronouncements for proprietary activities Cashing deposits with Financial Institutions Investments Significant contingent liabilities Encumbrances outstanding Significant effects of subsequent events Pension plan obligations Accumulated unpaid employees benefits, such as vacation and sick leave Material violations of finance-related legal and contractual provisions Schedule of debt service requirements to maturity Commitments under noncapitalized leases Construction and other significant commitments Changes in general fixed assets Changes in general long-term debt Any excess of expenditures over appropriations in individual funds Changes in general long-term debt

Contents of the CAFR Under the New Reporting Model per Statement 34	Contents of the CAFR Under the Previous Reporting Model
Historical collections that are not capitalized should be described and reasons for not capitalizing should be provided Required Disclosures on Long-term Liabilities (Paragraphs 116-120 of the Statement) Beginning and ending balances and increases and decreases for the year for each major long-term liability Additional disclosure is required for portion of items due within one year Information on governmental funds that have liquidated the long-term operating liabilities in the past	Any excess of expenditures over appropriation in individual funds Deficit fund balance or retained earnings of individual funds Interfund receivable and payables
Disclosures for Donor-Restricted Endowments (Paragraph 121 of the Statement) Amounts of net appreciation on investment available for authorization for expenditure How the amounts are reported in net assets State Law relating to ability to spend net appreciation Policy for authorizing and spending investment income Segment Reporting (Paragraph 122 of the Statement) Provision of Condensed Financial Statements in the Notes: Types of goods or services provided by the segment Condensed statement of net assets Condensed statement of revenues, expenses, and changes in net assets Condensed statement of cash flows GASB Statement 38—Violations and actions taken regarding finance-related legal or contractual provisions Variable-rate debt service on debt and lease obligations Short-term debt activity Disaggregation of receivable/payable balances Interfund Balances and transfers	*Narrative Explanations* Narrative explanations of combining, individual fund, account group, and component unit statements and schedules should provide information not included in the financial statements, notes to the financial statements, and schedules that is necessary to • ensure an understanding of the combining and individual statements and schedules, and • demonstrate compliance with finance-related legal and contractual provisions. Segment Information for Enterprise Funds Enterprise fund segment disclosures are required if • material long-term liabilities are outstanding, • the disclosures are essential to ensure the GPFS are not misleading, or • they are necessary to ensure interperiod comparability.

Contents of the CAFR Under the New Reporting Model per Statement 34	Contents of the CAFR Under the Previous Reporting Model
Required Supplementary Information (RSI) Other Than **MD&A** **BUDGETARY COMPARISON SCHEDULES** (Paragraphs 130 and 131 of Statement 34; see comment below) **Original and final appropriated budget** Actual amounts (Budgetary basis) Column to report the variance between the final budget and actual amounts is encouraged, a column to report the variance between the original and final budgets is allowed	**Required Supplementary Information (RSI)** Required supplementary information consists of statements, schedules, statistical data, or other information that GASB has determined is necessary to supplement, although not required to be a part of, the general purpose financial statements of a governmental entity.
COMBINING AND INDIVIDUAL FUND STATEMENTS Combining statements are limited to nonmajor funds and are not required under GASB Statement 34	**COMBINING AND INDIVIDUAL FUND AND ACCOUNT** **GROUP STATEMENTS AND SCHEDULES** Combining Statements By Fund Type when a governmental unit has more than one fund of a given fund type For Discretely Presented Component Units when the reporting entity has more than one component unit Individual Fund and Account Group Statements When a governmental unit (including blended component units) has only one fund type & for account groups or when necessary to present prior year and budgetary comparisons Schedules To demonstrate finance-related legal and contractual compliance To present information spread throughout the statements that can be brought together and shown in greater detail To present in greater detail information reported in the statements
STATISTICAL CHAPTER The following statistical tables should be included in the CAFR unless clearly inapplicable in the circumstances: Governmentwide Revenues and Expenses General Governmental Expenditures by Function General Revenues by Source Property Tax Levies and Collections Assessed and Estimated Actual Value of Taxable Property	**STATISTICAL CHAPTER** The following statistical tables should be included CAFR unless clearly inapplicable in the circumstances: General Governmental Expenditures by Function General Revenues by Source Property Tax Levies and Collections Assessed and Estimated Actual Value of Taxable Property Property Tax Rates—All Overlapping Governments

Contents of the CAFR Under the New Reporting Model per Statement 34	Contents of the CAFR Under the Previous Reporting Model
Property Tax Rates—All Overlapping Governments Special Assessment Billings and Collections Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita Computation of Legal Debt Margin Computation of Overlapping Debt Ratio of Annual Debt Service for General Bonded Debt to Total General Expenditures Revenue Bond Coverage Demographic Statistics Property Value, Construction, and Bank Deposits Principal Taxpayers Miscellaneous Statistics	Special Assessment Billings and Collections Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita Computation of Legal Debt Margin, if not presented in the General Purpose Financial Statements Computation of Overlapping Debt Ratio of Annual Debt Service for General Bonded Debt to Total General Expenditures Revenue Bond Coverage Demographic Statistics Property Value, Construction, and Bank Deposits Principal Taxpayers Miscellaneous Statistics

As table 5 shows, the new reporting model involves significant changes to the financial statements prepared and presented by governmental entities. The next sub-section outlines the major elements of the financial statements and related disclosures as required by Statement 34:

- Basic Financial Statements
- Management's Discussion and Analyses (MD&A) and Other RSI
- Component Units

Basic Financial Statements

Under the new financial reporting model, the basic financial statements are

- governmentwide financial statements,
- fund financial statements, and
- note disclosures.

The basic financial statements replace the combined general-purpose financial statements (GPFS) required by the former reporting model.

Governmentwide Financial Statements

The purpose of governmentwide financial statements is to present the financial position and the operating results of the governmental entity as a whole. The statements are expected to provide users with operational accountability information and to enable them to do the following:

- Understand the true financial position of the governmental entity, including capital and financial assets and long-term as well as short-term liabilities.
- Determine whether the entity is able to continue to provide current service levels and meet its obligations as they become due.
- Determine the operating results of the entity, including the economic cost and the net cost of services, and assess the economy, efficiency, and effectiveness of operations.

GASB Statement 34 allows governments to elect to present budgetary comparison information as part of the basic financial statements, rather than as required supplemental information (RSI) (Statement 34, paragraphs 130 and 131).

The governmentwide financial statements are

- Statement of Net Assets and
- Statement of Activities.

Statement of Net Assets. The Statement of Net Assets presents the financial position of the governmental entity and its discretely presented component units. This statement is required to present all financial and capital resources on the accrual basis of accounting. Statement 34 encourages the use of a net assets format, which subtracts liabilities from assets to reflect the net assets, rather than the standard balance sheet format, which presents a total for assets equal to a total of liabilities and net assets. However, either presentation is acceptable.

The Statement of Net Assets presents a columnar presentation of the assets, liabilities, and net assets of the reporting entity in two categories: governmental activities and business-type activities. Discretely presented component units are reflected in a separate column or columns on the face of the statement. Statement 34 does not alter the requirements for presenting component units as established by Statement 14, *The Financial Reporting Entity* (issued in June 1991). Table 6 highlights the major differences between the Statement 34 presentation for the statement of net assets and the balance sheet presentation under the previous reporting model.

Table 6. Statement of Net Assets vs. Combined Balance Sheet

Statement of Net Assets Under the New Reporting Model	Combined Balance Sheet Required by the Previous Reporting Model
Focus is on governmental and business-type activities.	Focus was on fund-type and account group reporting.
Reporting is on economic resources measurement focus and accrual basis of accounting for all assets and liabilities.	Reporting was on current financial resources measurement focus and modified accrual basis of accounting for governmental and similar trust funds and economic resources measurement focus and accrual basis of accounting for proprietary and similar trust funds.
The statement includes general capital assets and general long-term liabilities.	General fixed assets and general long-term liabilities were reported only in account groups.
Infrastructure assets must be reported.	The reporting of infrastructure assets was optional.

As mentioned above, Statement 34 requires separate columns for governmental activities and business-type activities of the reporting entity in the statement of net assets. Table 7 outlines definitions within the Statement for these types of activities.

Table 7. Distinguishing Between Governmental Activities and Business-Type Activities

Governmental Activities	Business-Type Activities
Activities financed by taxes and intergovernmental revenues and other nonexchange revenues	Activities for which fees are charged to external parties for goods or services
Activities reported in governmental funds and internal service funds as applicable	Activities reported in Enterprise funds and internal service funds (as applicable)
Internal clearing account funds (e.g., payroll-clearing accounts) should be reported in the governmental activities column. Funds used to account for tax collections on behalf of other entities should be accounted for in agency funds (fiduciary funds) and, therefore, be excluded from the governmentwide financial statements.	

Statement 34 states that although internal service funds are reported as proprietary funds of the reporting entity, the activities accounted for in internal service funds are usually more governmental than business-type in nature. If enterprise funds are the predominant or only participants in an internal service fund, however, the entity should report the internal service fund's residual assets and liabilities within the business-type activities column in the Statement of Net Assets.

Other presentation requirements relative to the Statement of Net Assets follow:

- A total column is required for the primary government. A total column for the entity as a whole, including the discretely presented component units, may be presented but is not required.
- Comparative financial statements are not required but may be presented at the option of the governmental entity. If comparative financial statements are presented, all columns must be included for both years.
- Fiduciary funds and fiduciary component units are specifically excluded from the governmentwide statements because fiduciary resources cannot be used to support the entity's programs or other services.
- Statement 34 encourages the presentation of assets and liabilities that is based on their relative liquidity. A classified presentation, which distinguishes between current and long-term assets and liabilities, is also acceptable. Table 8 outlines the definitions of liquidity of assets and liabilities.

Table 8. Determining Liquidity of Assets and Liabilities

Assets	Liabilities
Determined by how readily the asset is expected to be converted into cash and whether restrictions limit use of resources	Based on maturity, or when cash is expected to be used for liquidation
	Liabilities whose average maturities are greater than one year should be reported in two components—the amount due within one year and the amount due in more than one year.

Statement of Activities. The operations of the governmental unit should be presented in a net (expense) revenues format in the Statement of Activities. General revenues, contributions to term and permanent endowments, contributions to permanent fund principal, special and extraordinary items, and transfers should be reported separately after the total net expenses of the entity's functions to arrive at the "change in net assets" for the period. The purpose of using this format is twofold:

- To report the relative financial burden of each of the government's functions or programs on its taxpayers
- To identify the extent to which each function (program) draws from the general revenues of the organization or is self-supporting through fees and intergovernmental aid

As outlined in the previous discussion, revenues must be categorized according to their purpose as either general or program revenues in the statement of activities.

Fund Financial Statements

Fund Financial Statements are categorized into three fund types described as follows.

Governmental Fund Financial Statements. Governmental fund financial statements (including financial statements for the general, special revenue, capital projects, debt service, and permanent funds) should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues should be recognized in the accounting period in which they become available and measurable and expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due.

Proprietary Fund Financial Statements. Proprietary fund financial statements (including financial data for enterprise and internal service funds) should be prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues should

be recognized in the accounting period in which they are earned and become measurable, and expenses should be recognized in the period incurred, if measurable.

Fiduciary Fund Financial Statements. Fiduciary fund financial statements (including financial data for fiduciary funds and similar component units) should be prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues should be recognized in the accounting period in which they are earned and become measurable, and expenses should be recognized in the period incurred, if measurable.

Table 9 compares the financial statement types by focus and basis of accounting.

Table 9. Measurement Focus and Basis of Accounting for Financial Statements

Financial Statements	Measurement Focus	Basis of Accounting
Governmentwide Financial Statements	Economic Resources	Accrual
Governmental Funds Financial Statements	Current Financial Resources	Modified Accrual
Proprietary Funds Financial Statements	Economic Resources	Accrual
Fiduciary Funds Financial Statements	Economic Resources	Accrual

Note Disclosures

Section 2200 of GASB Codification, Comprehensive Annual Financial Report, requires notes to the financial statements that are essential to present fairly the financial position and results of operations (and cash flows of those types of funds and discretely presented component units that use proprietary fund accounting). The notes to the financial statements should focus on the primary government and its discretely presented component units.

GASB Statement 34 does not amend the existing general note disclosure requirements but requires additional disclosures as follows.

Summary of Significant Accounting Policies (Additional Disclosure Requirements).

- A description of the new governmentwide financial statements indicating the elements of the statement of net assets and the statement of activities, noting the exclusion of fiduciary funds and component units that are fiduciary in nature, and the measurement focus and basis of accounting used.
- The policy for eliminating internal activity in the statement of activities.
- The policy for applying FASB pronouncements issued after November 30, 1989, to proprietary funds and governmentwide financial statements.
- The policy for capitalizing assets and for estimating useful lives (for calculating depreciation expense).
- A description of the types of transactions included in program revenues and the policy for allocating indirect expenses to functions in the statement of activities.
- The policy for defining operating and nonoperating revenues of proprietary funds.
- The policy regarding whether the government first applies restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. In other words, governments are required to state whether they spend restricted funds only when unrestricted amounts are insufficient or unavailable or whether they spend restricted funds first and use unrestricted resources when the restricted funds are depleted. Disclosure of this policy is essential to help readers understand the significance of restricted and unrestricted net assets relative to total net assets.

The requirement for additional significant accounting policy disclosure relates *only* to the governmentwide statements and essentially calls for descriptive comments about the elements,

purposes, and scope of the statements of net assets and activities. The MD&A, in contrast, relates to *both* governmentwide and fund financial statements and is oriented more toward the relationship between the two.

Required Disclosures for Capital Assets. Statement 34 requires disclosure of each major class of capital assets, including capitalized collections of works of art, historical treasures, and similar assets. Capital assets associated with governmental activities should be reported separately from those associated with business-type activities, capital assets being depreciated separately from those that are not being depreciated, and the valuation basis separately from accumulated depreciation. For each class, the following information should be presented, if applicable:

- Beginning- and end-of-year balances, with accumulated depreciation by asset class shown separately from the valuation basis
- Capital acquisitions
- Sales or other dispositions
- Current-period depreciation expense including the amounts charged to each function in the statement of activities

The disclosure should also contain a description of the noncapitalized collections of works of art and the reasons for noncapitalization of these assets.

Required Disclosures for Long-Term Liabilities. The note disclosures should contain information about long-term liabilities, including long-term debt instruments such as bonds, notes, loans, and leases payable, as well as other long-term liabilities such as compensated absences, claims, and judgments, as follows:

- Beginning- and end-of-year balances
- Increases
- Decreases
- The portions of each item that are due within one year of the statement date
- Information on the governmental funds typically used to liquidate long-term liabilities in prior years. The disclosure should also indicate whether the government has decided to depart from the historical trend and use other funds to liquidate liabilities. The purpose of this disclosure is to give readers additional information about future claims against financial resources to help them assess the fund balances of specific funds

Information about net pension obligations is required to be disclosed in a separate pension note using the requirements of GASB Statement 27, *Accounting for Pensions by State and Local Governmental Employers*.

Disclosures Relating to Donor-Restricted Endowments. The following information is required relating to donor-restricted endowments in the notes:

- Amounts of net appreciation on investments available for authorization for expenditure by the governing board and a description on how amounts are reported in net assets
- State laws relating to the ability to spend net appreciation
- Policy for authorizing and spending investment income

Segment Disclosures. Section 2200 of GASB Codification, Comprehensive Annual Financial Report, requires presenting segment information for certain individual enterprise funds of the governmental entity, including its blended component units. The term *segment* in Section 2200 refers to an individual enterprise fund of a state or local government. GASB Statement 34 redefines the term *segment,* in relation to the needs of users for additional financial information,

as an identifiable activity reported as or within an enterprise fund or other stand-alone entity for which one or more revenue bonds or other revenue-backed debt instruments are outstanding.

The definition of a segment requires that a specific identifiable revenue stream be pledged in support of revenue bonds or other revenue-backed debt. It is not a requirement that the debt be backed solely by pledged revenues. The identifiable activity is typically the source of the pledged revenues. In addition, there must be an externally imposed requirement to separately account for the activity's revenues, expenses, gains and losses, assets, and liabilities. (GASB Statement 37, p. 17).

Segment disclosures are not required for an activity in which the only outstanding debt is conduit debt for which the entity has no obligation beyond the resources provided by related leases or loans. In addition, segment reporting is not required when an individual fund both is a segment and is reported as a major fund.

GASB Statement 34 requires the following segment disclosures:

- Type of goods and services provided by the segment
- Condensed statement of net assets
- Condensed statement of revenues, expenses, and changes in net assets.
- Condensed statement of cash flows
- Statement of activities (encouraged but not required for governments that want to present disaggregated information for multiple function enterprise funds in addition to the information above)
- Externally imposed requirements to track each element needed for condensed financial statements

Additionally, GASB Statement 38, *Certain Financial Statement Note Disclosures*, expanded note disclosures within the summary of significant accounting policies to include (1) the activities accounted for in major funds, internal service funds, and fiduciary fund type columns and (2) disclosure of the period used to define "available" for revenue recognition purposes. Other disclosure requirements addressed by this statement include (1) violations of finance-related legal or contractual provisions; (2) debt service for debt and lease obligations; (3) short-term debt obligations; (4) disaggregation of receivable and payable balances; and (5) details of interfund balances and transfers.

Management's Discussion & Analysis and Other RSI

The management's discussion and analysis (MD&A) is part of the required supplementary information (RSI); however, it precedes the financial statements. It should be based on currently known facts as of the date of the audit report and should

- provide a concise, unbiased, and easily readable description of the government's financial activities and
- help users understand the relationship of the results reported in the governmental activities in the governmentwide financial statements and the results reported in the governmental funds financial statements (usually focused on the major funds).

The focus of the MD&A should be on the primary government. However, information on any discretely presented component units may be presented as well. GASB has stated that both the positive and negative aspects of the government's operations should be presented to inform the reader about whether the government is in better or worse financial condition than in the prior year. The focus should be on only significant or material items.

MD&A is restricted to the following topics, although there is no limit to the information that may be presented about these topics.

- ***Information and discussion on the basic financial statements presented, their relationship to one another, and the significant differences in the information they provide.*** The discussion should include the different methods of accounting used in the governmentwide and fund financial statements.
- ***Condensed financial information comparing the current year and the prior year.*** The analysis should include specific economic factors that contributed to the change. Charts and graphs may be used to supplement information in the condensed statements but should not be used in place of it.
- ***Objective analysis of the governmental entity's financial condition as a whole.*** Analysis of the government's overall financial position and results of operations should address both governmental and business-type activities separately.
- ***An analysis of balances and transactions on a fund basis, addressing the reasons for significant changes in fund balances or fund net assets.*** The analysis should also include information on whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use.
- ***A discussion on significant variances among the entity's original budget, final budget, and actual expenditures for the General Fund or its equivalent and the impact of these variances on the entity's future liquidity.***
- ***A description of activity relating to the government's capital assets and long-term debt activity during the year.*** This discussion should include commitments made for capital expenditures, changes in credit ratings, and debt limitations affecting the financing of planned facilities or services.
- ***A discussion of information about the modified approach used to report some or all of the infrastructure assets, if applicable.***
- ***A description of currently known facts, decisions, or conditions expected to have an impact on financial position and results of operation.*** The term *currently known* is limited to events or decisions that have occurred, been enacted, adopted, agreed on, or contracted as of the date of the auditor's report. The discussion should address expected effects on both governmental and business-type activities.

Information that does not address the requirements above should not be included in the MD&A but instead may be reported as supplementary information or included in the letter of transmittal.

The entity should ensure that information contained in MD&A is not duplicated in the letter of transmittal. Differences between MD&A and the letter of transmittal are outlined in table 10.

Table 10. Important Distinctions Between MD&A and Letter of Transmittal

MD&A	Letter of Transmittal
Presented as part of the Financial Chapter in the Comprehensive Annual Financial Report (CAFR).	Presented as part of the Introductory Chapter in the Comprehensive Annual Financial Report (CAFR)
Must present only topics required by GASB Statement 34	Not limited to topics described in GASB standards
Provides a summary and analysis of the government's overall financial position and operations	
Highly structured and requires information only on currently known facts, conditions, or decisions	Provides an opportunity to discuss future plans

If the reporting entity provides comparative financial statements by presenting basic financial statements and RSI for two years, a separate MD&A for each year is not required, but it must

address both years presented in the comparative financial statements. MD&A should include comparative condensed financial information and related analysis for both years.

Component Units

It is essential that governmental financial statements provide an overview of the reporting entity that is based on financial accountability, yet allow users to distinguish between the primary government and its component units. GASB Statement 14, *The Financial Reporting Entity*, issued in June 1991, established criteria for evaluating potential component units and provided guidance in the statement presentation of those entities that met the criteria. Component units are defined as legally separate organizations for which the primary government is financially accountable or for which the nature and significance of the relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. (Statement 14, paragraph 20)

Financial accountability for a potential component unit is determined by either of the following:

- Appointment of the voting majority of the potential component unit governing board by the primary government *and either*
    - the ability to impose its will on the potential component unit *or*
    - a relationship of financial benefit or burden with the potential component unit.
- The potential component unit is fiscally dependent upon the primary government.

If a potential component unit does not meet either of the two tests above for financial accountability, an organization may still be included in the financial statements of the primary government based on the criterion that exclusion would result in a misleading or incomplete presentation of the financial reporting entity.

In May 2002, GASB issued Statement 39, *Determining Whether Certain Organizations Are Component Units*, which amended Statement 14 to establish the criteria for the inclusion of organizations on this basis. A legally separate, tax-exempt organization should be reported as a component unit if all of the following criteria are met:

- The economic resources of the separate organization are received or held for the benefit of the primary government, its component units, or its constituents.
- The primary government, or its component units, may access or is entitled to a majority of the economic resources of the separate organization.
- The economic resources of an individual organization that the primary government, or its component units, is entitled to or may access are significant to the primary government. (Statement 39, paragraph 5)

This standard continues the requirement for inclusion of organizations based on the GASB Statement 14, paragraph 20 "misleading or incomplete" criterion but emphasizes that "financial integration" may also be a component of all of the aforementioned criteria. Additional guidance on evidence of financial integration is also provided in Statement 39.

Component units may be

- blended, as though they are part of the primary government, or
- discretely presented.

GASB Statement 34 does not amend the definition of component units or the general reporting requirements.

Blended Component Units
Even though it is preferable to distinguish between the primary government and its component units, certain component units, despite being legally separate from the reporting entity, are so intertwined with the entity that they are, in effect, the same as the primary government. Accordingly, GASB has stated that these component units should be reported as part of the primary government. Thus, the component unit's balances and transactions should be reported in a manner similar to the way balances and transactions of the reporting government itself are reported. This method of inclusion is known as blending.

A component unit should be blended in either of these circumstances:

- The component unit's governing body is substantively the same as the governing body of the primary government.
- The component unit provides services entirely, or almost entirely, to the reporting entity or otherwise exclusively, or almost exclusively, benefits the entity even though it does not provide services directly to it.

Some component units account for their activities in a single fund; others use all or several fund types. If a component unit is blended, the types of funds of the component unit should be blended with those of the primary government by including them in the appropriate combining statements of the primary government. However, because the primary government's general fund is usually the main operating fund and often is a focal point for report users, a general fund should be presented only for the primary government. The general fund of a blended component unit should be reported as a special revenue fund.

Discretely Presented Component Units
Discrete presentation of component units refers to the method of reporting financial data of component units in a column(s) and row(s) separate from the financial data of the primary government.

When component units are presented in the basic financial statements (i.e., Statement of Net Assets and Statement of Activities), each statement should distinguish between the governmental and business-type activities of the government and between the total entity and its discretely presented component units, by reporting each in separate columns (and rows in the Statement of Activities). Component units that are fiduciary in nature, however, should be included only in the fund financial statements with the entity's fiduciary funds.

Statement 39 provides that a discrete presentation must be used for an organization that meets the requirements as a component unit under its new criteria. (Statement 39, paragraph 7)

CONCLUSION

An entity's financial statements are an important element in conveying the current state, financial health, and future viability of the organization. Financial statements, regardless of the industry, report on a number of similar components, including assets, liabilities, and equity (i.e., fund balances or net assets). School districts and other governmental agencies are no exception.

The GASB is the oversight body responsible for establishing the governmental reporting criteria, including the level of detail, format, and required contents of external financial statements. GASB provides much guidance in the proper interpretation and implementation of these requirements. Readers are encouraged to refer to this source for further questions on financial reporting issues not covered in this document.

CHAPTER 6: ACCOUNT CLASSIFICATION DESCRIPTIONS

This chapter establishes the hierarchy of the account code structure. This structure gives an entity the ability to accurately and effectively report on its financial activities. The hierarchy for both revenues and expenditures gives districts the necessary code structure to segregate and group accounts with the greatest amount of flexibility and, therefore, the ability to produce the most useful financial statements.

This chapter provides the basic account structure necessary for uniform financial reporting by state education agencies and public schools, including charter schools. Additionally, private schools may use this chart of accounts to report financial information that is comparable to that of the public education sector. Local and state needs and requirements may call for additional levels of account details and reporting requirements to be added to this basic structure. The basic structure and codes discussed herein are sufficient to comply with federal reporting requirements and those established by GASB Statement 34 for fund reporting.

The account code structure associated with revenues is relatively straightforward because each revenue is identified by source, ranging from general to specific. Expenditures, however, use a series of levels in a hierarchy to identify the following:

- The fund from which funds are being expended
- The program that is spending the funds
- The function for which the funds are being spent
- The object on which the funds are spent
- The project for which funds are being spent (used mainly for reporting, e.g., grants)
- The level of instruction associated with the expenditure
- The operational unit on which the funds are being spent
- The subject matter on which the funds are being spent
- The job class associated with the expenditure

Although the code structure for the accounting of expenditures may initially appear complex, it has been established to develop sound guidelines for school district account codes and, therefore, to provide for more comparable financial statements among districts.

FUND CLASSIFICATIONS

Code **Description**

Governmental Fund Types

10 **General Fund.** 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 for those required to be accounted for in another fund. A district may have only one general fund.

20 **Special Revenue Funds.** This fund is used to account for the proceeds of specific revenue sources (other than trusts or major capital projects) that are legally restricted to expenditure for specified purposes. Some examples of special revenue funds are

- restricted state or federal grants-in-aid and
- restricted tax levies.

A separate fund may be used for each identified restricted source, or one fund may be used,

supplemented by the classification Project/Reporting code.

30 **Capital Projects Funds.** This fund is used to account for financial resources to be used to acquire or construct major capital facilities (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.

40 **Debt Service Funds.** This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

50 **Permanent Funds.** This fund is used to 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.

Proprietary Fund Types

60 **Enterprise Funds.** This fund may be used to account for any activity for which a fee is charged to external users for goods or services. 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
- Policy decision of the governing board of management to recover the costs of providing services through fees or charges

Some examples of enterprise funds are activities such as the food service program, the bookstore operation, the athletic stadium, or the community swimming pool.

70 **Internal Service Funds.** This fund may be used to account for any activity within the school district that provides goods or services to other funds, departments, component units, or other governments on a cost-reimbursement basis. 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 internal service funds are such activities as central warehousing and purchasing, central data processing, and central printing and duplicating.

Fiduciary Fund Types

80 **Trust Funds.** These funds are used to account for assets held by a school district in a trustee capacity for others (e.g., members and beneficiaries of pension 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 on the economic resources measurement focus and the accrual basis of accounting (except for the recognition of certain liabilities of defined benefit pension plans and certain post-employment healthcare plans; refer to GASB 26 and 27 for guidance on the recognition of these liabilities). Trust funds include pension trust funds, investment trust funds, and private-purpose trust funds (as described below).

- **Pension Trust Funds.** This fund is used to account for resources that are required to be held in trust for members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other benefit plans. Typically, these funds are used to account for local pension and other employee benefit funds that are provided by a school district in lieu of or in addition to any state retirement system.
- **Investment Trust Funds.** This fund is used to 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.** This fund is used to account for other trust arrangements under which the principal and income benefit individuals, private organizations, or other governments.

90 **Agency Funds.** This account is used for funds that are held in a custodial capacity by a school district for individuals, private organizations, or other governments. Agency funds may include those used to account for student activities or taxes collected for another government.

Governmentwide Funds

01 **Governmentwide Statements—Governmental Activities**. This fund is established in Iowa to be used to accumulate information on governmental activities necessary for completing of the governmentwide statements.

02 **Governementwide Statements—Business-Type Activities**. This fund is established in Iowa to be used to accumulate information on business-type activities necessary for completing of the governmentwide statements.

PROGRAM

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 both public and charter schools: regular education, special education, vocational education, other instructional (PK–12), nonpublic 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 purposes of designating program codes for non-instructional expenditures it may be necessary to create a designation for those costs which 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. The 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 support function.

Code **Description**

100 **Regular Elementary/Secondary Education Programs.** 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. 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 educational needs of students at risk of failing or dropping out of school because of academic, behavioral, or situational factors.

Iowa districts and AEAs may incorporate the Subject Matter classification (described later in this chapter) within the 100 regular programs classification.

[*Prekindergarten refers to all programs and ages preceding kindergarten, including infant and early childhood programs.]

200 **Special Programs.** Special Programs include activities for elementary and secondary students (prekindergarten* through grade 12) receiving services outside the realm of "regular programs." 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. Special Programs is also inclusive of students receiving services related to gifted and talented programs.

Mental retardation means significantly subaverage general intellectual functioning, existing concurrently with deficits in adaptive behavior and manifested during the developmental period, that adversely affects a child's educational performance.

Orthopedic impairment means a severe orthopedic impairment that adversely affects a child's educational performance. The term includes impairments caused by a congenital anomaly (e.g., clubfoot, absence of some member), impairments caused by disease (e.g., poliomyelitis, bone tuberculosis), and impairments from other causes (e.g., cerebral palsy, amputations, and fractures or burns that cause contractures).

Emotional disturbance is defined as follows:
(i) A condition exhibiting one or more of the following characteristics over a long period of time and to a marked degree that adversely affects a child's educational performance:

- (A) An inability to learn that cannot be explained by intellectual, sensory, or health factors.
- (B) An inability to build or maintain satisfactory interpersonal relationships with peers and teachers.
- (C) Inappropriate types of behavior or feelings under normal circumstances.
- (D) A general pervasive mood of unhappiness or depression.
- (E) A tendency to develop physical symptoms or fears associated with personal or school problems.

(ii) The term includes schizophrenia. The term does not apply to children who are socially maladjusted, unless it is determined that they have an emotional disturbance.

Developmental delay programs are for children aged 3 through 9 who are experiencing developmental delays, as defined by the state and as measured by appropriate diagnostic instruments and procedures, in one or more of the following areas: physical development, cognitive development, communication development, social or emotional development, or adaptive development.

Specific learning disability is defined as follows:

(i) The term means a disorder in one or more of the basic psychological processes involved in understanding or in using language, spoken or written, that may manifest itself in an imperfect ability to listen, think, speak, read, write, spell, or do mathematical calculations, including conditions such as perceptual disabilities, brain injury, minimal brain dysfunction, dyslexia, and developmental aphasia.

(ii) The term does not include learning problems that are primarily the result of visual, hearing, or motor disabilities; of mental retardation; of emotional disturbance; or of environmental, cultural, or economic disadvantage.

Multiple disabilities means concomitant impairments (e.g., mental retardationblindness, mental retardation-orthopedic impairment), the combination of which causes such severe educational needs that the student cannot be accommodated in special education programs solely for one of the impairments. The term does not include deaf-blindness.

Hearing impairment means impairment in hearing, whether permanent or fluctuating, that adversely affects a child's educational performance but that is not included under the definition of deafness in this chapter.

Other health impairment means having limited strength, vitality, or alertness, including a heightened alertness to environmental stimuli, that results in limited alertness with respect to the educational environment, that—

(i) is due to chronic or acute health problems such as asthma, attention deficit disorder or attention deficit hyperactivity disorder, diabetes, epilepsy, a heart condition, hemophilia, lead poisoning, leukemia, nephritis, rheumatic fever, and sickle cell anemia; and

(ii) adversely affects a child's educational performance.

Visual impairment, including blindness, means impairment in vision that, even with correction, adversely affects a child's educational performance. The term includes both partial sight and blindness.

Autism means a developmental disability significantly affecting verbal and nonverbal communication and social interaction, generally evident before age 3, that adversely affects a child's educational performance. Other characteristics often associated with autism are engagement in repetitive activities and stereotyped movements, resistance to environmental change or change in daily routines, and unusual responses to sensory experiences. The term does not apply if a child's educational performance is adversely affected primarily because the child has an emotional disturbance, as previously defined in this chapter.

Deaf-blindness means concomitant hearing and visual impairments, the combination of which causes such severe communication and other developmental and educational needs that the child cannot be accommodated in special education programs solely for children with deafness or children with blindness.

Traumatic brain injury means an acquired injury to the brain caused by an external

physical force, resulting in total or partial functional disability or psychosocial impairment, or both, that adversely affects a child's educational performance. The term applies to open or closed head injuries resulting in impairments in one or more areas, such as cognition; language; memory; attention; reasoning; abstract thinking; judgment; problem-solving; sensory, perceptual, and motor abilities; psychosocial behavior; physical functions; information processing; and speech. The term does not apply to brain injuries that are congenital or degenerative or to brain injuries induced by birth trauma.

Speech or language impairment means a communication disorder, such as stuttering, impaired articulation, language impairment, or voice impairment, that adversely affects a child's educational performance.

Gifted and talented behavior consists 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).

300 **Vocational and Technical Programs.** Activities delivered through traditional comprehensive and vocational-technical high schools or recognized charter schools that prepare students to meet challenging academic standards as well as industry skill standards while preparing students for broad-based careers and further education beyond high school in the following 16 career cluster areas:

- **Agriculture, Food, and Natural Resources.** Activities that prepare students for a wide range of agriculturally related careers from veterinarian to underground mine mechanic.
- **Architecture and Construction.** Activities that prepare students for careers in the construction industry such as plumber, painter, construction manager, and architect.
- **Arts, A/V Technology and Communication.** Activities that prepare students for careers in arts and communication, including writing, editing, radio and television broadcasting, acting, and music.
- **Business, Management, and Administration.** Activities that prepare students for careers in business-related areas, such as administrative support, accounting, management, and supervision.
- **Education and Training.** Activities that prepare students for careers in education, such as teacher, librarian, coach, and counselor.
- **Finance.** Activities that prepare students for careers in the financial services industry, including insurance services, financial analysis, and banking.
- **Government and Public Administration.** Activities that prepare students for public service careers, such as legislator, urban planner, city manager, and parks/recreation director.
- **Health Science.** Activities that prepare students for careers in the health services industry, including nursing, medicine, physical therapy, pharmacy, and medical support.
- **Hospitality and Tourism.** Activities that prepare students for careers in the hospitality and tourism industry, such as travel agent, food preparation worker, hotel manager, and bartender.
- **Human Services.** Activities that prepare students for careers in community services, such as social worker, religious worker, recreation worker, and clergy.

- **Information Technology.** Activities that prepare students for careers in the information technology services area, including working with databases, designing software, and programming and repairing computers.
- **Law, Public Safety, and Security.** Activities that prepare students for careers in legal and protective services, such as correction officer, police officer, lawyer, and judge.
- **Manufacturing.** Activities that prepare students for careers in traditional industries such as steel and textiles or cutting-edge industries such as aerospace and electronics.
- **Marketing, Retail/Wholesale Sales and Service.** Activities that prepare students for careers in the sales and service industry, such as marketing/public relations manager, real estate agent, hairdresser, retail salesperson, and telemarketer.
- **Scientific Research, Technology, and Engineering.** Activities that prepare students for careers in science and engineering, including chemical, civil, and mechanical engineering; biological and chemical sciences; surveying; and astronomy.
- **Transportation, Distribution, and Logistics.** Activities that prepare students for careers in the transportation industry, such as aircraft mechanic, railroad conductor, school bus driver, truck driver, and ship pilot.

400 **Other Instructional Programs—Elementary/Secondary.** Activities that provide students in prekindergarten* through grade 12 with learning experiences not included in the Program codes 100–300 or 500–900. Examples of such programs follow:

- **Bilingual-English for Speakers of Other Languages (ESOL).** Activities for students from homes where the English language is not the primary language spoken.
- **Alternative (and At Risk) Education Programs.** Activities for students assigned to alternative campuses, centers, or classrooms designed to provide improved behavior modification and/or 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.

500 **Non-Public School Programs.** 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 non-public school students.

600 **Adult/Continuing Education Programs.** 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.

700 **Community/Junior College Education Programs.** 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 this program, all costs of the program should be coded here. Iowa schools do not operate this program.

800 **Community Services Programs.** Activities that are not directly related to the provision of

educational services in a school district. These include such services as community recreation programs, civic activities, public libraries, programs of custody and care of children, and community welfare activities provided by the district 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 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. 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 pertaining to the provision of personal needs of individuals who have been designated as needy by an appropriate governmental entity. These needs include stipends for school attendance; 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.

900 **Co-curricular and Extra-curricular Activities.** 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, athletics, band, choir, clubs, and honors societies.

BALANCE SHEETS/STATEMENT OF NET ASSETS

Code	Description
Assets	
101	**Cash in Bank.** All funds on deposit with a bank or savings and loan institution, normally in non-interest-bearing accounts. Interest-bearing accounts are recorded in investments.
102	**Cash on Hand.** Currency, coins, checks, postal and express money orders, and bankers'

drafts on hand.

103 **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.

104 **Change Cash.** A sum of money set aside to provide change.

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

111 **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 and losses from changes in the fair value of investments are recorded using revenue source 1530 and expenditure object 930. The account does not include capital assets used in school district operations. Separate accounts for each category of investments may be maintained.

112 **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.

113 **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.

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

115 **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.

121 **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.

122 **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.

131 **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.

132 **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.

141 **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.

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

152 **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.

153 **Other Accounts Receivable.** Amounts owing 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).

154 **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.

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

172 **Inventories for Resale.** The value of goods held by a school district for resale rather than for use in its own operations.

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

191 **Deposits.** Funds deposited by the school district as prerequisite to receiving services, goods, or both.

192 **Deferred Expenditures/Expenses.** Certain disbursements that are made in one period but are more accurately reflected as an expenditure/expense in the next fiscal period.

193 **Capitalized Bond and Other Debt Issuance Costs.** Represents certain bond and other debt issuance costs, including lease-purchase debt issuance costs, that are capitalized for the purpose of accounting for the cost/valuation basis of capital assets.

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

199 **Other Current Assets.** Current assets not provided for elsewhere.

200 **Capital Assets.** Those assets that the school district intends to hold or continue in 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.

211 **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. Further, permanent improvements to land, such as grading and fill, should 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, all assets classified by asset code 211 will not result in a depreciation expense.

221 **Site Improvements.** A capital asset account that reflects the value of non-permanent 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.

222 **Accumulated Depreciation on Site Improvements.** Accumulated amounts for the depreciation of site improvements.

231 **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.

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

241 **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. Appendix E provides criteria to distinguish whether a purchase is a supply or a piece of machinery or equipment.

242 **Accumulated Depreciation on Machinery and Equipment.** Accumulated amounts for the depreciation of machinery and equipment.

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

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

261 **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.

262 **Accumulated Depreciation on Infrastructure.** Accumulated amounts for the depreciation of infrastructure assets.

271 **Construction in Progress.** The cost of construction work undertaken but not yet completed.

Liabilities

401 **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.

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

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

421 **Accounts Payable.** Liabilities on open account owing 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).

422 **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.

423 **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.

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

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

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

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

442 **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.

443 **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.

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

452 **Lease Obligations—Current.** Capital lease obligations that are due within one year.

455 **Interest Payable.** Interest due within one year.

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

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

472 **Compensated Absences—Current**. Compensated absences that will be paid within one year.

473 **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.

481 **Deferred Revenues.** A liability account that represents revenues collected before they become due.

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

499 **Other Current Liabilities.** Other current liabilities not provided for elsewhere.

Long-Term Liabilities. Obligations with a maturity of more than one year. These accounts should be used only with Proprietary and Fiduciary funds.

511 **General Obligation Bonds Payable.** Bonds that have not reached or passed their maturity date and that are not due within one year.

512 **Revenue Bonds Payable**. Bonds that have not reached or passed their maturity date and that are not due within one year.

~~512~~ **Accreted Interest.** An account that represents interest that is accrued on deep discount
513 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.

~~513~~ 514 **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. The unamortized loss amount should be deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. On the balance sheet, this deferred amount should be reported as a deduction from or an addition to the new debt liability.

521 **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.

531 **Capital Lease Obligations.** Amounts remaining to be paid on capital lease agreements.

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

561 **Arbitrage Rebate Liability.** Liabilities arising from arbitrage rebates to the IRS from bond financing.

590 **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 certain miscellaneous liabilities, including workers compensation, self-funded insurance, and legal claims and judgments.

Fund Balances/Fund Net Asset

711 **Reserve for Inventories.** A reserve representing that portion of a fund balance segregated to indicate that assets equal to the amount of the reserve are invested in inventories and are, therefore, not available for appropriation. The use of this account is optional unless the purchases method of accounting for inventory is used.

712 **Reserve for Prepaid Expenses/Items.** A reserve representing that portion of a fund balance segregated to indicate that assets equal to the amount of the reserve are tied up and are, therefore, not available for appropriation. The use of this account is optional.

713 **Reserve for Encumbrances.** A reserve representing that portion of a fund balance segregated to provide for unliquidated encumbrances. Separate accounts may be maintained for current encumbrances and prior-year encumbrances.

~~714~~ 719 **Other Reserved Fund Balance.** A reserve representing that portion of a fund balance segregated to indicate that assets equal to the amount of the reserve are obligated and are, therefore, not available for appropriation. It is recommended that a separate reserve be established for each special purpose. One example of a special purpose are restricted categorical programs.

720 **Designated Fund Balance.** A designation representing that portion of a fund balance segregated to indicate that assets equal to the amount of the designation have been earmarked by the governing board or senior management for a bona fide purpose in the future.

730 **Unreserved Fund Balance.** The excess of the assets of a fund over its liabilities, fund reserves, and designations.

740 **Invested in Capital Assets, Net of Related Debt.** This account is used to record the net asset component invested in capital assets, net of related debt, which represents total capital assets less accumulated depreciation less debt directly related to capital assets. **This account is to be used in Proprietary funds only [or in government wide if accumulated in the 01 and 02 Funds].**

750 **Restricted Net Assets.** This account is used to record the net assets component—restricted net assets—which represents net assets restricted by sources internal or external to the organization. **This account is to be used in Proprietary funds only [or in government wide if accumulated in the 01 and 02 Funds].**

760 **Unrestricted Net Assets.** This account is used to record the net asset component—unrestricted net assets—which represents net assets not classified in accounts 740 and 750. **This account is to be used in Proprietary funds only [or in government wide if accumulated in the 01 and 02 Funds].**

CLASSIFICATIONS OF REVENUE AND OTHER FINANCING SOURCES

Code **Description**

Revenues

1000 **Revenue From Local Sources**

1100 **Taxes Levied/Assessed by the School District.** Compulsory charges levied by the school district to finance services performed for the common benefit.

1110 **Ad Valorem Taxes.** Taxes levied by a school district on the assessed value of real and personal property located within the school district that, within legal limits, is the final authority in determining the amount to be raised for school purposes. Separate accounts may be maintained for real property and for personal property. Penalties and interest on ad valorem taxes should be included in account 1140.

1120 **Sales and Use Taxes.** Taxes assessed by the school district imposed on the sale and consumption of goods and services. They can be imposed on the sale and consumption either as a general tax on the retail price of all goods and/or services sold within the school district jurisdiction, with few or limited exemptions, or as a tax on the sale or consumption of selected goods and services. Separate accounts may be maintained for general sales tax and for selective sales taxes. Penalties and interest on sales and use taxes should be included in account 1140.

1130 **Income Taxes.** Taxes assessed by the school district and measured by net income—that is, by gross income less certain deductions permitted by law. These taxes can be levied on

individuals, corporations, or unincorporated businesses where the income is taxed distinctively from individual income. Separate accounts may be maintained for individual, corporate, and unincorporated business income taxes. Penalties and interest on income taxes should be included in account 1140.

1140 **Penalties and Interest on Taxes.** Revenue from penalties for the payment of taxes after the due date and the interest charged on delinquent taxes from the due data of actual payment. A separate account for penalties and interest on each type of tax may be maintained.

1190 **Other Taxes.** Other forms of taxes the school district levies/assesses, such as licenses and permits. Separate accounts may be maintained for each specific type of tax.

1200 **Revenue From Local Governmental Units Other Than School Districts.** Revenue from the appropriations of another local governmental unit. The school district is not the final authority, within legal limits, in determining the amount of money to be received, and the money is raised by taxes or other means that are not earmarked for school purposes. This classification includes revenue from townships, municipalities, and counties. In a city school system, the municipality would be considered a local governmental unit. In this instance, revenue from the county would be considered revenue from an intermediate source and coded in the 2000 revenue series.

1210 **Ad Valorem Taxes.** Taxes levied for school purposes by a local governmental unit other than the school district. The school district is not the final authority, within legal limits, in determining the amount to be raised. For example, after a school district has determined that a certain amount of revenue is necessary, another governmental unit may exercise discretionary power in reducing or increasing the amount. Separate accounts may be maintained for real property and for personal property. Penalties and interest on ad valorem taxes should be included in account 1240.

1220 **Sales and Use Tax.** Taxes assessed by a local governmental unit other than a school district and imposed on the sale and consumption of goods and services. They can be imposed either as a general tax on the retail price of all goods and/or services sold within the school district jurisdiction, with few or limited exemptions, or as a tax on the sale or consumption of selected goods and services. Separate accounts may be maintained for general sales tax and for selective sales taxes. Penalties and interest on sales and use taxes should be included in account 1240.

1230 **Income Taxes.** Taxes assessed by a local governmental unit other than a school district, measured by net income—that is, by gross income less certain deductions permitted by law. These taxes can be levied on individuals, corporations, or unincorporated businesses where there is income. Separate accounts may be maintained for individual, corporate, and unincorporated business income taxes. Penalties and interest on income taxes should be included in account 1240.

1240 **Penalties and Interest on Taxes.** Revenue from penalties for the payment of taxes after the due date and the interest charged on delinquent taxes from the due date of actual payment. A separate account for penalties and interest on each type of tax may be maintained.

1280 **Revenue in Lieu of Taxes.** Payments made out of general revenues by a local governmental unit to the school district in lieu of taxes it would have had to pay had its

property or other tax base been subject to taxation by the school district on the same basis as privately owned property. Such revenue would include payments made for privately owned property that is not subject to taxation on the same basis as other privately owned property because of action by the local governmental unit.

1290 **Other Taxes.** Other forms of taxes by a local governmental unit other than a school district, such as licenses and permits. Separate accounts may be maintained for each specific type of tax.

1300 **Tuition.** Revenue from individuals, welfare agencies, private sources, and other school districts and government sources for education provided by the school district.

1310 **Tuition From Individuals**

1320 **Tuition From Other Government Sources Within the State**

1321 **Tuition From Other School Districts Within the State**

1330 **Tuition From Other Government Sources Outside the State**

1331 **Tuition From School Districts Outside the State**

1340 **Tuition From Other Private Sources (other than individuals)**

1350 **Tuition From the State/Other School Districts for Voucher Program Students**

1400 **Transportation Fees.** Revenue from individuals, welfare agencies, private sources, or other school districts and government sources for transporting students to and from school and school activities.

1410 **Transportation Fees From Individuals**

1420 **Transportation Fees From Other Government Sources Within the State**

1421 **Transportation Fees From Other School Districts Within the State**

1430 **Transportation Fees From Other Government Sources Outside the State**

1431 **Transportation Fees From Other School Districts Outside the State**

1440 **Transportation Fees From Other Private Sources (other than individuals)**

1500 **Investment Income.** Revenue from short-term and long-term investments.

1510 **Interest on Investments.** Interest revenue on investments in United States treasury and agency obligations, commercial paper, savings accounts, time certificates of deposit, mortgages, or other interest-bearing instruments.

1520 **Dividends on Investments.** Revenue from dividends on stocks held for investment.

1530 **Net Increase in the Fair Value of Investments.** Gains recognized from the sale of

investments or changes in the fair value of investments. Gains represent the excess of sale proceeds (or fair value) over cost or any other basis of the date of sale (or valuation). All recognized investment gains may be accounted for by using this account; however, interest earnings from short-term investments may be credited to account 1510 (for tracking purposes only). For financial reporting purposes, GASB Statement 31 requires that all investment income, including the changes in fair value of investments, be reported as revenue in the operating statement.

An additional account (expenditure object code 930) 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, account 1530 may be used to record the net of all investment gains or losses (reported as a contra revenue). In Iowa, gains and losses are reported separately. Gains are reported in source 1530 and losses in object 930.

1531 **Realized Gains on Investments.** Gains or losses recognized from the sale of investments. Gains represent the excess of sale proceeds over cost or any other basis of the date of sale. 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. Losses are reported in object 931.

1532 **Unrealized Gains on Investments.** Gains or losses recognized from changes in the value of investments. Gains represent the excess of fair value over cost or any other basis of the date of valuation. 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. Losses are reported in object 932.

1540 **Investment Income from Real Property.** Revenue for rental, use charges, and other income on real property held for investment purposes.

1600 **Food Services.** Revenue for dispensing food to students and adults.

1610 **Daily Sales—Reimbursable Programs.** Revenue from students for the sale of breakfasts, lunches, and milk that are considered reimbursable by the United States Department of Agriculture. Federal reimbursements are not entered here. They should be recorded under Revenue Source 4500.

1611 **Daily Sales—School Lunch Program.** Revenue from students for the sale of reimbursable lunches as part of the National School Lunch Program.

1612 **Daily Sales—School Breakfast Program.** Revenue from students for the sale of reimbursable breakfasts as part of the School Breakfast Program.

1613 **Daily Sales—Special Milk Program.** Revenue from students for the sale of reimbursable milk as part of the Special Milk Program.

1614 **Daily Sales—After-School Program.** Revenue from students from the sale of

reimbursable costs from after-school programs.

1620 **Daily Sales—Non-Reimbursable Programs.** Revenue from students or adults for the sale of non-reimbursable breakfasts, lunches, and milk. This category includes all sales to adults, the second type A lunch to students, and a la carte sales.

1630 **Special Functions.** Revenue from students, adults, or organizations for the sale of food products and services considered special functions. Some examples are potlucks, PTA/PTO-sponsored functions, and athletic banquets.

1650 **Daily Sales—Summer Food Program.** Revenue from students from the sale of reimbursable costs from summer programs.

1700 **District (Student) Activities.** Revenue resulting from co-curricular and extra-curricular activities controlled and administered by the school district. (See Chapter 8 for further clarification.)

1710 **Admissions.** Revenue from patrons of a school-sponsored activity such as a concert or a football game.

1720 **Bookstore Sales.** Revenue from sales by students or student-sponsored bookstores.

1730 **Student Organization Membership Dues and Fees.** Revenue from students for memberships in school clubs or organizations.

1740 **Fees.** Revenue from students for fees such as locker fees, towel fees, and equipment fees. Transportation fees are recorded under the appropriate account in the 1400 series. Textbook fees are recorded under the appropriate account in the 1940 series.

1750 **Revenue From Enterprise Activities.** Revenue (gross) from vending machines, school stores, soft drink machines, and so on, not related to the regular food service program. These revenues are normally associated with activities at the campus level that generate incremental local revenues for campus use.

1790 **Other Activity Income.** Other revenue from school or district activities.

1800 **Revenue From Community Services Activities**. Revenue from community services activities operated by a school district. For example, revenue received from operation of a skating facility by a school district as a community service would be recorded here. Multiple accounts may be established within the 1800 series to differentiate various activities.

1900 **Other Revenue From Local Sources**. Other revenue from local sources not classified above.

1910 **Rentals.** Revenue from the rental of either real or personal property owned by the school district. Rental of property held for income purposes is not included here, but is recorded under account 1540.

1920 **Contributions and Donations From Private Sources.** Revenue associated with contributions and donations made by private organizations. These organizations include,

but are not limited to, educational foundations, PTA/PTO organizations, campus booster clubs, and private individuals. This code should be used to record on-behalf payments made by private organizations to school district personnel (e.g., stipends paid to teachers or other school district staff).

1930 **Gains on the Sale of Capital Assets.** The amount of revenue over (under) the book value of the capital assets sold. For example, the gain on the sale would be the portion of the selling price received in excess of the depreciated value (book value) of the asset. This account is used in Proprietary and Fiduciary funds only. Revenue account 5300 is used for governmental funds.

An additional account (expenditure object code 940) has been established for accounting for losses from capital asset sales 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, account 1930 may be used to record all gains or losses on these sales (reported as a contra revenue) if allowed by the state. In Iowa, gains and losses are reported separately. Gains are reported in source 1930, and losses are reported in object 940.

1940 **Textbook Sales and Rentals.** Revenue from the rental or sale of textbooks.

1941 **Textbook Sales.** Revenue from the sale of textbooks.

1942 **Textbook Rentals.** Revenue from the rental of textbooks.

1950 **Miscellaneous Revenues From Other School Districts.** Revenue from services provided other than for tuition and student transportation services. These services could include data processing, purchasing, maintenance, cleaning, consulting, and guidance.

1951 **Miscellaneous Revenue From Other School Districts Within the State.**

1952 **Miscellaneous Revenue From Other School Districts Outside the State.**

1960 **Miscellaneous Revenues From Other Local Governmental Units.** Revenue from services provided to other local governmental units. These services could include nonstudent transportation, data processing, purchasing, maintenance, cleaning, cash management, and consulting.

1970 **Operating Revenues.** Goods and services provided for insurance, printing, or data processing. This account should be used only for Proprietary funds.

1980 **Refund of Prior Year's Expenditures.** Expenditures that occurred last year that are refunded this year. If the refund and the expenditure occurred in the current year, reduce this year's expenditures, as prescribed by GAAP.

1990 **Miscellaneous.** Revenue from local sources not provided for elsewhere.

2000 **Revenue From Intermediate Sources**

2100 **Unrestricted Grants-in-Aid.** Revenue recorded as grants by the school district from an intermediate unit that can be used for any legal purpose desired by the school district

without restriction. Separate accounts may be maintained for general source grants-in-aid that are not related to specific revenue sources of the intermediate governmental unit and/or for those assigned to specific sources of revenue as appropriate.

2200 **Restricted Grants-in-Aid.** Revenue recorded as grants by the school district from an intermediate unit that must be used for a categorical or specific purpose. If such money is not completely used by the school district, it must be returned, usually to the intermediate governmental unit. Separate accounts may be maintained for general source grants-in-aid that are not related to specific revenue sources of the intermediate governmental unit and for those assigned to specific sources of revenue as appropriate.

2800 **Revenue in Lieu of Taxes.** Commitments or payments made out of general revenues by an intermediate governmental unit to the school district in lieu of taxes it would have had to pay had its property or other tax base been subject to taxation by the school district on the same basis as privately owned property or other tax base. It would include payment made for privately owned property that is not subject to taxation on the same basis as other privately owned property because of action by the intermediate governmental unit.

2900 **Revenue for/on Behalf of the School District/AEA.** Commitments or payments made by an intermediate governmental jurisdiction for the benefit of the school district or contributions of equipment or supplies. Such revenue includes the payment to a pension fund by the intermediate unit on behalf of a school district employee for services rendered to the school district and a contribution of capital assets by an intermediate unit to the school district. Separate accounts should be maintained to identify the specific nature of the revenue item.

3000 **Revenue From State Sources**

3100 **Unrestricted Grants-in-Aid.** Revenue recorded as grants by the school district from state funds that can be used for any legal purpose desired by the school district without restriction. Separate accounts may be maintained for general grants-in-aid that are not related to specific revenue sources of the state and for those assigned to specific sources of revenue as appropriate.

3200 **Restricted Grants-in-Aid.** Revenue recorded as grants by the school district from state funds that must be used for a categorical or specific purpose.

If such money is not completely used by the school district, it must be returned, usually to the state. Separate accounts may be maintained for general-source grants-in-aid that are not related to specific revenue sources of the state and for those assigned to specific sources of revenue as appropriate.

3800 **Revenue in Lieu of Taxes.** Commitments or payments made out of general revenues by a state to the school district in lieu of taxes it would have had to pay had its property or other tax base been subject to taxation by the school district on the same basis as privately owned property. It includes payment made for privately owned property that is not subject to taxation on the same basis as other privately owned property because of action by the state.

3900 **Revenue for/on Behalf of the School District/AEA.** Commitments or payments made by a state for the benefit of the school district or contributions of equipment or supplies. Such revenue includes the payment of a pension fund by the state on behalf of a school district employee for services rendered to the school district and a contribution of capital assets by a

state unit to the school district. Separate accounts may be maintained to identify the specific nature of the revenue item.

4000 **Revenue From Federal Sources.**

4100 **Unrestricted Grants-in-Aid Direct From the Federal Government.** Revenues direct from the federal government as grants to the school district that can be used for any legal purpose desired by the school district without restriction.

4200 **Unrestricted Grants-in-Aid From the Federal Government Through the State.** Revenues from the federal government through the state as grants that can be used for any legal purpose desired by the school district without restriction.

4300 **Restricted Grants-in-Aid Direct From the Federal Government.** Revenues direct from the federal government as grants to the school district that must be used for a categorical or specific purpose. If such money is not completely used by the school district, it usually is returned to the governmental unit.

4500 **Restricted Grants-in-Aid From the Federal Government Through the State.** Revenues
4600 from the federal government through the state as grants to the school district that must be used for a categorical or specific purpose.

4700 **Grants-in-Aid From the Federal Government Through Other Intermediate Agencies.** Revenues from the federal government through an intermediate agency.

4800 **Revenue in Lieu of Taxes.** Commitments or payments made out of general revenues by the federal government to the school district in lieu of taxes it would have had to pay had its property or other tax base been subject to taxation by the school district on the same basis as privately owned property or other tax base. Such revenue includes payment made for privately owned property that is not subject to taxation on the same basis as other privately owned property because of action by the federal governmental unit.

4900 **Revenue for/on Behalf of the School District.** Commitments or payments made by the federal government for the benefit of the school district, or contributions of equipment or supplies. Such revenue includes a contribution of capital assets by a federal governmental unit to the school district and foods donated by the federal government to the school district. Separate accounts should be maintained to identify the specific nature of the revenue item.

5000 **Other Financing Sources**

5100 **Issuance of Bonds.** Used to record the face amount of the bonds that are issued. Short-term debt proceeds should *not* be classified as revenue. When a school district issues short-term debt (debt with a duration of less than 12 months) that is to be repaid from governmental funds, a liability (notes payable) should be recorded in the balance sheet of the fund responsible for repayment of the debt.

5110 **Bond Principal.** Used to record the face amount of bonds sold.

5120 **Premium or Discount on the Issuance of Bonds.** Proceeds from that portion of the sale price of bonds in excess of or below their par value. The premium or discount represents an adjustment of the interest rate and will be amortized using expenditure object account 834

or revenue account 6200.

5200 **Fund Transfers In.** Used to classify operating transfers from other funds of the district.

5300 **Proceeds From the Disposal of Real or Personal Property.** Proceeds from the disposal of school property or compensation for the loss of real or personal property. Any gain or loss on the disposal of property for Proprietary or Fiduciary funds is recorded in account 1930. Account 5300 should be used only for proceeds from the disposal of assets that do not have significant value. The reporting of major asset sales should be recorded as Special Items using account 6300.

5400 **Loan Proceeds.** Proceeds from loans greater than 12 months.

5500 **Capital Lease Proceeds.** Proceeds from capital leases.

5600 **Other Long-Term Debt Proceeds.** Proceeds from other long-term debt instruments not captured in the preceding codes (e.g., certificates of obligation).

6000 **Other Items**

6100 **Capital Contributions.** Capital assets acquired as the result of a donation or bequest of an individual, estate, other government, a corporation or an affiliate organization.

6200 **Amortization of Premium on Issuance of Bonds.** Credit entries associated with the amortization of debt premiums in connection with the issuance of debt. **This account is used in Proprietary and Fiduciary funds only [or in government wide if accumulated in the 01 and 02 Funds].**

This account has been established for premium amortization so that districts may report amortization of debt premiums and discounts separately as required in certain states (or where only credits may be reported for revenue codes and only debits for expenditure codes). However, expenditure account 834 may be used to record either debt premiums (reported as a contra revenue) or discounts. In Iowa premiums and discounts are accounted for separately. Premiums are reported in source 6200, and discounts are reported in object 834.

6300 **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, these include the sale of certain general governmental capital assets; sale or lease of mineral rights, including oil and gas; sale of infrastructure assets; or significant forgiveness of debt by a financial institution. Special items may also include events that are not within the control of the district. In the governmental funds, these items should be separately captioned or disclosed.

6400 **Extraordinary Items.** Used to classify items in accordance with GASB 34. Included are transactions or events that are outside the control of school district administration and are both unusual in nature and infrequent in occurrence. For some districts, these include insurance proceeds to cover significant costs related to a natural disaster caused by fire, flood, tornado, hurricane, or hail storm; insurance proceeds to cover costs related to an environmental disaster; or a large bequest to a small government by a private citizen.

CLASSIFICATIONS OF EXPENDITURES

FUNCTION

The function describes the activity for which a service or material object is acquired. The functions of a school district are classified into five broad areas: Instruction, Support Services, Operation of Non-Instructional Services, Facilities Acquisition and Construction, and Debt Service. Functions are further classified into subfunctions.

Code	Description
1000	**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 cocurricular activities. It may also be provided through some other approved medium, such as television, radio, computer, 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 (clerks, 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. Full-time department chairpersons expenditures should be included only in 2490. (Used with all programs 100–900)
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 100–900).
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 100–900)
2130	**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 100–900)

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 100–900)

2150 **Speech Pathology and Audiology Services.** Activities that identify, assess, and treat children with speech, hearing, and language impairments. (Usually used with program 200)

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 200)

2190 **Other Support Services—Student.** 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 100–900)

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, and 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. Textbooks are not charged to this function but rather to the instruction function. (Used with all programs 100–900)

2230 **Instruction-Related Technology.** This functional 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. (Used with all programs 100–900)

Student Learning Centers. Activities concerned with supporting and maintaining labs and centers (outside the classroom) that are established to support the instructional environment. These labs and centers may be located in the library or in other locations but are not primarily dedicated to student-teacher learning. Labs or learning 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

Professional Development for Instruction-Focused Technology Personnel. Costs that are incurred as a result of acquiring knowledge and skills to support instructional technologies.

Technology training for instructional staff should be reported in 2213 (Instructional Staff Training).

2240 **Academic Student Assessment.** This function is inclusive of those services rendered for the academic assessment of the student. (Used with programs 100–400, 600, 700)

2290 **Other Support Services—Instructional Staff.** Services supporting the instructional staff not properly classified elsewhere in the 2200 series. (Used with all programs 100–900)

2300 **Support Services—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. (Used with all programs 100–900).

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 the school district meeting. Legal activities to interpret the laws and statutes and general liability situations are charged here, as are the activities of external auditors.

Board Secretary/Clerk Services. The activities required to perform the duties of the Secretary or Clerk of the Board of Education. In Iowa, the individual with the title of Board Secretary is included in function 2510 rather than 2310.

Board Treasurer Services. The activities required to perform the duties of the Treasurer of the Board of Education. In Iowa, the individual with the title of Board Treasurer is included in function 2510 rather than 2310.

Election Services. Services rendered in connection with any school system election, including elections of officers and bond elections.

Tax Assessment and Collection Services. Services rendered in connection with tax assessment and collection.

Staff Relations and Negotiations . Activities concerned with staff relations systemwide and the responsibilities for contractual negotiations with both instructional and non-instructional personnel.

Other Board of Education Services. Board of Education services that cannot be classified under the preceding areas of responsibility.

Legal Services.

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

Office of the Superintendent. 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.

Community Relations. Activities and programs developed and operated systemwide for bettering school-community relations.

State and Federal Relations. Activities associated with developing and maintaining good relationships with state and federal officials. The activities associated with grant procurement are included.

Other Executive Administration. Other general administrative services that cannot be recorded under the preceding categories.

2400 **Support Services—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 the teaching and administrative duties. (Used with all programs 100–900)

2490 **Other Support Services—School Administration.** Other school administration services. This function includes graduation expenditure and expenses and full-time department chairpersons. (Used with all programs 100–900)

2500 **Business & Central Support 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 funds managing. Fiscal services are inclusive of supervision of fiscal services, budgeting services, and payroll, internal audit, and general accounting functions. (Used with all programs 100–900)

2520 **Purchasing, Warehousing, and 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 100–900)

2530 **Printing, Publishing, and 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. (Used with all programs 100–900)

2540 **Planning, Research, Development, and Evaluation Services.** Activities associated with conducting and managing systemwide programs of planning, research, development, and evaluation for a school system. (Used with all programs 100–900)

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.

Development services include activities in the deliberate, evolving process of improving educational programs.

Evaluation services include activities concerned with ascertaining or judging the value or amount of an action or an outcome. This is done through careful appraisal of previously specified data in light of the particular situation and the goals previously established.

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, email, the Internet and web sites, 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 2580. (Used with all programs 100–900)

2570 **Personnel Services.** Activities concerned with maintaining efficient personnel for the school system. It 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 100–900)

Supervision of Personnel Services. The activities of directing, managing, and upervising 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.

Non-Instructional Personnel Training. Activities associated with the professional development and training of non-instructional personnel. These include such activities as in-service training, seminars and conferences, continuing professional education, courses for college credit (tuition reimbursement), and other activities related to the ongoing growth and development of non-instructional personnel. The

incremental costs associated with providing temporary employees to perform job duties while regular employees 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.

Health Services. Activities concerned with medical, dental, and nursing services provided for school district employees. Included are physical examinations, referrals, and emergency care.

Other Personnel Services. Personnel services that cannot be classified under the preceding functions.

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 100–900)

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

Hardware Maintenance and Support

Professional Development Costs for Administrative Technology Personnel

Other Technology Services. Activities concerned with data processing not described above.

2590 **Other Support Services—Central Services.** Other support services to business not classified elsewhere in the 2500 series. (Used with all programs 100–900)

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.

2610 **Operation of Buildings.** Activities concerned with keeping the physical plant clean and ready for daily use. They include operating lighting and HVAC systems and doing minor repairs. Also included are the costs of building rental and property insurance. (Used with all programs 100–900)

2620 **Maintenance of Buildings.** Activities associated with keeping buildings at an acceptable level of efficiency through repairs and preventative maintenance. (Used with all programs 100–900)

2630 **Care and Upkeep of Grounds.** Activities involved in maintaining and improving the land (but not the buildings). These include snow removal, landscaping, grounds maintenance, and the like. (Used with all programs 100–900)

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 100–900)

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., reventive maintenance). (Used with all programs 100–900)

2660 **Security.** Activities concerned with maintaining a secure environment for students and staff, whether they are in transit to or from school, on a campus or administrative facility, or participating in school-sponsored events. 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. Costs associated with in-service training related to school safety, drug and violence prevention training, and alternative schools should not be accounted for under this function code. (Used with all programs 100–900)

2670 **Safety.** Activities concerned with maintaining a safe environment for students and staff, whether they are in transit to or from school, on a campus or 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. Costs associated with in-service training related to school safety, drug and violence prevention training, and alternative schools should not be accounted for under this function code. Used with all programs 100–900)

2680 **Other Operation and Maintenance of Plant.** Operations and maintenance of plant services that cannot be classified elsewhere in the 2600 series. (Used with all programs 100-900)

2700 **Student Transportation.** Activities concerned with conveying students to and from school, as provided by state and federal law. This includes trips between home and school and trips to school activities.

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 100–900)

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 100–900)

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 100–400, 900)

2790 **Other Student Transportation Services.** Student transportation services that cannot be classified elsewhere in the 2700 series. (Used with programs 100–400, 900)

2900 **Other Support Services.** All other support services not classified elsewhere in the 2000 series. (Used with all programs 100–900)

3000 **Operation of Noninstructional Services.** Activities concerned with providing noninstructional services to students, staff, or the community.

3100 **Food Services 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 with all programs 100–900)

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. Food services should not be charged here but rather to function 3100. One example could be the school district bookstore. (Used with all programs 100–900)

3300 **Community Services Operations.** Activities concerned with providing community services to students, staff, or other community participants. Examples of this function would be offering parental training or operating a community swimming pool, a recreation program for the elderly, or a childcare center for working mothers. (Used only with program 800)

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 100–900)

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 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 and 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.** 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 one year of receiving the obligation) is charged to function 2513. The receipt and payment of principal on those loans are treated as adjustments to the balance sheet account 451. (Used with all programs 100–900)

OBJECT

This classification is used to describe the service or commodity obtained as the result of a specific expenditure. The nine major object categories are further subdivided. The definitions of the object classes and selected sub-object categories follow:

Code **Description**

100 **Personal Services—Salaries.** Amounts paid to both permanent and temporary school district employees, including personnel substituting for those in permanent positions. This includes gross salary for personal services rendered while on the payroll of the school district. The third position in this group of objects has been left unused in the federal system (i.e., 0) so that a job classification code can be inserted by the school district or state if desired.

(Used with all functions except 5000, Debt Service) Iowa has not adopted the federal 100 object codes, but rather has incorporated job classification into the 100 object codes in such as way that the federal classifications can also be identified.

Salaries for regular employees include full-time, part-time, and prorated portions of the costs for work performed by permanent employees of the school district. Salaries of temporary employees include full-time, part-time, and prorated portions of the costs for work performed by employees of the school district who are hired on a temporary or substitute basis. Salaries for overtime include amounts paid to employees of the school district in either temporary or permanent positions for work performed in addition to the normal work period for which the employee is compensated under regular salaries and temporary salaries. The terms of such payment of overtime is a matter of state and local regulation and interpretation. Salaries for sabbatical leave include amounts paid by the school district to employees on sabbatical leave.

100 Salaries Paid to Paraprofessional Employees
(Aides, tutors, child care giver, monitor/prefect)

101 Regular Employee
102 Temporary/Substitute Employee
103 Overtime
104 Sabbatical Leave
105 Regular Assistant Employee
106 Tempory Assistant Employee
107 Overtime for Assistant
109 Additional Compensation, Bonus or Incentive

110 **Salaries Paid to Officials/Administrative Personnel**
(Superintendent, deputy, principal, deans, board officers, supervising managers)

111 Regular Employee
112 Temporary/Substitute Employee
113 Overtime
114 Sabbatical Leave
115 Regular Assistant Employee
116 Temporary Assistant Employee
117 Overtime for Assistant
119 Additional Compensation, Bonus or Incentive

120 **Salaries Paid to Educational Professional Employees**
(Teacher, curriculum specialists, counselors, librarians, media specialist, coaches & sponsors, remedial specialist, education diagnostician, behavioral management specialist)

121 Regular Employee
122 Temporary/Substitute Employee
123 Overtime
124 Sabbatical Leave
125 Regular Assistant Employee
126 Temporary Assistant Employee
127 Overtime for Assistant
129 Additional Compensation, Bonus or Incentive

130 **Salaries Paid to Other Professional Employees**
(RN/ADN, social workers, psychologists, staff accountants, staff laywers, internal auditors, physical & occupational therapists, dentists, analysts, programmers & network

administrators, architect, audiologist, dietician, engineer, negotiator, optometrist, dental hygienist, benefits specialist, interpreter/translator, nurse practitioner, ophthalmologist, personnel specialist, public information officer, planning specialist, recreational therapist, registrar, rehabilitation counselor, R & D specialist, respiratory therapist, speech therapist staff developer, statistician, transition coordinator, volunteer coordinator, work study coordinator, editor, grant writer, mediator, intervention specialist)

131 Regular Employee
132 Temporary/Substitute Employee
133 Overtime
134 Sabbatical Leave
135 Regular Assistant Employee
136 Temporary Assistant Employee
137 Overtime for Assistant
139 Additional Compensation, Bonus or Incentive

140 **Salaries Paid to Technical Employees**
(LPN, computer technicians, drafters, graphic artists, inspectors, audiometrist, media technologist, photographer, psychometrist, purchasing agent, speech language technician, crew leader/supervisor)

141 Regular Employee
142 Temporary/Substitute Employee
143 Overtime
144 Sabbatical Leave
145 Regular Assistant Employee
146 Temporary Assistant Employee
147 Overtime for Assistant
149 Additional Compensation, Bonus or Incentive

150 **Salaries Paid to Office & Clerical Employees**
(Secretary, clerk, bookkeeper, data entry, computer operator, cashier, dispatcher, office manager, receptionist, stenographer)

151 Regular Employee
152 Temporary/Substitute Employee
153 Overtime
154 Sabbatical Leave
155 Regular Assistant Employee
156 Temporary Assistant Employee
157 Overtime for Assistant
158 Student Employee
159 Additional Compensation, Bonus or Incentive

160 **Salaries Paid to Crafts & Trades Employees**
(Carpenters, masons, electricians, painters, plumbers, mechanics, printers)

161 Regular Employee
162 Temporary/Substitute Employee
163 Overtime
164 Sabbatical Leave
165 Regular Assistant Employee
166 Temporary Assistant Employee
167 Overtime for Assistant
168 Student Employee

169 Additional Compensation, Bonus or Incentive

170 **Salaries Paid to Operative Employees**
(Bus drivers, vehicle operators)
171 Regular Employee
172 Temporary/Substitute Employee
173 Overtime
174 Sabbatical Leave
175 Regular Assistant Employee
176 Temporary Assistant Employee
177 Overtime for Assistant
178 Student Employee
179 Additional Compensation, Bonus or Incentive

180 **Salaries Paid to Laborer Employees**
(Groundskeepers, construction workers, freight handlers, garbage collector, gardener, parking lot attendance, vehicle washer)
181 Regular Employee
182 Temporary/Substitute Employee
183 Overtime
184 Sabbatical Leave
185 Regular Assistant Employee
186 Temporary Assistant Employee
187 Overtime for Assistant
188 Student Employee
189 Additional Compensation, Bonus or Incentive

190 **Salaries Paid to Service Worker Employees**
(Custodians, food service workers, child care worker, warehouse workers, crossing guards, bus monitors, security guards, police officers, facilities maintenance worker, extended day-care provider)
191 Regular Employee
192 Temporary/Substitute Employee
193 Overtime
194 Sabbatical Leave
195 Regular Assistant Employee
196 Temporary Assistant Employee
197 Overtime for Assistant
198 Student Employee
199 Additional Compensation, Bonus or Incentive

200 **Personal Services—Employee Benefits.** Amounts paid by the school district on behalf of employees (amounts not included in gross salary but in addition to that amount). Such payments are fringe benefit payments and, although not paid directly to employees, nevertheless are part of the cost of personal services. The third position in this group of objects has been left unused (i.e., 0) so that a job classification code can be inserted by the school district if desired. (Used with all functions except 5000, Debt Service). Iowa has not adopted the federal 200 object codes due to potential loss of necessary detail.

210 **Group Insurance.** Employer's share of any insurance plan.
211 Disability Insurance

213 Life Insurance

220 **Social Security Contributions.** Employer's share of social security paid by the school district.

221 Social Security
222 Medicare

230 **Retirement Contributions.** Employer's share of any state or local employee retirement system paid by the school district, including the amount paid for employees assigned to federal programs.

231 IPERS—Employer's Share
235 Local Retirement—Employer's Share
239 Tax Sheltered Annuities paid by Employer

240 **Tuition Reimbursement.** Amounts reimbursed by the school district to any employee qualifying for tuition reimbursement on the basis of school district policy.

241 Tuition

250 **Unemployment Compensation.** Amounts paid by the school district to provide unemployment compensation for its employees. These charges should be distributed to the appropriate functions in accordance with the salary expenditures.

260 **Workers' Compensation.** Amounts paid by the school district to provide workers' compensation insurance for its employees. These charges should be distributed to the appropriate functions in accordance with the salary budget or may be charged to function 2310.

270 **Health Benefits.** Amounts paid by the school district to provide health benefits for its current employees or employees now retired for whom benefits are paid. These charges should be distributed to the appropriate functions in accordance with the related salary expenditures.

271 Employee Physicals
272 Wellness
273 Medical Insurance
274 Dental Insurance
275 Prescriptions & Prescription Insurance
276 Vision Insurance

280 **On-Behalf Payments.** Payments made by the state or other governments on behalf of the school district that benefit active employees of the school district. These payments typically include state matching of the retirement contributions of school district personnel. An equal revenue amount should be recorded in account 2900, 3900, or 4900 depending on the source of the payment.

290 **Other Employee Benefits.** Employee benefits other than those classified above, including fringe benefits such as automobile allowances, housing or related supplements, moving expenses, and paid parking. These charges should be distributed to the appropriate functions in accordance with the related salary expenditures.

291 Commercial Driver's License (CDL) paid by district
292 Clothing Allowance
293 Moving Expenses

294 Staff Dues and Fees

300 **Purchased Professional and Technical Services.** Services that by their nature can be performed only by persons or firms with specialized skills and knowledge. Although a product may or may not result from the transaction, the primary reason for the purchase is the service provided. Included are the services of architects, engineers, auditors, dentists, medical doctors, lawyers, consultants, teachers, and accountants. It is recommended that a separate account be established for each type of service provided to the school district. **Services purchased from another school district or from other government sources should be coded to one of the object codes from 590 through 597.**

310 **Official/Administrative Services.** Services in support of the various policymaking and managerial activities of the school district. Included are management consulting activities oriented to general governance or business and financial management of the school district; school management support activities; and election services and tax assessing and collecting services. (Usually used with functions 2300, 2400, and 2500)

320 **Professional Educational Services.** Services supporting the instructional program and its administration. Included are curriculum improvement services, assessment, counseling and guidance services, library and media support, and contracted instructional services. (Usually used with functions 1000, 2100, 2200, 2300, and 2400)

330 **Professional Employee Training and Development Services.** Services supporting the professional development of school district personnel, including instructional and administrative employees. Included are course registration fees (that are not tuition reimbursement), charges from external vendors to conduct training courses (at either school district facilities or off-site), and other expenditures associated with training or professional development by third-party vendors. All expenditures should be captured in this account regardless of the type or intent of the training course or professional development activity. (Usually used with functions 1000 and 2000)

340 **Other Professional Services**. Professional services other than educational services that support the operation of the school district. Included are medical doctors, lawyers, architects, auditors, accountants, therapists, audiologists, dieticians, editors, negotiations specialists, systems analysts, planners, and the like. (Usually used with function 2000)

350 **Technical Services.** Services to the school district that are not regarded as professional, but that require basic scientific knowledge, manual skills, or both. Included are data processing services, purchasing and warehousing services, graphic arts, and the like. (Usually used with function 2000)

351 **Data Processing and Coding Services.** Data entry, formatting, and processing services other than programming. (Usually used with functions 2110, Attendance and Social Work; 2240, Academic Student Assessment; 2410, Office of the Principal; and 2500, Central Services)

~~352~~ **Other Technical Services.** Technical services other than data processing and related
359 services. (Usually used with functions 1000–4000)

400 **Purchased Property Services.** Services purchased to operate, repair, maintain, and rent property owned or used by the school district. These services are performed by persons

other than school district employees. Although a product may or may not result from the transaction, the primary reason for the purchase is the service provided.

410 **Utility Services.** Expenditures for utility services other than energy services supplied by public or private organizations. Water and sewerage are included here. Telephone and telegraph are not included here but are classified under object 530. (Used with function 2600)

420 **Cleaning Services.** Services purchased to clean buildings (apart from services provided by school district employees), including, but not limited to, disposal services, snow plowing, custodial services, and lawn care services. (Used with function 2600)

430 **Repairs and Maintenance Services.** Expenditures for repairs and maintenance services not provided directly by school district personnel.

~~431~~ 432 **Non-Technology-Related Repairs and Maintenance.** Contracts and agreements covering the upkeep of buildings and non-technology equipment. Costs for renovating and remodeling are not included here but are classified under object 450.

~~432~~ 431 **Technology-Related Repairs and Maintenance.** Expenditures for repairs and maintenance services for technology equipment that are not directly provided by school district personnel. This includes ongoing service agreements for technology hardware (e.g., personal computers and servers). (Used with functions 2230 and 2580)

440 **Rentals.** Costs for renting or leasing land, buildings, equipment, and vehicles.

441 **Renting Land and Buildings.** Expenditures for leasing or renting land and buildings for both temporary and long-range use by the school district. This includes bus and other vehicle rentals when operated by a local school district, lease purchase arrangements, and similar rental agreements. (Used with function 2610)

442 **Rental of Equipment and Vehicles.** Expenditures for leasing or renting equipment or vehicles for both temporary and long-range use by the school district. This includes bus and other vehicle rental when operated by a local school district, and similar rental agreements. This code excludes costs associated with the rental of computers or other technology-related equipment. These costs should be coded to expenditure object 443 as described below.

443 **Rentals of Computers and Related Equipment.** Expenditures for leasing or renting computers and related equipment for both temporary and long-range use.

450 **Construction Services.** Includes amounts for constructing, renovating, and remodeling buildings or infrastructure assets paid to contractors. This account should also be used to account for the costs of non-permanent site improvements such as fencing, walkways, and roads that are related to buildings and building sites. (Used only with function 4000)

490 **Other Purchased Property Services.** Purchased property services that are not classified above. (Communication services are not included here, but should be included in object 30)

500 **Other Purchased Services.** Amounts paid for services rendered by organizations or personnel not on the payroll of the school district (separate from Professional and Technical

Services or Property Services). Although a product may or may not result from the transaction, the primary reason for the purchase is the service provided.

510 **Student Transportation Services.** Expenditures for transporting children to and from school and other activities. (Used only with function 2700)

511 **Student Transportation Purchased From Another School District Within the State.** Amounts paid to other school districts within the state for transporting children to and from school and school-related events. These include payments to individuals who transport themselves or their own children or for reimbursement of transportation expenditure/expenses on public carriers. Expenditures for the rental of buses that are operated by personnel on the school district payroll are recorded not here but under object 442. (Used only with function 2700)

512 **Student Transportation Purchased From Another School District Outside the State.** Payments to other school districts outside the state for transporting children to and from school and school-related events. (Used only with function 2700)

519 **Student Transportation Purchased From Other Sources.** Payments to persons or agencies other than school districts for transporting children to and from school and school-related events. (Used only with function 2700)

520 **Insurance (Other Than Employee Benefits).** Expenditures for all types of insurance coverage, including property, liability, and fidelity. Insurance for group health is not charged here but is recorded under object 200. (Used with functions 2310 or 2610 or 2710)

530 **Communications.** Services provided by persons or businesses to assist in transmitting and receiving messages or information. This category includes telephone and voice communication services, telephone, and voicemail; data communication services to establish or maintain computer-based communications, networking, and Internet services; video communications services to establish or maintain one-way or two-way video communications via satellite, cable, or other devices; postal communications services to establish or maintain postage machine rentals, postage, express delivery services, or couriers. (Usually used with functions 2230, 2320, or 2410)

540 **Advertising.** Expenditures for announcements in professional publications, newspapers, or broadcasts over radio and television. These expenditures include advertising for such purposes as personnel recruitment, legal ads, new and used equipment, and sale of property. Costs for professional advertising or public relations services are not recorded here but are charged to object 340. (Usually used with functions 2300 or 2500)

550 **Printing and Binding.** Expenditures for job printing and binding, usually according to specifications of the school district. This includes designing and printing forms and posters, as well as printing and binding school district publications. Preprinted standard forms are not charged here but are recorded under object 610. (Usually used with function 2530, but may be assigned to other functions)

560 **Tuition.** Expenditures to reimburse other educational agencies for instructional services to students residing within the legal boundaries described for the paying school district. (Used only with function 1000)

561 **Tuition to Other School Districts Within the State.** Tuition paid to other school districts within the state.

562 **Tuition to Other School Districts Outside the State.** Tuition paid to other school districts outside the state.

563 **Tuition to Private Sources.** Tuition paid to private schools.

564 **Tuition to Educational Service Agencies Within the State.** Tuition paid to agencies such as regional educational service centers for educational services to students.

~~565~~ **Tuition to Educational Service Agencies Outside the State.** Tuition paid to agencies
569 such as regional educational service centers for educational services to students.

~~566~~ **Tuition to Charter Schools.** Tuition paid to charter schools for services provided in
569 accordance with the established charter for that school. Iowa does not have tuition to charter schools.

~~567~~ **Tuition to School Districts for Voucher Payments.** Tuition paid to school districts for
569 students using a state or local voucher program. School districts and state departments of education should use this code for all payments made to school districts for voucher programs. Iowa does not have tuition for voucher payments.

569 **Tuition—Other.** Tuition paid to the state and other governmental organizations as reimbursement for providing specialized instructional services to students residing within the boundaries of the paying school district.

So-called reverse state aid payments, which arise out of education finance equalization efforts, are not coded here. Rather, these should be established on the balance sheet or statement of net assets at the time taxes are levied as Due To State Government. (These amounts are not shown as revenues to the school district.) Iowa does not have reverse state aid payments.

570 **Food Service Management.** Expenditures for the operation of a local food service facility by other than employees of the school district. Included are contracted services, such as food preparation, associated with the food service operation. Direct expenditures by the school district for food, supplies, labor, and equipment would be charged to the appropriate object codes. (Used only with function 3100)

580 **Travel.** Expenditures for transportation, meals, hotel, and other expenditure/expenses associated with staff travel for the school district. Payments for per diem in lieu of reimbursements for subsistence (room and board) also are charged here. (Used with all functions except 5000)

590 **Intereducational, Interagency Purchased Services.** Purchased services other than those described above. Any interdistrict payments other than tuition or transportation should be classified here. This code identifies other payments for services made between a school district and other governmental entities. This code should be used so that all interdistrict payments can be eliminated when consolidating reports from multiple school districts at state and federal levels (when a question arises about whether to code such payments to the 300 series of objects or to this code). (Used primarily with function code

2000)

591 **Services Purchased From Another School District or Educational Services Agency Within the State.** Payments to another school district within the state for services rendered, other than tuition and transportation fees. Examples of such services are data processing, purchasing, nursing, and guidance. This code should be used so that all interdistrict payments can be eliminated when consolidating reports from multiple school districts at state and federal levels (when a question arises about whether to code such payments to the 300 series of objects or to this code).

~~592~~ **Services Purchased From Another School District or Educational Service Agency**
593 **Outside the State.** Payments to another school district outside the state for services rendered, other than tuition and transportation fees. Examples of such services are data processing, purchasing, nursing, and guidance. This code should be used so that all interdistrict payments can be eliminated when consolidating reports from multiple school districts at state and federal levels (when a question arises about whether to code such payments to the 300 series of objects or to this code).

600 **Supplies.** Amounts paid for items that are consumed, are worn out, or have deteriorated through use or items that lose their identity through fabrication or incorporation into different or more complex units or substances. Refer to Appendix E for the criteria for distinguishing between a supply item and an equipment item. Equipment that has a cost lower than the school district's capitalization threshold ($300-$500) should be coded in this series instead of to a 700 series code.

610 **General Supplies.** Expenditures for all supplies (other than those listed below) for the operation of a school district, including freight and cartage.

A more thorough classification of supply expenditures is achieved by identifying the object with the function—for example, audiovisual supplies or classroom teaching supplies. (Used with all functions except 5000)

620 **Energy.** Expenditures for energy, including gas, oil, coal, and gasoline, and for services received from public or private utility companies.

621 **Natural Gas.** Expenditures for gas utility services from a private or public utility company. (Used with functions 1000, 2610, and 3100)

622 **Electricity.** Expenditures for electric utility services from a private or public utility company. (Used with functions 1000, 2610, and 3100)

623 **Bottled Gas.** Expenditures for bottled gas, such as propane gas received in tanks. (Used with functions 1000, 2610, and 3100)

624 **Oil.** Expenditures for bulk oil normally used for heating. (Used with function 2610)

625 **Coal.** Expenditures for raw coal normally used for heating. (Used with function 2610)

626 **Gasoline.** Expenditures for gasoline purchased in bulk or periodically from a gasoline service station. (Used with functions 2650 and 2710)

629 **Other.** Expenditures for energy that cannot be classified in one of the foregoing categories.

630 **Food.** Expenditures for food used in the school food service program. Food used in instructional programs is charged under object 610. (Used only with function 3100)

640 **Books and Periodicals.** Expenditures for books, textbooks, and periodicals prescribed and available for general use, including reference books. This category includes the cost of workbooks, textbook binding or repairs, and textbooks that are purchased to be resold or rented. Also recorded here are the costs of binding or other repairs to school library books. (Used with all functions except 5000)

650 **Supplies—Technology-related.** Technology-related supplies include supplies that are typically used in conjunction with technology-related hardware or software. Some examples are diskettes, parallel cables, and monitor stands. (Used with all functions but primarily used with 2230 and 2580)

700 **Property.** Expenditures for acquiring capital assets, including land, existing buildings, existing infrastructure assets, and equipment.

710 **Land and Land Improvements.** Expenditures for the purchase of land and the improvements thereon. Purchases of air rights, mineral rights, and the like are included here. Also included are special assessments against the school district for capital improvements such as streets, curbs, and drains. Not included here, but generally charged to objects 450 or 340 as appropriate, are expenditures for improving sites and adjacent ways after acquisition by the school district. (Used with functions 4100, 4200, and 4600)

720 **Buildings.** Expenditures for acquiring existing buildings. Included are expenditures for installment or lease payments (except interest) that have a terminal date and result in the acquisition of buildings, except payments to public school housing authorities or similar agencies. Expenditures for the contracted construction of buildings, for major permanent structural alterations, and for the initial or additional installation of heating and ventilating systems, fire protection systems, and other service systems in existing buildings are recorded under object 450. Buildings built and alterations performed by the school district's own staff are charged to objects 100, 200, 610, and 730, as appropriate. This code is used with governmental funds only. (Used with function 4500 only)

730 **Equipment.** Expenditures for the initial, additional, and replacement items of equipment, such as machinery, furniture and fixtures, and vehicles.

731 **Machinery.** Expenditures for equipment usually composed of a complex combination of parts (excluding vehicles). Examples are lathes, drill press, and printing presses. (Usually used with functions 1000 and 2600)

732 **Vehicles.** Expenditures for equipment used to transport persons or objects. Examples are automobiles, trucks, buses, station wagons, and vans. (Usually used with functions 2650 and 2700)

733 **Furniture and Fixtures.** Expenditures for equipment used for sitting; as a support for writing and work activities; and as storage space for material items. (Used with all functions, except 5000)

734 **Technology-Related Hardware.** Expenditures for technology-related equipment and technology infrastructure. These costs include those associated with the purchase of network equipment, servers, PCs, printers, other peripherals, and devices. Equipment that has a cost lower than the school district's capitalization threshold should be coded to object code 650, Supplies—Technology-Related. (Used with all functions but primarily used with 2230 and 2580)

739 **Other Equipment.** Expenditures for all other equipment not classified elsewhere in the 730 object series.

740 **Infrastructure.** Expenditures for purchased infrastructure assets by the school district. These items include water/sewer systems, roads, bridges, and other assets that have significantly longer useful lives than other capital assets. (Used with functions 4000 only but primarily used with functions 4200 and 4600)

790 **Depreciation.** The portion of the cost of a capital asset that is charged as an expense during a particular period. In accounting for depreciation, the cost of a capital asset, less any salvage value, is apportioned over the estimated service life of such an asset, and each period is charged with a portion of such cost. Through this process, the cost of the sset is ultimately charged off as an expense. (Used with all functions, except 5000). **Used with proprietary and fiduciary funds only [or in government wide if accumulating using Fund 01 and 02].**

800 **Debt Service and Miscellaneous.** Amounts paid for goods and services not otherwise classified above.

810 **Dues and Fees.** Expenditures or assessments for membership in professional or other organizations or payments to a paying agent for services rendered. (Used with functions 1000 and 2000)

820 **Judgments Against the School District.** Expenditures from current funds for all judgments (except as indicated below) against the school district that are not covered by liability insurance, but are of a type that might have been covered by insurance. Only amounts paid as the result of court decisions are recorded here. Judgments against the school district resulting from failure to pay bills or debt service are recorded under the appropriate expenditure accounts as though the bills or debt service had been paid when due. (Used only with function 5000)

830 **Debt-Related Expenditures/Expenses**

831 **Redemption of Principal.** Expenditures to retire bonds (including current and advance refundings) and long-term loans. (Used only with functions 2510 & 5000)

832 **Interest.** Expenditures for interest on bonds or notes. (Used only with function 5000)

833 **Amortization of Bond Issuance and Other Debt-Related Costs.** Expenses in connection with the amortization of bond and other debt issuance costs, including lease-purchase debt issuance costs. Included are amortized deferred gain and loss amounts in connection with the defeasance of bonds. This code is used in Proprietary and Fiduciary funds only. (Used only with function 5000)

834 **Amortization of Discounts on Issuance of Bonds**. Expenses amortized as debt premium and/or discount in connection with the issuance of debt. This account is used in Proprietary and Fiduciary funds only.

An additional account (revenue object code 6200) has been established for accounting for the amortization of debt premiums such that districts may report premium and discount amortization separately as required in certain states (or where only credits may be reported for revenue codes and only debits for expenditure codes). However, account 834 may be used to record all discount and premium amortization (reported as a contra revenue). (Used only with function 5000) In Iowa, premiums and discounts are accounted for separately. Premiums are reported in source 6200, and discounts are reported in object 834.

890 **Miscellaneous Expenditures.** Amounts paid for goods or services not properly classified in one of the objects included above.

900 **Other Items.** Used to classify transactions that are not properly recorded as expenditures/expenses but require control and reporting by the school district.

910 **Fund Transfers Out.** Includes all transactions conveying financial resources from one fund to another within the district.

920 **Payments to Escrow Agents for Defeasance of Debt.** (Used only 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.

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, account 1530 may be used to record all investment gains or losses (reported as a contra revenue). Gains and losses are reported separately in Iowa. Gains are reported in source 1530, and decreases are reported in object 930.

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. Gains are reported in source 1531, and losses are reported in object 931.

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. Gains are reported in source 1532, and losses are reported in object 932.

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 the statement of activities. Revenue account 5300 is used for Governmental funds.

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). Gains and losses are reported separately in Iowa. Gains are reported in source 1930, and losses are reported in object 940.

~~950~~ 970 **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. Special items also include events that are not within the control of the district. In the governmental funds, these items should be separately captioned or disclosed.

~~960~~ 980 **Extraordinary Items.** Used to classify items in accordance with 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 caused by fire, flood, tornado, hurricane, or hail storm or costs related to an environmental disaster.

PROJECT/REPORTING

The project/reporting code permits school districts to accumulate expenditures to meet a variety of specialized reporting requirements at local, state, and federal levels. It is a four-digit code with the format 00XX. The first two digits identify the particular funding source, authority, or expenditure purpose for which a special record or report is required. The third and fourth digits are available to identify particular projects and the fiscal year of the appropriation within that funding source. In Iowa, all four digits are assigned and generally, but not always, will be the same code as the revenue code.

Code	Description
0100–1900	**Local Projects.** Expenditures that require specialized reporting and are funded from local sources. One example is a project funded by the local service club to provide intramural activities for students in the community.
2000–2900	**Intermediate Projects.** Expenditures that require specialized reporting and are funded from intermediate sources.
3000–3900	**State Projects.** Expenditures that require specialized reporting for categorically funded state programs.
4000–4900	**Federal Projects.** Expenditures that require specialized reporting to the federal government directly or through the state.
0000	**Non-Categorical.** Expenditures that do not require specialized reporting.

FACILITY

Facility is a classification used in Iowa that combines the following two federal classification: Level of Instruction and Operating Unit. These dimensions are described below. In lieu of using the combined federal classifications, Iowa school districts and AEAs may use the Basic Education Data Survey (BEDS) facility codes. This method is recommended and will be used for data collection on any entity with a charter school. AEAs must incorporate into their facility classification a method to separately identify their special education divisions.

LEVEL OF INSTRUCTION

This classification permits expenditures to be segregated by instructional level. Many state departments of education differentiate elementary, secondary, and postsecondary costs so they can calculate interdistrict tuition rates, compute general state aid, or both.

In the following definitions, grade span can be changed to age span when structuring a nongraded school or school district.

In Iowa, the level of instruction may be incorporated into the facility classification.

Code	Description
10	**Elementary.** A school organization classified as elementary by state and local practice and composed of any span of grades from preprimary through eighth grade.
11	**Pre-Kindergarten.** A school organization composed entirely of any span of ages below kindergarten. This category is normally used for students identified as needing special services.
12	**Kindergarten.** A school organization for children for the year immediately preceding the first grade.
19	**Other Elementary.** A school organization composed of any span of grades not above grade eight except pre-kindergarten and kindergarten.
20	**Middle.** A school organization composed of at least three grades, usually beginning with grade 5 or grade 6 or the equivalent. Most middle school organizations presume that a fouryear high school will follow the middle school.
30	**Secondary.** A school organization comprising any span of grades beginning with the next grade following an elementary or middle school and ending with or below grade 12.
31	**Junior High.** A secondary school organization intermediate between the elementary and senior high school, usually including grades 7, 8, and 9 (in a 6-3-3 plan) or grades 7 and 8 (in a 6-2-4 plan).
32	**Senior High.** A school organization offering the final years of high school work necessary for graduation and invariably preceded by a junior high or middle school.
39	**Other Secondary.** For example, a grades 7–12 high school.

40 **Postsecondary.** A school organization for adults and out-of-school youth (16 years of age or older who are not regularly enrolled in school) who have completed, interrupted, or not begun their formal education or for students attending an institution of higher education.

41 **Programs for Adult/Continuing.** A program for adults and out-of-school youth (typically 16 years of age and older who are not regularly enrolled in school) who have completed, interrupted, or not begun their formal education and are pursuing skills or knowledge in other than regularly prescribed courses. These include adult basic programs and other programs that have as their purpose the upgrading or retraining of occupational skills, the pursuit of special interests, or enrichment.

42 **Community/Junior College.** An institution of higher education that usually offers the first two years of college instruction and frequently grants an associate degree, but does not grant a bachelor's degree. It is an independently organized institution (public or nonpublic), an institution that is part of a school district, or an independently organized system of junior colleges. Junior colleges offer college transfer courses and programs; vocational, technical, and semiprofessional occupational programs; or general education programs. Community/Junior College programs are not offered by Iowa school districts or AEAs.

In Iowa, the Level of Instruction, may be incorporated into the facility classification.

OPERATIONAL UNIT

This classification is commonly used (1) as a way to identify attendance centers; (2) as a budgetary unit or cost center designator; (3) as a means of segregating costs by building structure; and (4) as a location code for payroll check distribution.

In Iowa, the Operational Unit may be incorporated into the facility classification.

SUBJECT MATTER

A series of classifications that define and describe subject curriculum can be found in the *Staff Data Handbook: Elementary, Secondary, and Early Childhood Education: 2001 Edition* (U.S. Department of Education 2001).

In Iowa, the Subject Matter classification may be incorporated into the 100 regular program classification described earlier in this chapter.

JOB CLASSIFICATION

This classification enables school districts to break down expenditures for salaries and employee benefits by the employees' job classification. (It should not be used with object codes 300–900.) This classification is used at least three ways in school accounting: (1) to classify payroll costs for personnel purposes; (2) to segregate certified and non-certified salaries and benefits; and (3) to accumulate payroll costs by bargaining unit for purposes of labor negotiations. These classifications can be found in appendix K of the *Staff Data Handbook.*

In Iowa, the job classification has been incorporated into the 100 object classification.

CHAPTER 7: COST ACCOUNTING AND REPORTING FOR EDUCATIONAL PROGRAMS

The accounting structure for governmental financial reporting is based on the expenditure classifications of fund, function, and object. These elements are the foundation for recording and reporting the financial data for school districts. Although this level of reporting can be used for comparison of district and state information, the data needs of school board members, administrators, school patrons, special interest groups including employees and parents, state policymakers, the media, and the public extend beyond expenditure classifications to the school and program reporting levels. These groups may be regarded as the "data user groups" of the school district.

THE EXPANDING NEED FOR GREATER DETAIL IN FINANCIAL REPORTING

Although the various school finance data user groups may focus on particular interests, they also require additional financial data describing the district and the schools within the district. State policymakers may need school and program financial data for several purposes: (1) as a basis for ensuring adequate and equitable funding of schools, including funding of various programs, and (2) for state accountability and assessment programs that relate school-level expenditures to student achievement scores or other effectiveness criteria. Parents are often concerned with financing of particular schools and programs. The media have a variety of interests, but frequently seek data relative to equitable funding among schools. School boards and administrators require financial data for internal management and for responses to the requests of other data users.

Although the typical financial accounting system is not intended to provide program and complete school cost data, a reporting system that includes identifying direct and indirect costs attributable to schools and programs can be developed to provide this additional level of financial information. To generate complete and accurate information to the school and program levels, cost accounting procedures must be applied to an appropriately structured accounting system.

CONCEPTS OF PROGRAM COST REPORTING BY SCHOOL

Statutory accounting and reporting requirements imposed on school districts beyond the fund, function, and object classifications may spring from legislative initiatives for accountability or from the need to provide differential funding for a particular set of programs. Such state requirements are likely to establish the framework for school and program reporting and therefore, might limit school districts' local cost objectives. However, local systems may be designed to identify more discrete costs, such as those related to secondary science or mathematics programs, even though the state reporting element is an aggregate of grades 9 through 12 regular education programs.

In many districts, financial reporting for individual schools is a local budgetary management tool that focuses on the various types of expenditures that management has determined to control on a decentralized basis. These expenditures include certain salaries (budgeted on an average cost per authorized position), substitutes, supplies, equipment, utilities, and field trips. However, site-based budgeting often excludes some of the major costs of operating a school that are not within the control of the school principal. The resulting reports meet the purposes of internal management, but are of little use in public reporting to address issues of funding requirements and comparability among schools. Therefore, a reporting system that includes full costing of all

operations for a school is recommended, including costs that are not controllable by school administrators and the allocation of costs incurred for schools but recorded centrally. An additional step in full costing of a school is the allocation of district administrative and school board costs. Since the provision of educational services through operation of schools is the only product of a school district, the allocation of these costs is necessary to full costing of the schools and their programs. These costs should be separately displayed as will be discussed further in this chapter.

The functions outlined earlier in this handbook provide a detailed description of expenditures. Presenting the applicable functions for each school in a district or state provides interested parties with a wide array of uniform data. A shortcoming of public reporting of this data is that Instruction is one function with numerous support functions. This shortcoming could be reduced by including subfunctions composed of programs for exceptional students, vocational programs, adult programs, or other special programs. Using these subfunctions, however, presents problems relative to dividing teacher and other costs of classes that include students from more than one of these programs. Mainstream special education requirements, secondary and adult students in vocational education classes, and ESOL (English for Speakers of Other Languages) students in regular education classes are examples of these problems.

Many districts take the position that reporting costs by functions is program reporting. In this context, program cost reports are taken directly from the accumulated transaction amounts without the application of cost accounting procedures. If the desired outcome is the full costing of schools and/or instructional programs, cost accounting procedures must be applied to the functional accounting. The function of Instruction as defined in this handbook is not intended to include all the costs necessary to provide instructional programs. Support functions must be considered in the determination of the full cost of instructional programs. This requires identifying support function costs with the instructional programs served (1) through an observable relationship, such as the district's director of exceptional student education and the exceptional student education program, or (2) by a rational allocation, such as fiscal services allocated to all programs on the basis of full-time equivalent teachers of the various programs. In addition to the steps needed to display the full costs of instructional programs, school costs are not accurately represented without adjustments to recorded transactions. Such adjustments need to be made for costs that are centrally incurred but represent costs for all schools or specified schools. Further adjustments are needed for costs of services rendered by itinerant teachers or other shared personnel that might, for convenience, be recorded at a host school.

Program costs should be reported at the school level with an aggregation of school reports for a district report. District reports can be aggregated for a state level-report that, in reality, is an aggregation of all school reports of the state.

ANALYSIS OF REPORTED COSTS

Full program costing requires that costs be accurately determined by a school prior to allocation to programs of the school. Each school has its own base of cost allocation factors owing to its unique combination of programs offered, students attending, and teachers employed by the school. These factors explain the variances reported in costs among schools.

Cost data should be presented with additional information that is useful in analysis, such as the numbers of students in the various programs of each school, or the costs incurred relative to the revenues generated by programs or schools. Costs per student are likely to vary with the numbers of students in a school or the programs of a school. Other factors that will also have an

impact include seniority or academic rank of teachers and other personnel and varying facilities operating costs. These factors increase in importance when the scale of analysis is narrowed to a few schools.

THE PROGRAM COST STRUCTURE

The program cost reporting structure is likely to be based on an adaptation of the cost objectives stated in this handbook. For example:

- Regular Education, Elementary
- Regular Education, Middle/Junior
- Regular Education, High School
- Special Education
- Alternative Education
- Vocational Education, 6–12
- Adult Education

Such a program structure could be expanded to recognize higher cost programs within special education and vocational education. Costs for functions such as food services, student transportation, community services, prekindergarten early intervention, before and after school programs, and fee-supported programs should be accounted for by function or special project unless there is a compelling reason to establish these as programs in the structure or in the allocation of indirect costs to the programs. These costs should be presented as items in the reconciliation of the program cost report to the fund expenditures total. Separate cost reports should be prepared for the General Fund and for Special Revenue Funds as an aggregate (some Special Revenue Funds may not be appropriate for inclusion, e.g., enterprise operations).

Other reconciling items to operating funds include expenditures for debt service and facilities.

ELEMENTS OF PROGRAM COSTS

Cost reporting has two central elements:

- Identification of direct program costs
- Attribution of indirect costs to programs on an appropriate basis

Program costing is not accomplished solely by the day-to-day transactions as recorded on the school district's records. In fact, such a transaction-based system is difficult and expensive to manage because many direct cost transactions involve more than one program and the attributed indirect costs would have to be adjusted several times during the fiscal year. Effective budgetary control, an essential management tool, would become an increasingly complex matter under such a system. Accurately recording transactions for some direct costs would pose a similar problem. A program structure that seeks to identify special education costs will be challenged to record payroll transactions for teachers when many special education students are members of regular education classes. There is a similar difficulty with teachers who teach classes composed of regular students and ESOL students. Cost reporting procedures can be applied to simplify the appropriate annual identification of teacher salaries with programs served. Indirect costs can be annually attributed to programs.

Table 11 presents a sample school-level program cost report format. The columns under the heading "Direct" provide costs by object for the function "Instruction" in each program. The columns under the heading "School Indirect" represent each program's allocation of support

function costs recorded centrally for school services, such as centralized processing of media materials and certain custodial and maintenance costs. The column headed "District Indirect" includes each program's allocation of support function costs that are district-level services, such as Administrative Technology. Note that the function amounts making up the total of "School Indirect" are displayed on the lower portion of the report. The report aggregating school reports provides a display of the function amounts included in the "District Indirect" column.

Table 11. Program Cost Report Format

GENERAL FUND—SCHOOL PROGRAM COST REPORT
SCHL—0041 A High School

Program		Direct Costs								
Category	Number	Salaries	Benefits	Purchased Services	Materials & Supplies	Other Expenses	Capital Outlay	School Indirect	Direct Indirect	Total
Reg. Ed., High	100	$245,858	$67,888	$22,091	$15,219	$2,855	$5,045	$190,145	$44,057	$593,158
Alternative	400	393,810	115,091	34,770	23,955	4,840	7,940	330,474	73,092	983,972
Special Education	200	135,821	38,948	27,137	5,854	1,638	1,940	95,187	22,787	329,312
Voc. Ed. 6-12	300	92,369	24,459	6,371	4,389	1,028	1,455	57,928	14,926	202,925
		$867,858	$246,386	$90,369	$49,417	$10,361	$16,380	$673,734	$154,862	$2,109,367
Transportation								$85,323	$12,075	

School Indirect Costs are functionally distributed as reported below:

2100	Student Support Services	$108,084	2310	Board of Education	$0	2510	Fiscal Services	$0
2220	Library Services	$48,294	2320	Executive Administration	$0	2580	Administrative Technology	$0
2212	Instruction & Curriculum Development Services	$0	2400	School Administration	$177,953	2610	Operation of Building	$218,282
2213	Instructional Staff Training	$2,671	4000	Facilities Acquisition-Construction	$0	2630	Maintenance	$118,450

USE OF EXISTING DATA SYSTEMS BY COST REPORTING SOFTWARE

In many cases, the information needed to produce accurate school program cost reports resides in the existing data systems of a district. Teacher salaries and days worked are captured in the payroll system. The ability to link teachers with programs may be found in student data systems that capture class schedules. Annual totals of other types of direct costs by school are contained in financial data files. Annual totals of support costs are captured by function for each school in financial data files. As noted earlier, some adjustments to school amounts are needed to reflect each school's share of school costs that are recorded in a host account for practicality.
Cost reporting software can be developed to interface with these existing systems to expeditiously identify teachers with schools and programs. This identification allows the software to allocate the teacher's salary to schools and programs served and to compute an indirect cost attribution factor of full-time equivalent teacher by program. The cost reporting software can also interface with student data systems to compute full-time equivalent students by school and program for indirect cost attribution. Linking the teacher's assigned classrooms and a district's facilities file containing the square footage of classrooms can produce a space use attribution factor for indirect costs.

DIRECT COSTS

In a school district setting, direct costs should be synonymous with the function Instruction. The

major cost of Instruction is teacher compensation, which is identified to program through the analysis of programs taught by each teacher. Other objects of Instruction should be identified to a program by the financial accounting system, although in some instances, attribution factors should be used. These include substitute teachers who serve more than one program and paper for reproducing classroom materials. "Full-time equivalent teachers" is an appropriate basis for the attribution of substitute teachers as a direct cost to programs. "Full-time equivalent students" is appropriate for the attribution of reproduction paper as a direct cost to programs.

INDIRECT COSTS

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 on the basis of the number of full-time equivalent students of each program relative to the full-time equivalent students of all programs. General Administration and School Administration functions should be attributed to each program on the basis of the number of full-time equivalent teachers of the program relative to the full-time equivalent teachers of all programs. Operation and Maintenance of Plant Services are more appropriately attributed to programs on the basis of the relative space used by the programs. The attribution factors suggested in the preceding paragraph are clearly not an exhaustive listing of valid factors. These factors of students, teachers, and space do recognize the causal relationship of the factor and the types of service to programs. These factors can be drawn from existing databases and, therefore, are economical to generate. More important, these factors can be readily communicated to and understood by report users.

Indirect cost pools can be allocated under the assumption that the indirect costs benefit only the instructional programs as indicated in the preceding paragraphs. Another school of thought is that some indirect costs also benefit other indirect costs and, therefore, a two-step process should be employed. A further refinement of this concept would use a set of simultaneous equations for reducing each pool to zero by allocating back and forth among programs and indirect cost pools. The greater precision of these refinements may be offset by the difficulties in communicating their use.

The development of a set of attribution factors such as students, teachers, and space for each program in the program structure for each school constitutes the general attribution table. As the name implies, the general attribution table can accurately attribute costs that apply to all programs. Sets of expenditures that relate only to certain programs at certain schools must have separate attribution tables that include attribution factors for only those schools and programs. These special tables would be a subset of the factors included in the general attribution table. Examples of such sets of expenditures are those funded by state or federal grants that address specified schools and programs and administrative costs that are focused on selected programs. The cost reporting software must provide for selecting the appropriate schools and programs for each such special table.

SUMMARY OF THE ANNUAL PROCESS

Phase I of the cost reporting process identifies teachers with programs by using the following information from district databases: (1) persons paid as teachers, the amount of compensation for the year, and the amount of time worked and (2) class schedules that provide the number of students in each program taught by each teacher. A report of "mismatches" of these data is used to input additional teachers for whom class schedules are not produced (physical education, art,

music, etc.) or to correct data. A third source of data for this phase is the attachment of space used by the teacher with data drawn from the district facilities database. The outputs of Phase I are a file of teacher salaries by table for each school and program and the general attribution table of student, teacher, and space factors for each program at each school.

Phase II of the program cost-reporting process is the determination of the schools and programs to define each special attribution table by specifying the schools and programs benefited by the particular categorical programs or special grants. The report preparer must enter these as subsets of the general attribution table.

Phase III of the program cost reporting process is the input of cost data other than teachers' salaries. The cost reporting software input formats include record keys for attribution table, fund, school, and control number so that district expenditure data files can be electronically accessed by a crosswalk interface. Data are input and computed by attribution table to maintain the integrity of attributed indirect costs. The public reports produced are an accumulation of the table results to fund totals for the General Fund and Special Revenue Funds.

Edit reports and a correction process are provided for each phase of processing.

ANALYSIS OF COST REPORTS

The data in the system allow the option of generating analyses, such as cost per student for each program at each school or cost per student for any report element. Assuming that a program cost report would include objects of direct costs, plus indirect costs at the school level and indirect costs at the district level, a wealth of data could be presented on a per student or percentage basis. The introduction of a program revenue file could allow cost as a percentage of revenue analysis for each school and program.

Table 12 provides a sample of a cost analysis report that can be produced by school and by district. This report provides three types of analysis: cost as a percentage of revenue, cost per full-time equivalent student (FTE), and FTE student to teacher (Staff) ratio.

Table 12. Cost Analysis Example

Cost Analysis
Schl—0000 School Board of _____ County

Program Number	ADM	Total Direct Costs	Total School Costs	Total Program Costs	Cost Per Student in ADM	Students - to- Staff
100 Regular Education	781.40	$2,277,806	$3,687,363	$4,004,190	$5,124	18.74
200 Special Education	232.58	1,282,638	1,862,601	1,989,715	8,290	10.66
300 Vocational Education	64.82	250,217	365,284	395,300	5,834	13.39
Totals	1,078.80	$3,810,661	$5,915,248	$6,389,205		

CONCLUSION

The demand for data is recognizable in every facet of our information age society. Public

education must compete for support as one of many public programs and, in reality, one of all purposes for which consumer dollars can be spent. Program cost reporting adds to the workload for school district accounting personnel. Advances in technology and the development of electronic databases make the provision of program cost data a manageable task for most districts.

CHAPTER 8: ACTIVITY FUND GUIDELINES

Historically, little attention has been given to accounting for activity funds in school districts. The nature of activity funds, however, makes them especially vulnerable to error, misuse, and fraud. In addition, activity funds often total to large sums of money, especially when capturing the amounts that flow through an educational organization in the form of school board funds, student-generated funds, receipts and disbursements related to athletics, and the myriad cocurricular and extracurricular events sponsored by school districts today. As a result, this revision of this handbook recommends policies and procedures for improving controls over these funds and promotes capturing all student activity–related monies in the district's financial records. Please note, however, that the guidelines in this chapter are minimum controls on which local school districts may expand. In addition, these guidelines are not generally viewed as mandated in any jurisdiction, so each state may have imposed greater or lesser controls than are suggested here.

Sections in this chapter relating to general policies and controls are indebted to and follow closely from the Kansas State Department of Education's guidelines. Individual states may already have directive legislation and/or advisory guidelines for the treatment of activity funds. Consequently, see each state's statutory requirements for accounting for activity fund monies. More generally, useful references related to activity fund accounting are Everett, Lows, and Johnson (1996) *Financial and Managerial Accounting for School Administrators*; Governmental Accounting Standards Board (2000) *Guide to Implementation of GASB Statement 34 on Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*; Association of School Business Officials International (2000) *GASB Statement 34: Implementation Recommendations for School Districts*; Deloitte and Touche (2001) *Twelve White Papers on Issues in Education Finance*.

This chapter takes a total systems view that

- defines and distinguishes types of activity funds and proper classification;
- delineates controls for establishing and maintaining activity funds;
- provides initial guidance on accounting for and reporting of activity funds, including new requirements emanating from GASB Statement No. 34; and
- recommends policies and procedures based on current best practices for operating activity funds.

TYPES OF ACTIVITY FUNDS AND PROPER CLASSIFICATION[6]

Activity funds are established to direct and account for monies used to support co-curricular and extra-curricular student activities. As a general rule, co-curricular activities are any kinds of school-related activities outside the regular classroom that directly add value to the formal or stated curriculum. Co-curricular activities involve a wide range of student clubs and organizations. Extra-curricular activities encompass a wide variety of other district-directed activities, typified by organized sports and other non-academic interscholastic competitions. The accounting structure should take into consideration that individual states may have their own classifications for co- and extra-curricular activities. For example, some states might choose to classify music and drama events, academic competitions such as debate, and so forth as cocurricular, whereas other states might classify these activities as extra-curricular. In either case, a system of classification for purposes of program cost accumulation and reporting is necessary.

Activity funds are unique to school districts. Two classifications are commonly recognized:

Student activity funds, which are used to support student organizations and clubs, and *District* activity funds, which are used to support district programs. The distinction is based on the purpose of the funds, that is, the programs supported by the funds. The test rests in the definitions of each:

Student activity funds support activities that are based in student organizations. Students not only participate in the activities of the organization, but also are involved in managing and directing the organization's activities. An important distinction is that disbursing monies from the student activity fund may be subject to approval by the student organization and its sponsor, as well as the board of education (see table 13 for examples).

Table 13. Examples of Authorized Student Activity Funds

- Art Club
- Drama Club
- Auto Club
- Foreign Language Club
- Cheerleaders Club
- Journalism Club
- Chorus Club
- Marching Band
- National Honor Society
- Pep Club
- Class of 2*xxx*
- Photography Club
- Debate Club
- Student Council

It is also possible, though uncommon, for the students to own the student activity funds of their club or organization if the student group has its own federal identification number and does not use the district's sales tax exemption or any other benefits of the district. In this case, the disbursing of monies from the student activity fund account may be subject to approval by the student organization and its sponsors, rather than by the board of education. This would be the case if the district were handling the funds on behalf of the students in a fiduciary capacity. However, in Iowa, most student activity funds are owned and controlled by the board of education and would be included in the special revenue fund.

District activity funds are used to support its co-curricular and extra-curricular activities, and are administered by the school district. Approval for disbursing district activity fund monies, however, rests only with the school board. In other words, the district determines how district activity fund monies are spent and the district programs that receive support (see table 14).

Table 14. Examples of Authorized District Activity Funds

- Athletics
- Music Concerts
- Band Uniforms
- School Plays
- Book Fair
- Special Field Trips
- Lyceums

Although individual state laws may specify the accounting treatment for activity funds,

distinguishing them in accordance with the definitions above suggests that student activity funds that are owned by the student groups are fiduciary in nature whereas other student activity funds and district activity funds represent district resources. Therefore, it is recommended that student activity funds owned by student groups be classified as *agency* (fiduciary) funds and other student activity funds and district activity funds be classified as *special revenue* funds. Student activity funds and District activity funds should be included with all other district funds and deposited in the appropriate district accounts. Again, these recommended fund classifications are appropriate within the definitions provided; individual state laws may dictate the use of other types of funds.

Although a sharp distinction exists between student-owned and district-owned activity funds, accounting for all activity funds is the responsibility of the school district. All activity funds must be reported in the school district's financial statements and are subject to the district's audit(s).

CONTROLS FOR ESTABLISHING AND MAINTAINING ACTIVITY FUNDS[7]

The dispersed nature of student activity funds and the multiple site collections for some district activity fund revenues dictate a need for orderly controls on all activity funds. These controls include establishing lines of authority and a set of policies to guide the operation of all activity funds. These are minimum broad controls. Each state should construct a set of specific guidelines in accordance with statutory requirements because it is impossible to prepare a general set of guidelines that meets every state's unique requirements.

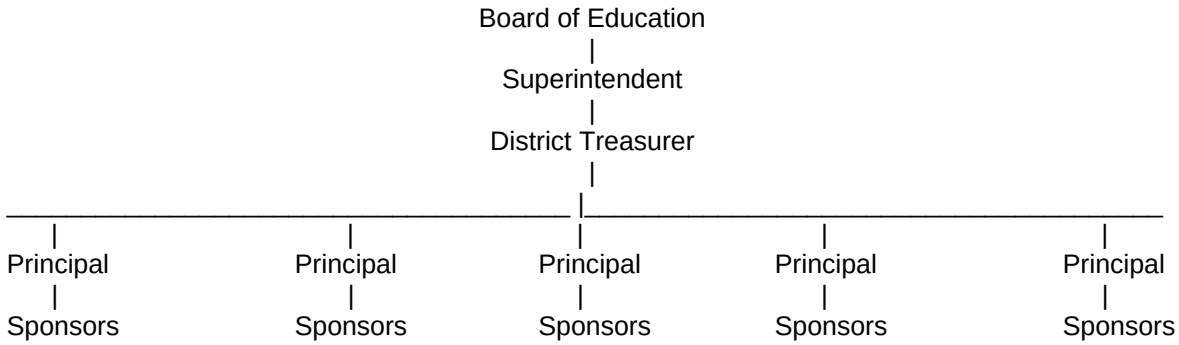
Lines of Authority

Proper control begins with the appropriate recognition of lines of authority over all monies handled by the district. The local board of education should adopt a set of guidelines and regulations that includes the following minimum requirements (see figure 1):

- ***Board of Education.*** The board of education should adopt policies to govern the establishment and operation of all activity funds. The district's auditors should review these policies for sound accounting and reporting principles.
- ***Superintendent.*** The superintendent should be directly responsible to the board of education for administering all board policies.
- ***Chief Financial Officer.*** The chief financial officer should have overall responsibility for accounting for and reporting all funds, including district and student activity funds, to the board. The chief financial officer is also responsible for implementing and enforcing appropriate internal control procedures.
- ***Principal.*** The principal at each school site should be designated the activity fund supervisor for that school building. The activity fund supervisor has overall responsibility for the operation of all activity funds, including collecting and depositing activity fund monies; approving disbursements of student activity fund monies; and adequately supervising all bookkeeping responsibilities. The activity fund supervisor should be a signatory to all disbursements, including requisitions for checks drawn on the activity fund.

- ***Sponsors.*** The sponsor of each student organization is responsible for supervising all activities of the organization, including approving student activity fund transactions. Sponsors should be employees of the district and under the direct control of the activity fund supervisor.

FIGURE 1. LINES OF AUTHORITY FOR STUDENT ACTIVITY FUNDS



General Policies for the Establishment and Operation of Activity Funds

Policies relating to student and district activity funds should be in writing and distributed to all activity fund supervisors, sponsors, and accounting personnel. A useful set of general policies includes at least the following:

- Each activity fund should be established by specific board of education approval.
- All activity funds should be subject to sound internal control procedures.
- All activity funds should be accounted for on the same fiscal year basis as all other school district funds.
- All activity funds must be audited and subject to well-defined procedures for internal and external auditing.
- All employees responsible for handling and recording activity fund monies should be bonded by the district.
- One or more activity fund supervisors (building principals) should be formally designated by the board of education.
- Depositories for student activity funds should be approved by the board of education and be further subject to the same security requirements as all other board funds.
- All activity funds should operate so that no commitments or obligations may be incurred unless the fund contains sufficient cash.
- A system of purchase orders and vouchers should be applied to all activity funds that requires written authorization for payment and should be strictly enforced.
- A system for receipting cash should be adopted that includes using pre-numbered receipt forms for recording cash and other negotiable instruments received.
- All receipts should be deposited intact. That is, all receipts should be deposited in the form in which they are collected and should not be used for making change or disbursements of any kind.
- All receipts should be deposited daily. Undeposited receipts should be well secured.
- A system for disbursing funds that includes using pre-numbered checks and multiple original signatures (no signature stamps) should be adopted as the sole means for disbursing activity fund monies.
- A perpetual inventory should be maintained on pre-numbered forms, receipts, and other documents to create an adequate audit trail.
- Bank statements for activity funds should be reconciled as soon as they are received.
- Using activity fund receipts to cash checks to accommodate individuals, to make any kind of loan, to pay any form of compensation directly to employees, or to extend credit should be strictly prohibited.
- Monthly financial reports on all activity funds should be prepared and submitted to the administration and the board of education. A full reporting of activity funds should be included in the district's annual financial statements.

- Student-owned (fiduciary) student activity fund monies should benefit those students who have contributed to the accumulation of such monies. In Iowa, student-owned student activity fund monies would seldom, if ever, exit.
- A board-approved process should be specified for all fundraising activities, and any fundraising event should require advance approval.

Segregation of Duties Related to Activity Funds
The volume of activity fund transactions and the amounts on deposit are substantial in most school districts. Because significant amounts of activity fund cash receipts are collected as currency, not checks, internal control procedures designed to safeguard monies collected should be especially emphasized. Although the foregoing general principles are helpful in addressing concerns about safeguards, additional attention should be given to segregating the duties related to activity funds. Specifically, three critical duties should be segregated for internal control purposes: (1) signing checks, (2) maintaining fund accounting records, and (3) reconciling bank statements.

The segregation of duties demands that more than one person be involved in satisfying accounting procedures. As a rule, although the school principal is appointed as activity fund supervisor, other people normally carry out the actual work. It is particularly important to identify, describe, and monitor the duties of the activity fund bookkeeper in relation to the segregation of duties.

The activity fund bookkeeper is typically assigned the task of collecting activity fund monies. Associated tasks include preparing the deposit slip and depositing monies. In addition, maintaining the activity fund accounting records generally falls to this same person, as does preparing purchase orders/requisitions for disbursements. These tasks demand adequate training and require the bookkeeper to have a thorough knowledge of fund structure; the differences between district and student activity funds; and the process of accounting, auditing, and reporting. As described earlier, the activity fund bookkeeper should be bonded.

The work of any person handling money should be subject to appropriate checks and balances. Signature controls are an important aspect of accounting procedures. Two signatures should be required on all checks that result in a disbursement from the activity fund. Recommended signatures or purchase orders/requisitions that will result in a disbursement of funds are the principal of the attendance center and someone other than the activity fund bookkeeper.
Reconciling accounting records for the activity fund is an additional important aspect of a system of checks and balances. A third person (someone other than the bookkeeper or activity fund supervisor) should be responsible for reconciling bank statements and verifying receipts and expenditures. Essential to this process are internal accounting controls over the activity fund cash collections. Adequate procedures should be established for completing an audit trail that creates sufficient documentary (physical) evidence for each step in the flow of transactions within the activity fund. These procedures include using pre-numbered forms and receipts, purchase orders and vouchers, and a perpetual inventory of pre-numbered forms and receipts and tickets; depositing receipts intact; and making timely deposits. State-specific statutory controls on disbursing student and district activity funds should be strictly observed.

Preparation and Review of Monthly Activity Fund Reports
A monthly report of revenues and expenditures of the activity fund should be prepared for and be reviewed by the activity fund supervisor and any discrepancies submitted to the school district office. This report should include the following:

- Beginning balance, which should agree with the ending balance on the prior month's report
- Revenues, properly coded using chart of accounts classifications
- Expenditures, properly coded using chart of accounts classifications
- Ending balance
- Unpaid purchase orders
- Receivables
- Unencumbered cash on hand in any petty cash or change cash fund

These reports should be reviewed by the activity fund supervisor and submitted to the student organization's sponsor. Each sponsor should then compare this report with the sponsor's records. Any discrepancies should be resolved immediately. Additionally, the school finance office should periodically perform internal audits of the reports and supporting records.

Application of GASB Statement 34 to Activity Funds

GASB Statement 34 made significant changes in financial reporting for all governments, including school districts. Chapters 4 and 5 discuss fully the new reporting structure established by this accounting standard and the specific requirements, including the presentation of governmentwide financial statements, fund financial statements, and the required supplementary information. The purpose of the governmentwide statements is to provide a broad overview of the entity as a whole. Because fiduciary fund resources are not available for use by the government, fiduciary activities are excluded from the entity-wide financial statements. In accordance with the new reporting model, fiduciary activities, including student-owned student activity funds, are reported only in the fund financial statements. The impact of Statement 34 on district and student activity funds is summarized below:

- If student-owned student activity funds are classified as fiduciary (agency) funds as recommended, they are not reported in the governmentwide financial statements. Instead, these balances are reported only in the fund financial statements.
- District activity funds and district-owned student activity funds that are classified as governmental (special revenue) funds are consolidated with all governmental activities in the governmentwide financial statements. District activity funds and district-owned student activity funds will also be presented in the governmental fund financial statements.
- Fiduciary funds are presented in the fund financial statements by fund type. Student-owned student activity funds, as agency funds, report no operating activity and are, therefore, presented only in the statement of fiduciary fund net assets.

Revenue From Enterprise and Alternative Sources

Many school districts and individual school sites derive significant revenue from enterprise activities and alternative sources: vending machines, school stores, soft drink machines, class ring sales, and a wide variety of fundraising activities such as magazine sales, candy sales, and school pictures. In addition, large sums of money are generated through interscholastic sports in the form of gate receipts and other contributions. 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 enterprise activities. In other instances, the district administers the revenues for its own programs. If a student organization is in charge of an enterprise activity, the money should be accounted for through that organization's activity fund. If the district determines the use of the funds, the money should be accounted for with other district funds in the district's accounts. However, in all instances, the funds should be recorded on the district's books.

School districts and student groups are also increasingly benefited by affiliated organizations that support curricular, co-curricular, and extra-curricular activities. Affiliated organizations include groups such as Parent-Teacher Associations (PTAs), Parent-Teacher Organizations (PTOs), school foundations, athletic booster clubs, and so on. Contributions by these groups often include supplies, materials, equipment, and even school facilities, such as weight training rooms.

Specific board of education policies are needed to address these issues. In the case of activity funds derived from enterprise activities, board authorization to operate the activity is needed, and all funds should be accounted for in the district's books. In the case of revenue from affiliated organizations, board authorization to receive such funds is needed. In some cases, owing to the requirements of GASB Statement 39 *determining whether certain organizations are component units*, these affiliated organizations may be reflected in the financial statements of the school district as discretely presented component units. (See chapter 5 for a discussion of Statement 39.) Whether or not the organizations are included as component units, decisions regarding allocation of the donations should be made on the basis of whether the curricular or co-curricular program is the primary beneficiary, as well as on the basis of fundamental fairness in resource allocation.

The following examples are illustrative of issues discussed in this section.

- A student-owned activity holds a fundraiser and raises $500, which is accounted for in an agency fund. The club uses $400 to buy supplies and club T-shirts. When the $500 in cash is deposited by the club sponsor or school administration, the district should debit the asset account, Cash in Bank, and credit a liability account, Due to Student Organizations, for $500 within the designated agency fund (for student activity funds). When the club spends $400 for supplies, an entry should be recorded to credit cash and debit the liability account. At year's end, the district would reflect a $100 balance in the liability account for the club in its agency fund.
- A school district enters into a multiyear agreement with a soft drink company for vending machine services at all of its schools. Under the contract terms, the district will receive 10 percent of sales. In the current fiscal year, the district receives $10,000 for its portion of sales. If this payment represents an advance, a portion of it should be deferred on a prorated basis. Using the estimated proceeds from the contract, the district should budget the revenues within a special revenue fund during its normal budgeting process. The $10,000 payment should be recorded as Revenue from Enterprise Activities within the special revenue fund.

SUMMARY

There are two classifications of activity funds: district and student. It is recommended that district activity funds and district-owned student activity funds be classified as special revenue funds and student-owned student activity funds as agency (fiduciary) funds.

As governments increasingly respond to the demands for fiscal and operational accountability, best practice dictates the creation of strong controls surrounding activity funds, including assurance that all transactions are recorded and reported in district financial records. Additionally, at a minimum, proper lines of authority combined with strong control practices, such as segregation of duties, multiple checks and balances, requirements for annual audits, and regular financial reporting, are the elements to protect against error and abuse.

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APPENDIX A: SUMMARY OF ACCOUNT CODE CHANGES

Financial Accounting for Local and State School Systems, 2003 Edition (Federal)

NOTE: Iowa may not have adopted all of these Federal Changes

A "Permanent Fund" (code 50) was added to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used by the school district. Codes for Enterprise Funds and Internal Service Funds were moved up to make room for the new Permanent Fund code. The Trust and Agency Fund in the 1990 handbook was broken out into two funds in the 2003 handbook; Trust Funds (code 80) and Agency Funds (code 90). The General Fixed Assets (in the 1990 handbook) was deleted.

Fund Classification		
1990 Code	**New Code**	**Description**
	50	Permanent Funds
50	60	Enterprise Funds
60	70	Internal Service Funds
70		Trust and Agency Funds were broken into 2 codes: 80 Trust Funds and 90 Agency Funds.
80		General Fixed Assets was deleted.
	80	Trust Funds was added.
90		General Long-Term Debt was deleted.
	90	Agency Funds was added.

Balance Sheet Accounts		
1990 Code	**New Code**	**Description**
112	112	Unamortized Premiums on Investments is now restricted to short-term investments (originally restricted to long-term investments).
113	113	Unamortized Discounts on Investments (Credit) is now restricted to short-term investments (originally restricted to long-term investments).
115	115	Accrued Interest on Investments Purchased (Instructions for account entry were deleted.)
122	122	Allowance for Uncollectible Taxes (Credit) (Title was changed from "Estimated Uncollectible Taxes" [Credit].)
161		Bond Proceeds Receivable was deleted.
	192	Deferred Expenditures/Expenses was added.
	193	Capitalized Bond and Other Debt Issuance Costs was added.
	194	Premium and Discount on Issuance of Bonds was added.
200	200	Fixed Assets was changed to Capital Assets.
211	211	Sites was changed to Land and Land Improvements, and the description was modified.
222	222	Accumulated Depreciation on Site Improvements was modified. The last sentence, "The recording of depreciation is optional…," was deleted.
232	232	Accumulated Depreciation Buildings and Building Improvements was modified. The last sentence, "The recording of depreciation is optional…," was deleted.
251	271	Construction in Progress
	251	Works of Art and Historical Treasures was added.
	252	Accumulated Depreciation on Works of Art and Historical Collections was added.
	261	Infrastructure was added.
	262	Accumulated Depreciation on Infrastructure was added.
	271	Construction in Progress was added.
300		All 300 level account codes, Budgeting Accounts and Other Debits, were deleted.
400	400	Liabilities, Reserves, and Fund Balance was changed to Liabilities and Equity.
442	442	Bonds Payable was changed to Bonds Payable—Current.
	452	Lease Obligations—Current
	472	Compensated Absences—Current
	473	Accrued Annual Requirement Contribution Liability
492		Due to Fiscal Agent was deleted.

	512	Accreted Interest was added.
	513	Unamortized Losses on Debt Refundings was added.
531	531	Lease Obligations was changed to Capital Lease Obligations.
541		Unfunded Pension Liabilities was deleted.
	551	Compensated Absences was added.
	561	Arbitrage Rebate Liability was added.
590	590	Other Long-Term Liabilities was modified.
600		All 600 level Budgeting Accounts were deleted.
711		Investment in General Fixed Assets was deleted.
	720	Designated Fund Balance was added.
730		Reserved—Related Earnings was deleted.
740		Unreserved—Retained Earnings was deleted.
	740	Invested in Capital Assets, Net of Related Debt was added.
	750	Restricted Net Assets was added.
751	711	Reserve for Inventories
752	712	Reserve for Prepaid Items was recoded 712 and the name was changed from Reserve for Prepaid Expenses.
753	713	Reserve for Encumbrances
760	714	Other Reserved-Fund Balance was recoded 714 and the name was changed from Reserved—Fund Balance.
	760	Unrestricted Net Assets was added.
770	730	Unreserved—Fund Balance

Revenue and Other Fund Sources		
1990 Code	**New Code**	**Description**
1320		Tuition From Other School Districts Within the State was broken into codes 1320 and 1321.
	1320	Tuition From Other School Districts Within the State was Changed to Tuition From Other Government Sources Within the State.
	1321	Tuition From Other School Districts Within the State was added.
1330		Tuition From Other School Districts Outside the State was broken into codes 1330 and 1331.
	1330	Tuition From Other School Districts Outside the State was changed to Tuition From Other Government Sources Outside the State.
	1331	Tuition From School Districts Outside the State was added.
1340		Tuition From Other Sources was replaced with codes 1340 and 1350 (below).
	1340	Tuition From Other Private Sources (other than individuals) was added.
	1350	Tuition From the State/Other School Districts for Student Voucher Programs was added.
1420		Transportation Fees From Other School Districts Within the State was broken into codes 1420 and 1421.
	1420	Transportation Fees From Other Government Sources Within the State was expanded.
	1421	Transportation Fees From Other School Districts Within the State was added.
1430		Transportation Fees From Other School Districts Outside the State was broken into codes 1430 and 1431.
	1430	Transportation Fees From Other Government Sources Outside the State was expanded.
	1431	Transportation Fees From Other School Districts Outside the State was added.
1510	1510	Interest on Investments was modified to include interest on short-term investments only.
1530	1530	Gains or Losses on Sale of Investments was modified to include gains and losses in the fair value of investments and broken into codes 1531 and 1532.
	1531	Realized Gains (Losses) on Investments (from the sale of investments) was added.
	1532	Unrealized Gains (Losses) on Investments (from recognized change in value of investments) was added.
	1614	Food Service—Daily Sales—After School Programs was added.
	1650	Food Service—Daily Sales—Summer Food Programs was added.
1700	1700	Student Activities was modified to include only those revenues under the control of school or district personnel and was renamed District Activities.
	1750	Revenue From Enterprise Activities was added.
	1790	Other Activity Income was added.
1920	1920	Contributions and Donations From Private Sources now includes on-behalf-of receipts from private sources.
5100	5100	Sales on Bonds was changed to Issuance of Bonds.
5120	5120	Premium on the Issuance of Bonds was changed to Premium or Discount on the Issuance of Bonds to include the discount on the issuance of bonds.

5130	5130	Accrued Interest was changed to Prepaid Interest.
5200	5200	Interfund Transfers was changed to Fund Transfers In.
5300	5300	Sales or Compensation for Loss of Fixed Assets was replaced by Proceeds From the Disposal of Real or Personal Property, which expanded this definition.
	5400	Loan Proceeds was added.
	5500	Capital Lease Proceeds was added.
5600		Lease Purchases was deleted.
	5600	Other Long-Term Debt Proceeds was added.
	6000	Other Income Items was added.
	6100	Capital Contributions (from donation or bequest) was added.
	6200	Amortization of Premium on Issuance of Bonds was added.
	6300	Special Items (unusual/infrequent items per GASB 34) was added.
	6400	Extraordinary Items (special items per GASB 34) was added.

Program Classification		
1990 Code	**New Code**	**Description**
200	200	Special Programs classifications: Detailed program codes were deleted and the terminology was updated.
260	400	Bilingual programs for students for whom English is not their primary language was moved to program code 400, Other Instructional Programs—Elementary/Secondary.
300	300	Vocational and Technical Programs classifications: Detailed program codes were updated.
400	400	Other Instructional Programs: The general heading has been retained, but the detailed school-sponsored activities have been moved to program 900. Other instructional programs now include Bilingual–ESOL programs and Alternative Education Programs for at-risk students.
410	900	School-Sponsored Co-curricular Activities was moved and is now part of 900, Co-curricular and Extra-Curricular Activities.
420	900	School-Sponsored Athletics was moved and is now part of 900, Co-Curricular and Extracurricular Activities.
800	800	Community Services Programs: Detailed program codes were deleted and the terminology was updated.
900		Enterprise Programs was deleted.
	900	Co-Curricular and Extra-curricular Activities was created.

Expenditure Function Classifications		
1990 Codes	**New Code**	**Description**
2110	2110	Detailed account codes under Attendance and Social Work Services were deleted, and the services were included in the general Attendance and Social Work Services listing.
2120	2120	Detailed account codes under Guidance Services were deleted, and the services were included in the general Guidance Services listings.
2130	2130	Detailed account codes under Health Services were deleted, and the services were included in the general Health Services listings.
2140	2140	Detailed account codes under Psychological Services were deleted, and the services were included in the general Psychological Services listings.
2150	2150	Detailed account codes under Speech Pathology and Audiology Services were deleted, and the services were included in the general Speech Pathology and Audiology Services listings.
	2160	Occupational Therapy Related Services was added.
2200	2200	Support Services Instructional Staff was renamed Support Services—Instruction.
2213	2213	The definition of Instructional Staff Training Services was expanded.
2220	2220	Educational Media Services was renamed Library/Media Services, and the definition was modified to include only traditional library activities.
2224	2230	Educational Television was incorporated into the new function 2230, Instruction-Related Technology.
2225	2230	Computer-Assisted Instruction was incorporated into the new function 2230, Instruction-Related Technology.
	2230	Instruction-Related Technology was created. This function includes all technology-related classroom support.
	2240	Academic Student Assessment was added.
2310	2310	Detailed codes for the services listed under function 2310, Board of Education Services, were deleted; however, the list of services was retained. The definition was also expanded to include legal services.
2320	2320	Detailed account codes under function 2320, Executive Administration Services, were deleted. The categories are included in the general function 2320 description.

2500	2500	Functions 2500, Support Services—Business, and 2800, Central Services, were combined into 2500, Central Services.
2510	2510	Detailed account codes under function 2510, Fiscal Services, were deleted. The categories are included in the general function 2510 description.
2520	2520	Function 2520, Warehousing and Distributing Services, was combined in function 2520, Purchasing, Warehousing, and Distributing Services.
2530	2520	Function 2530, Warehousing and Distributing Services, was combined in function 2520, Purchasing, Warehousing, and Distributing Services.
2535	2520	Function 2535, Warehouse Inventory Adjustment, was deleted, and these services are now accounted for under the general function 2520, Purchasing, Warehousing, and Distributing Services.
2540	2530	Printing, Publishing, and Duplicating Services
	2540	Planning, Research, Development, and Evaluation Services was created from function 2810.
	2560	Purchasing, Warehousing, and Distributing Services was created from function 2820 (including functions 2821, 2822, 2823, 2824, and 2829).
	2570	Staff Services was created from function 2830 (including functions 2831, 2832, 2834, 2835, and 2839).
	2580	Administrative Technology Services was created from function 2840, Data Processing Services (including sub-functions 2841, 2842, 2843, 2844, and 2849). The definition for the new function was expanded to include network support services, hardware maintenance and support services, and professional development costs for administrative technology personnel.
	2590	Renamed Other Support Services—Central Services.
2610	2600	Supervision of Operations and Maintenance of Plant was combined into the general function 2600 Operations and Maintenance of Plant.
2620	2610	Operation of Building Services
	2620	Maintenance of Buildings was added.
2660	2660	Function 2660, Security Services, was broken into function 2660, Security Services, and function 2670, Safety Services.
	2670	Safety Services (See 1990 function 2660 above.)
2710	2700	Supervision of Student Transportation Services Plant was combined into the general 2700 function, Student Transportation Services.
2720	2710	Vehicle Operation Services
2730	2720	Monitoring Services
2740	2730	Vehicle Servicing and Maintenance Services
2800	2500	Function 2800, Support Services—Central, was combined with 2500, Support Services—Business, to make 2500, Central Services.
2810	2540	Planning, Research, Development, and Evaluation Services
2820	2560	Information Services: Detailed account codes under function 2820, Information Services, were deleted. The categories are included in the general function 2560 description.
2830	2570	Staff Services: Detailed account codes under function 2830, Staff Services, were deleted. The categories are included in the general function 2570 description.
2840	2580	Data Processing Services definition was expanded and moved to 2580. Detailed account codes under function 2840 were deleted. The categories are included in the general function 2580 description.
4200	4200	Site Improvement Services were broken into 4200, Land Improvement, for permanent improvements to land and 4600, Site Improvement Services, for non-permanent improvements to building sites.
4600	4700	Building Improvements Services was moved to 4700.
5000	5000	Other Use was renamed Debt Services.
5100	5000	Debt Service was combined into a broader Debt Service function.
5200	5000	Fund Transfers were combined into a broader Debt Service function.

Object Classification		
1990 Code	**New Code**	**Description**
	150	Additional Compensation such as Bonuses, or Incentive
240	250	Tuition Reimbursement
	240	On-Behalf Payments was added.
250	260	Unemployment Compensation
260	270	Workers' Compensation
270	280	Health Benefits

330	340	Other Professional Services
	330	Professional—Employee Training and Development Services was added.
340	350	Technical Services
	351	Data Processing and Coding Services
	352	Other Technical Services
411	410	Water/Sewage Services were combined in the general 410 Utility Services.
420	420	Detailed account codes under Cleaning Services (421, 422, 423, and 424) were deleted and the services were included in the general Cleaning Services listing.
	431	Non-Technology-Related Repairs and Maintenance was added.
	432	Technology-Related Repairs and Maintenance was added.
442	442	Rental of Equipment and Vehicles was modified to exclude computer equipment.
	443	Rental of Computers and Related Equipment was added.
450	450	Construction Services included construction, renovation, and remodeling of infrastructure.
530	530	Communications now includes Internet and other technology-related services and rentals.
	566	Tuition to Charter Schools was added.
	567	Tuition to School Districts for Voucher Payments was added.
590	590	Miscellaneous Purchased Services was renamed Intereducational, Interagency Purchased Services.
591		Services Purchased Locally was deleted.
592	591	Services Purchased From Another School District or Educational Services Agencies Within the State
593	592	Services Purchased From Another School District or Educational Service Agency Outside the State
610	610	General Supplies now includes computer software.
	650	Supplies—Technology-Related was added.
710	710	Land and Improvements: The restriction “Used with governmental funds only” was deleted.
730	730	Equipment. The restriction “Used with governmental funds only” has been deleted.
	734	Technology-Related Hardware was added.
	735	Technology-Related Software was added (for entity-wide reporting only).
740	790	Depreciation was moved to 790, and the restriction “Used with governmental funds only” was deleted.
	740	Infrastructure (assets that have significantly longer useful lives than other capital assets) was added.
800	800	Other Object was renamed Debt Service and Miscellaneous.
830	832	Interest
	830	Debt-Related Expenditures/Expenses was added.
	833	Amortization of Bond Issuance and Other Debt-Related Costs was added.
	834	Amortization of Premium and Discount on Issuance of Bonds was added.
840		Contingency (for budgeting purposes only) was deleted.
900	900	Other Uses of Funds (governmental funds only) was renamed Other Items.
910	831	Redemption of Principal
920		Housing Authority Obligations was deleted.
930	910	Funds Transfers was moved to object 910 and renamed Fund Transfers Out.
940	920	Payments to Escrow Agents for Defeasance of Debt
	930	Losses From Investments was added.
	931	Realized Losses on Investments was added.
	932	Unrealized Losses on Investments was added.
	940	Losses on the Sale of Capital Assets was added.
	950	Special Items was added.
	960	Extraordinary Items was added.

Summary of Federal Handbook Changes

MAJOR CHANGES AND CHAPTER HIGHLIGHTS

The updates to this handbook incorporate many changes in content and structure. Following are highlights of the chapters and the major changes in each chapter.

Chapter 2 Uses of Information

This discussion of the role of the fiscal data system in education management and policymaking includes the advantages of alignment with a comprehensive information system and an overview

of the users of education information.

Chapter 3 Budgeting

Formerly, this topic was covered briefly in the "Uses of Account Classification System" chapter. This new chapter expands the discussions of budgeting methods and budget preparation, including capital budgeting. It addresses budgetary approaches and responsibilities, financial forecasting, and special budgeting practices such as multiyear construction projects.

Chapter 4 Governmental Accounting

Formerly, this topic was also covered briefly in the "Uses of Account Classification System" chapter. This new chapter expands the topic of accounting systems and requirements for governmental accounting to provide information on internal control practices as well as new information on fund-level reporting and governmentwide reporting required by GASB Statement 34.

Chapter 5 Financial Reporting

This new chapter in this handbook outlines the major financial statement elements and reporting requirements for governments. It significantly expands the guidance provided in the former "Account Classifications" chapter and describes each major balance sheet element. Where detailed guidance is provided by a particular GASB requirement, this chapter offers additional guidance. Financial statements for governments are highlighted, particularly in regard to changes owing to GASB Statement 34.

Chapter 6 Account Classification Descriptions

This new chapter consolidates the former "Account Classifications" and "Account Classification Description" chapters into a single account code chapter. Several changes and additions have been made, including revising obsolete language and expanding the codes for technology, safety, and security. A detailed list of account code changes was included previously in this appendix A.

Chapter 7 Cost Accounting and Reporting for Educational Programs

Equity and accountability issues have expanded the need for cost information at school and program levels. This chapter presents cost accounting methods and examples of the use of existing data systems to provide this information.

Chapter 8 Activity Fund Guidelines

This new chapter addresses the complex issues surrounding student activity funds. It defines and distinguishes activity funds and provides proper classification. The chapter gives initial guidance for improving controls and for accounting for and reporting these funds. The requirements of the most recent GASB standards are also addressed.

Summary of Iowa Account Code Changes/Differences from Federal

Iowa adopted the federal account code changes except as included below. Iowa has maintained additional account codes currently in the accounting system that are needed for reports in our state. Where the federal account code has used an account code number previously used by Iowa, those Iowa accounts had to be renumbered elsewhere. Those changes are listed below. Where Iowa used different numbers, the federal numbering has been included in Chapter 6 with strikethrough formatting followed by the Iowa numbering for that account.

Any place within the text where the federal recommendations conflicted with Iowa law, the wording was clarified to avoid confusion for Iowa districts and AEAs.

Federal	Iowa	Description
		Fund Classification
X	XX	Iowa funds codes have two digits (added a zero after the federal fund code) to allow for multiple funds within a fund classification, funds renumbers to

		correspond with federal.
	01	Added a governmentwide governmental activity account to assist districts in accumulating costs for the governmentwide statements.
	02	Added a governmentwide business-type activity account to assist districts in accumulating costs for the governmentwide statements.
	08	Added a governmental long term assets "fund" similar to the former account group
	09	Added a governmental long term debt "fund" similar to the former account group
Balance Sheet Account Classifications		
714	719	Renumbered to have room for special reserves.
		Balance Sheet subaccount dimension deleted as unnecessary for reporting.
Source Classification		
1300,1400	1300, 1400	Greater detail for tuition & transportation in Iowa.
	1326/1426	Deleted, included in previous accounts
1740	174X	Added other student fees to description that are legal to charge in Iowa
1930	1930	Limited to Gains in Iowa. Losses on the sale of capital assets are recorded in object code 940.
1950	1951-1959	More sharing options available.
	1840	Preschool tuition itemized.
	4662	Iowa Demonstration grants moved from 4575 to 4662.
6200	6200	Limited to Premiums in Iowa. Discounts on issuance of bonds are recorded in object code 834.
Function Classification		
	1000	Combined function/program detail deleted as unnecessary for reporting and confusing to districts.
2310		Board secretary and board treasurer in Iowa are reported in the 2510 function
2490	2492, 2493	Detail added for clarification.
2610	2620	Iowa maintained supervision at 2610, so merged federal 2610 with 2620.
2710-2730	2710-2740	Iowa maintained supervision at 2710, so moved federal codes up one unit.
	6000	Iowa retained other uses, flowthrough, and interfund transfers as separate categories.
Program Classification		
100	100	Deleted details as no longer necessary for reporting
200, 400, 900	200, 400, 900	Deleted details and renumbered to match federal accounts.
300	300	Aligned subcategories with federal clusters.
700		Iowa districts and AEAs do not operate Community College programs
Project Classification		
	1130	Interdistrict sharing was aggregated into one project.
		Deleted accounts not necessary for reporting.
Object Classification		
1XX	1XX	Iowa did not adopt the federal 100 object codes because this is where job classification has been integrated in Iowa. Iowa adjusted its codes to allow for reporting on the federal system when necessary.
2XX	2XX	Iowa did not adopt the federal 200 object codes because it would result in a

		potential loss of detail necessary at the district level. We will explore other options if this information is required at the federal level.
431-432	432-431	Reversed federal account codes to have more space for non-technology detail.
560	561-569	Renumbered federal account codes to have more space for detail.
590	591-599	Renumbered federal account codes to have more space for detail.
834	834	Limited to discounts in Iowa. Premiums on issuance of bonds are recorded in source code 6200.
940	940	Limited to Losses in Iowa. Gains on the sale of capital assets are recorded in source code 1930.
950	970	Special Items renumbered to leave space for other uses.
960	980	Extraordinary Items renumbered to leave space for other uses.

Summary of Changes to Iowa Uniform Financial Accounting

This may not be a complete listing and is not intended to be used for crosswalking account codes. Instead, use the Chart of Account listing in the UFA Appendix for crosswalking the chart of account codes.

1993 UFA	2004 UFA	Description	Comments
		Theory change on Enterprise	Use actual expenditure codes if by fund know it is an enterprise
		Theory change on Interfund transfers	Transfer so that rev & exp all in the same fund rather than various funds
FUND DIMENSION			This is a direct crosswalk--no GJE; Districts can crosswalk at time of reporting if they do not get Fund numbers changed
45	50	Permanent Funds	
50	60	Enterprise Funds	
	63	Regular Education Preschool	New
	64	Student Construction	New
	65-67	Other Community Service Enterprises	New
	68-69	Other School Support Enterprises	New
	73	Print Shop	New
	81	Scholarship Trust Funds	New
60	70	Internal Service Funds	
71-75	80	Trust Funds	
76-79	90	Agency Funds	
80	08	Governmental L-T Assets	
90	09	Governmental L-T Debt	
97	01	Entity-wide Governmental Activity	
98	02	Entity-wide Business Type Activity	
BALANCE SHEET ACCOUNTS			

	106	CD	Unnecessary Detail Deleted
160		Current Bond Proceeds deleted	Deleted
178, 179	178	SN Inventories & Com merged	
	192-194	Current Asset Detail	New Optional Detail
196		Restricted assets deleted	Deleted
	250-252	Works of art & historical treasures	New
250	270	Construction in Progress	
300		Deleted	However, partially retained in "funds" 8 & 9 only
	452	Leases payable current	Optional Detail
	472, 473	current compensated ab & benes	Optional Detail
483	482	deferred rev for subs taxes	New
482		unearned revenues	Detail Deleted
492		due to fiscal agent	Detail Deleted
	513	Accreted interest	New
	514	unamortized gains on debt refunding	New
533	531	capital lease	
531		operating lease obligations	Deleted
540	550	Unfunded pension liabilities & Special Termination Benefits	
	560	Arbitrage Rebate liability	New
600		Deleted	However, old 710 partially retained in "funds" 8 & 9 only
710	740	Invest in fixed assets (net)	
720	740	Contributed capital	
730	750	Restricted net assets	
740	760	Unrestricted net assets	
750, 760	710	Reserved fund balances	
770	720, 730	Designated fund balances	Split 720 & 730
BALANCE SHEET SUBACCOUNT DIMENSION			
010-079		Optional Detail	Dimension Deleted
REVENUE SOURCE DIMENSION			
1113		Enrichment tax	Deleted
1133		Enrichment surtax	Deleted
	1311	tuition detail	
	1312	tuition detail	
	1313	tuition detail	
1326		AEA tuition	Deleted
	1331, 1332	tuition detail	
	1341, 1342	tuition detail	
1343	1370	Adult ed	
	1350	voucher payments	Not really in Iowa--blank
1350	1360	summer school	
1410	1410	transp detail for sp ed & reg ed	
1430	1430	transp detail for sp ed & reg ed	
1440	1440	transp detail for sp ed & reg ed	
1450	1460	transp detail for sp ed & reg ed	
1550	1530	net increase in fair value	Required Detail

	1626	Second Type A student lunch	Optional Detail
1630	1630	SN special food functions	Optional Detail
1640	1650	Summer food programs	
1740	1740	Fee details	Optional Detail
1791		Fund raisers	Unnecessary Detail Deleted
1950	1950	Interdistrict sharing	Required Detail
1970	1970		Changed from serv to other funds to propriety fd operating income
1989	5900	Auditor's upward adjustment	
1999	1998	Food rebates	
	2250	Grants from University	New
	2260	Grants from CC	New
	3113	Sp Ed Deficit payment	New
3132		SBRC on-time funding	Deleted
3213		Phase III revenue	Deleted
3215		IA technology revenue	Deleted
3235		SBYS	Deleted
3247		NSDIC	Deleted
3262		NP technology	Deleted
3273		Vision Iowa	Deleted
4575	4662	IA Demo	
4733	4633	Medicaid Administrative claiming	
4734	4634	Medicaid reimbursement	
4730	4730	Fed through cities	Limited to cities
4732	4752	Aerospace Education Services Program	
4740	4760	Fed through community colleges	
5199	5112	Refunding bonds	
5312	6310	Reorg settlements	
5500, 5600	5500	Capital Lease & Lease Purchases	Merged
	5600	Other Long term debt proceeds	New
	5800	Residual Equity Transfers In	New
	5900	Upward Adjustment to Beginning Fd Bal	New
	6000	Other Income items	New Detail
FACILITY DIMENSION			
			No changes
AEA OPERATING UNIT DIMENSION			
5		General Admin	Deleted
6		Central Support	Deleted
7		Sp Ed Instruction	Deleted
8		JH	Deleted
9		Other	Deleted
FUNCTION DIMENSION			
1100-1700	1000	Instruction function no long has program incorporated	Optional Detail
2136	2160	Occupational Therapy from health to own	
2137	2170	Physical Therapy from health to own	
2154	2180	Visually Impaired to own grouping	

2160		Assistive tech no longer grouping	Deleted
2180		Parent-Educator no longer grouping	Deleted
	2214	Child Development & understanding	New
2223-2225	2230	Technology moved to own grouping	
2230		AEA Consulting & strategy no longer grouping	Deleted
	2240	Academic Student Assessment	New
	2331-2333	AEA admin detail	Optional Detail
	2492, 2493	Graduation & FT dept chairs	Optional Detail
2520, 2530	2520	Purchasing & warehousing combined	
2540	2530	Printing	
2810	2540	Planning, Research, Development & Eval	
2820	2560	Public Information	
2830	2570	Personnel services	
2940	2580	DP/Administrative Technology	
	2670	Safety	New
3400		Community Education	Deleted
4600	4700	Building improvement services	
	4600	Site improvement sep from land improv	
5200	6200	Interfund transfers	
	6800	Residual equity transfers Out	New
	6900	Downward adjustment to beg fd bal	New
PROGRAM DIMENSION			
101 - 129	100	Reg ed classes Optional Detail	Deleted
201-249	210 - 240	Sp Ed Optional Detail	Deleted--Duplicative
202	230	(AEA) Early Childhood	
203	240	(AEA) hospital/homebound	
204	220	(AEA) Infants & Toddlers	
300-399	300-399	Voc Tech to Clusters	
250	420	At risk	
260	410	LEP	
280	430	Title 1	
900		Enterprise programs/food service detail	Deleted--duplicative
400	900	Student Activities	
PROJECT DIMENSION			
	1112	LEP	Optional Detail
1501	1113	HSAP	Optional Detail
	1114	ISP	Optional Detail
	1115	EIP	Optional Detail
Misc	1130	28E. Sharing arrangements	Optional Detail
1413		Athletic trips optional detail	Deleted
	1600-1699	Food service detail	Optional Detail
1767		Wellness optional detail	Deleted
1800		Infrastructure projects	Deleted
	1840	Preschool	Optional Detail
	2250	University or College	Optional Detail
	2260	Community College	Optional Detail
		State & Federal Projects changed to match any changed State or Federal Revenue Sources	
5500, 5600	5500	Leases merged	
	5600	Other long term debt	New
	6130	Debate	New

OBJECT DIMENSION			
140	101-109	Paraprofessionals	Split paraprofessionals and Technical
	109, 119, 129, 139, 149, 159, 169, 179, 189, 199	Additional Comp, Bonus or Incentive	New
245	294	Staff dues & fees	
249	293	Moving expenses/allowance	
	280	On behalf payments	New
311	591	Shared contract	
321	591	Shared contract	
325		AEA small media lease	Delete
595	330	Professional Empl Training & Devl	
330	340	Other professionals (updated)	
340	350	Technical (updated)	
	431	Technology related repair & maint.	New
596	436	Bus Inspection Fees	
	443	Rental of technology	New
	536	Computer based communications	New
	537	Video communications	New
590	590	Intereducational agency pur serv	
	615	General software supplies	New
	652	Technology related software	New title
735	736	Two-way radio	
736		Nutrition equipment deleted	
	740	Infrastructure	
	750	Works of Art & Historical Treasures	New
740	790	Depreciation	
895	815	Student entry fees	
831	832	Interest	
910	831	Principal	
962	833	Amortization of bonds	
961	834	Amortization of discounts	
899	990	Downward adjustments to beg bal	
930	910	Interfund transfers Out	
940	920	Payments to escrow agents	
920		Housing authority payments	Deleted
	930	Net decrease in fair value	New
	940	Losses on sale of cap assets	New
938, 939	960	Flowthrough payments to other agencies	962 & 963 split
	970	Special items	New
	980	Extraordinary items	New

APPENDIX B: OTHER RESOURCES

OTHER RESOURCES

The following web sites and citations provide other useful information and other reference material relevant to education finance in more detail. This publication contains references to web sites on the Internet. These references were current at the time of publication.

Common Core of Data (CCD)— http://nces.ed.gov/ccd
CCD data files and documentation: http://nces.ed.gov/ccd/ccddata.html

Department of Education federal program listings. (Programs specific to the Department of Education are in the 84.000 series; programs specific to the Department of Agriculture are in the 10.000 series—specifically, the National School Lunch Program is currently coded as 10.555). All federal program codes are subject to periodic change.
http://www.cfda.gov

Census Bureau web site with school district finance data (F-33)
http://www.census.gov/govs/www/school.html

Financial Standards Accounting Board web site for establishing and improving standards of financial accounting and reporting http://www.fasb.org/

Government Financial Officers Association web site of state/provincial and local finance officers in the United States and Canada
http://www.gfoa.org/

Governmental Accounting Standards Board web site of standards of state and local governmental accounting and financial reporting
http://www.gasb.org/

NCES web site
http://nces.ed.gov/

Title I web site maintained by the U.S. Department of Education, Office of Elementary and Secondary Education
http://www.ed.gov/offices/OESE/CEP/

American Institute of Certified Public Accountants, *Statement on Auditing Standards No. 78,* Consideration of Internal Control in a Financial Statement Audit: An Amendment to Statement on Auditing Standards No. 55.

Association of School Business Officials International. (2000). *GASB Statement No. 34: Implementation Recommendations for School Districts.* Reston, VA: Association of School Business Officials International.

Deloitte and Touche (2001). *Twelve White Papers on Issues in Education Finance.* Unpublished manuscript.

Everett, R.E., Lows, R.L., and Johnson, D.R. (1996). *Financial and Managerial Accounting for*

School Administrators. Reston, VA: Association of School Business Officials International.

Gauthier, Stephen J. (2001). *Governmental Accounting, Authority and Financial Reporting*. Government Finance Officers Association, ISBN 0-89125-219-3.

Governmental Accounting Standards Board. (2002). *Codification of Governmental Accounting and Financial Reporting Standards* (Statement 34 Edition), as of June 30, 2002. Norwalk, CT.

Governmental Accounting Standards Board. (2001). *Guide to Implementation of GASB Statement 34 and Related Pronouncements: Questions and Answers*. Norwalk, CT.

Governmental Accounting Standards Board. (2000). *Guide to Implementation of GASB Statement 34 on Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Questions and Answers*. Norwalk, CT.

Governmental Accounting Standards Board. (1999). *Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Norwalk, CT.

Miller, L. and McClure, M. (Year unknown). "Reliable School Budget Forecasts: Seven Tools That Work." *School Business Affairs,* (Vol. and No. unknown).

Osborne, D. and Gaebler, T. (1993). *Reinventing Government. How the Entrepreneurial Spirit Is Transforming the Public Sector*. New York: Plume.

Renzulli, J.S. and Reis, S.M. (1997). *The Schoolwide Enrichment Model* (2nd ed.). Mansfield Center, CT: Creative Learning Press.

Reschovsky, A. and Imazeki, J. (1997). "The Development of School Finance Formulas to Guarantee the Provision of Adequate Education to Low-Income Students." In W.J. Fowler, Jr. (Ed.), *Developments in School Finance, 1997* (NCES 98–212). U.S. Department of Education, National Center for Education Statistics. Washington, DC: U.S. Government Printing Office.

U.S. Department of Education, National Center for Education Statistics. (2001). *Staff Data Handbook: Elementary, Secondary, and Early Childhood Education: 2001 Edition* (NCES 2001–305). Washington, DC: U.S. Government Printing Office.

U.S. Department of Education, Institute of Education Sciences. (1990). *Financial Accounting for Local and State School Systems*. Washington, DC: National Center for Education Statistics.

APPENDIX C: GLOSSARY OF ACRONYMS

GLOSSARY OF ACRONYMS

Included in this appendix are acronyms used throughout this handbook. Following the acronym is the definition.

AcSEC	Accounting Standards Executive Committee
ADA	Average Daily Attendance
ADM	Average Daily Membership
AICPA	American Institute of Certified Public Accountants
APB	Accounting Principles Board
ASBO	Association of School Business Officials
CAFR	Comprehensive Annual Financial Report
CCD	Common Core of Data
ESOL	English for Speakers of Other Languages
FASB	Financial Accounting Standards Board
FTE	Full Time Equivalent
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GFOA	Government Finance Officers Association
GPFS	General Purpose Financial Statements
HVAC	Heating, Ventilating, and Air Conditioning
IRS	Internal Revenue Service
K	Kindergarten
MD&A	Management's Discussion & Analysis
NCES	National Center for Education Statistics
NFES	National Forum on Education Statistics
NPEFS	National Public Education Financial Survey
PC	Personal Computer
PK	Pre-Kindergarten
PPB	Program and Planning ("Programming") Budgeting
PTA	Parent-Teacher Association
PTO	Parent-Teacher Organization
RSI	Required Supplementary Information
SAS	Statement of Accounting Standards
USDA	United States Department of Agriculture
ZBB	Zero-Base Budgeting

APPENDIX D: ILLUSTRATIVE FINANCIAL STATEMENTS FOR AN INDEPENDENT SCHOOL DISTRICT

For Sample audit reports for Iowa School Districts or Area Education Agencies, visit the Iowa Auditor of State website: http://www.state.ia.us/government/auditor/practice_aids/paids.htm

GASB 34 Committee Report

Overview

A GASB 34 committee was formed to develop a document in a collaborative effort for distribution of recommended guidelines for Iowa school districts and area education agencies for GASB 34 implementation. The committee included representatives from the Iowa Association of School Business Officials (IASBO), the Urban Education Network (UEN), the State Auditor's Office, the Departments of Management and the Department of Education. This appendix reflects the recommendations of the Committee, and does not represent an official department position.

Recommendations

The committee has prepared the following recommendations to assist local school districts and AEAs with the conversion to the new audit reporting requirements under GASB 34:

Sample Financial Statements

Attached are suggested sample financial statements, Statement of Activities and Statement of Net Assets. The Statement of Activities follows the four functional budgetary categories that are required by the State of Iowa for certified budgetary reporting purposes.

Program Revenues

Attached is a list of source codes, identifying whether these are reported as general or program revenues when preparing the entity-wide statement of activities. The general and program revenues list is only a recommendation. Each district and AEA will need to adjust where necessary for its local needs. This will not be updated for new revenues received.

Reporting Depreciation Expenditures

Expenditures for capitalized assets, i.e. equipment and buildings, are currently reported on a functional basis in the fund financial statements. In the fund financial statements, governmental funds are not required to report depreciation expense, while proprietary funds are.

In order to maintain consistency in reporting capital asset expenditures between the current fund financial statements and the newly adopted entity-wide financial statements under GASB Statement 34, (Statement of Net Assets, and Statement of Activities), the committee recommends:

Equipment

It is recommended that all depreciation for capitalized equipment expenditures be reported in the Statement of Activities under the same function to which it was originally charged.

Buildings and Improvements

It is recommended that all depreciation for capitalized expenditures for buildings and building improvements be reported in the Statement of Activities under "unallocated depreciation."

These reporting recommendations are considered consistent with recommendations from GASB and ASBO International. Buildings and building improvements are considered multi-functional thus reporting as unallocated is appropriate. Equipment depreciation can be reported by function as is it easy to determine the singular function in which it was originally purchased.

All historical capitalized assets that are not readily identified by their original function are appropriately reported as unallocated depreciation.

Cross-walking between the CAR and GASB 34 Financial Statements

It was determined that cross-walking between the CAR to the required GASB Statement 34 report format without manual intervention is not possible. It is recommended that Districts and AEAs work with their software providers to produce reports necessary for reporting under GASB Statement 34.

Fixed Assets

Capitalization Levels

It is recommended that districts and AEAs implement capitalization levels that would capture at least 80% of the value of assets. However, the threshold should not be greater than $5,000.

The capitalization level used for GASB 34 financial statements does not affect the recording and reporting of assets at the object level (equipment versus supplies) as required by Uniform Financial Accounting and the CAR.

Useful Lives

It is recommended that 50 years be used for buildings, 20 years for site improvements and other items such as portable classrooms, HVAC systems, roofing, etc., and 5 years for equipment items.

Depreciation Methods

It is recommended that the straight-line depreciation method be used and that assets be depreciated for a full year in the year of purchase. Districts and AEAs may consider depreciating to the nearest half-year in the year of purchase for material items.

Other Fixed Asset Issues

It is recommended that a physical inventory count be taken to obtain a complete list of assets. The omission of fixed assets and using other than historical value may require an adverse opinion in an audit.

Nutrition Fund Assets

The DE recommends nutrition fixed assets continue to be capitalized at the $300 to $500 range on the CAR until the federal report instructions or the handbook provide guidance for the new recommended level.

Reference Materials used by the Committee in Developing Recommendations:

- *GASB Statement No. 34 Implementation Recommendations for School Districts*, published by ASBO
- *What Your Should Know about Your School District's Finances*, Published by GASB
- *The Quick Guide to School District Financial Statements*, Published by GASB
- *Statement No. 34 of the Governmental Accounting Standards Board* (GASB), Published by GASB
- *Guide to Implementation of GASB Statement 34 on Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, Published by GASB
- *Governmental Accounting, Auditing, and Financial Reporting using the GASB 34 Model*, Published by GFOA

IDENTIFYING SOURCE CODES AS GENERAL AND PROGRAM REVENUES

Abbreviations:
Spec –Special Revenues
Extra –Extra Ordinary Revenues
Def – Default

			Program Revenue		
Source	**Description**	**General Revenue**	**Charges for Serv.**	**Operating Grants**	**Capital Grants**
1000	**Revenue from local sources**				
1100	Taxes levied/assessed by the LEA	X			
1120	Sales and use taxes	X			
1130	Income taxes	X			
1140	Penalties and interest on taxes	X			
1170	Excise Taxes	X			
1190	Other taxes	X			
1200	Revenue from local govern. units other than LEA's	X			
1300	Tuition		X		
1320	Tuition from other LEAs/AEAs within the State		X		
1330	Tuition from other government sources outside the State		X		
1340	Tuition from other private sources other than individuals		X		
1360	Tuition from summer school (IC 282.6)		X		
1370	Tuition from Adult & Continuing Education (IC 282.6)		X		
1400	Transportation fees		X		
1410	Transportation fees from individuals		X		
1420	Transportation fees from other LEAs/AEAs within the State		X		
1430	Transportation fees from other government sources outside the State		X		
1440	Transportation fees from other private sources other than individuals		X		
1460	Summer School Program Transportation		X		
1500	Earnings on investments	X			
1510	Interest on investments (IC 12C.7, 12C.14)	X			
1520	Dividends on investments	X			
1540	Earnings on investment in real property	X			
1530	Net increase (decrease) in the fair value of investments	X			
1600	Food services (IC chapter 283A)		X		
1610	Daily sales—reimbursable programs		X		
1620	Daily sales-non-reimbursable programs		X		
1630	Special food functions		X		
1650	Summer Food Programs		X		
1700	Student activities (IAC 281-12.6)				
1710	Admissions		X		
1720	Bookstore/supplies sales		X		
1730	Student organization membership dues and fees		X		
1740	Fees		X		
1750	Revenues from enterprise activities		X		
1790	Other student activity income		X		
1800	Community services activities		X		
1900	Other revenue from local sources				
1910	Rentals (IC 297.22, 297.9)		X		
1920	Contributions and donations from private sources	X (def)		X	X
1921	Gaming grants (direct or indirect from nonprofit)			X (def)	X
1922	First in the Nation in Education (FINE) (Former IC 257A.7)	X			
1930	Gains on sale of fixed assets (proprietary funds)	X(spec)			
1940	Textbook sales and rentals (IC chapter 301)		X		
1950	Services provided other LEAs/AEAs		X		
1960	Services provided other local governmental units & others		X		

			Program Revenue		
Source	**Description**	**General Revenue**	**Charges for Serv.**	**Operating Grants**	**Capital Grants**
1970	Operating revenues (proprietary funds)		X		
1980	Refund of Prior Year's Expenditures	X			
1990	Miscellaneous				
1991	Sale of Materials		X		
1998	Food Rebates and Coupon Refunding		X		
2000	**Revenue from intermediate sources**				
2100	Unrestricted grants-in-aid	X			
2200	Restricted grants-in-aid			X (def)	X
2210	County			X (def)	X
2211	Polk County Gaming Grant			X (def)	X
2220	AEA			X	
2230	City			X (def)	X
2250	College or University			X(def)	X
2260	Community College			X(def)	X
2800	Revenue in lieu of taxes	X			
2900	Revenue for/on behalf of the LEA	X			
3000	**Revenue from State sources**				
3100	Unrestricted grants-in-aid				
3110	State Aids	X			
3111	State Foundation Aid (IC chapter 257)	X			
3112	Instructional Support state aid (IC 257.20)	X			
3113	Special education deficit supplemental state aid	X			
3120	Shelter Care/Foster Care/Juvenile Detention Tuition Aid (IC 282.30, 282.31)	X			
3130	SBRC Grants in Aid	X			
3131	Transportation Assistance (IC 257.31(17(a)))	X			
3200	Restricted grants-in-aid				
3210					
3211	Educational excellence program - Phase I (IC 294A.6)			X	
3212	Educational excellence program - Phase II (IC 294A.9)			X	
3213					
3214	AEA flow through (IC 273.9)			X	
3215					
3216	Iowa Early Intervention Block Grant (Early Intervention) (Class Size Reduction) (IC chapter 256D)			X	
3217	Ambassador to Education			X	
3218	Extended School Year Grants (IC 256.22)			X	
3219	Advancement of Women & Minorities in Administrative Positions (IC 256.23)			X	
3220					
3221	Transportation aid for nonpublic students (IC 285.2)			X	
3222	Textbook aid for nonpublic students (IC 301.30)			X	
3223					
3224	Beginning Teachers Induction Programs (IC 256E.2)			X	
3225	Reading Recovery (IC 257B.1A(1), 294A.25)			X	
3226	Employability Skills Assessments Reimbursements (Work Keys) (IC 256.9(43))			X	
3227	State Decategorization Grant (D-CAT) (DHS) (IC 232.188)			X	
3228	Juvenile Delinquency Grant (DHS/Judicial System)			X	
3229	Truancy Intervention Grant / Juvenile Crime Prevention Grants (DHR) (IC 232.191)			X	
3230	At Risk program grants (IC 279.51)			X	
3240					
3241	Iowa Child Abuse Prevention Program, (DHS) (IC 235A.1)			X	
3242	Community Partnership (Tobacco Settlement) (DPH) (HF2555 and HF 2565)			X	
3243	Foreign language grants			X	

			Program Revenue		
Source	**Description**	**General Revenue**	**Charges for Serv.**	**Operating Grants**	**Capital Grants**
3244	Resources Enhancement and Protection Program (REAP education program grants) (IC 455A.19)			X	
3245	Iowa conservation education grants (IC 256.34, 455A.19)			X	
3246	Innovative Substance Abuse Prevention Grant				
3247				X	
3248	Education Technology Assistance (IC 256.33)			X	
3249	National Assessment of Educational Progress (NAEP) (IC 294A.25(13))			X	
3250	School Food Service Program			X	
3260					
3261	Vocational aid (IC chapter 258)			X	
3262					
3263	Iowa Regional High School Academies Initiative Planning Grants, (HF 2549, Section 3.16(b))			X	
3270					
3271	Iowa comprehensive petroleum underground storage tank fund grant (DNR) (IC 455B.474(2)(e))			X	
3272	Iowa disaster assistance (IC 29C.6(17))			X(def)	X
3273					
3274	Iowa Alliance for the Arts, LACES			X	
3275	Iowa Arts Council, Artist in the School			X	
3276	Public Health Community Grants (IC 232.190)			X	
3277	Labor Management Grant (IWD) IAC877-9.1.			X	
3278	Career Pathways Grant (IC 256.39)			X	
3279	Odyssey of the Mind			X	
3280					
3281	Telecommunications Council Grants (IC 8D.13(8))			X	
3282	Electronic data interchange (EDI) (Project Easier) (IC 294A.25(9))			X	
3283	DOT Outdoor Classroom Grants			X	
3284	Iowa Math and Science Coalition (IC 294A.25(14))			X	
3285	Geography Alliance (IC 294A.25(6))			X	
3286	SAFE Coalition Grant			X	
3287					
3288	Trees Forever			X	
3289	Earth Year 2000 grants (DNR)			X	
3300					
3311	Early Childhood Programs grant (Empowerment) (DHS) (IC 28.9(3))			X	
3312	School Ready Children grants account (Empowerment) (IC 28.9(2))			X	
3700	State grants-in-aid through other Agencies			X(def)	X
3800	Revenue in lieu of taxes	X			
3800	State Credits	X			
3801	Military credit (IC chapter 427)	X			
3802	Machinery & Equipment Replacement (IC 427B.18)	X			
3810	Other	X			
3811	Wetlands and prairie lands revenue in lieu of taxes (IC 427.1(23))	X			
3812	Open space property payment in lieu of taxes (DNR) (IC 465A.4)	X			
3900	Revenue for/on behalf of the LEA	X			
4000	**Revenue from Federal sources**				
4100	Unrestricted grants-in-aid direct from the Federal Government				
4101	Impact Aid (CFDA 84.041)	X			
4200	Unrestricted grants-in-aid from the Federal Government through the State				
4201	Title V (CFDA 84.298)			X	
4202	Title V Carryover (CFDA 84.298)			X	

			Program Revenue		
Source	**Description**	**General Revenue**	**Charges for Serv.**	**Operating Grants**	**Capital Grants**
4203	Flood Control Projects (CFDA 12.106)			X(def)	X
4300	**Restricted grants-in-aid direct from the Federal Government**				
4302	Impact Aid - Facilities Maintenance, (P.L. 81-815) (CFDA 84.040)			X	X
4308	Grants for Agricultural Research, Special Research Grants (CFDA 10.200)			X	
4314	Junior Reserve Officer's Training Corp (ROTC) (No CFDA number and not subject to A-133)			X	
4315	Opportunities for Youth – Youthbuild Program (CFDA 14.243)			X	
4318	Rural Outreach – Rural Network Development Program (Rural Health Outreach Grant) (CFDA 93.912)			X	
4319	Child Care Development Block Grants (CFDA 93.575)			X	
4321	Head Start (CFDA 93.600)			X	
4322	Bilingual Education Support Services (CFDA 84.194)			X	
4323	Bilingual Education – Program Development & Implementation (CFDA 84.288)			X	
4324	Foreign Language Assistance Grant (CFDA 84.293).			X	
4327	Indian Education – Assistance to Schools (CFDA 15.130)			X	
4328	Bilingual Education -- Systemwide Improvement Grant (CFDA 84.291)			X	
4329	Safe and Drug-Free Schools & Communities--National Programs (CFDA 84.184)			X	
4331	Cash in lieu of commodities in National School Lunch Program (CFDA 10.550)			X	
4335	Twenty-first Century Community Learning Centers (CFDA 84.287)			X	
4336	Fund for the Improvement of Education (Smaller Learning Communities Program) (CFDA 84.215)			X	
4337	Rehabilitation Services_Service Projects (Super Sports) (CFDA 84.128)			X	
4338	Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-Up) (CFDA 84.334)			X	
4500	**Restricted grants-in-aid from the Federal Government through the State**				
4501	Title I			X	
4501	Title I Grants to Local Education Agencies, (CFDA 84.010)			X	
4502	Private School - Capital Expenses (Title 1), (CFDA 84.216)			X(def)	X
4503	Migrant Education - Basic State Grants Program (Title I migrants), (CFDA 84.011)			X	
4506	Title I Program for Neglected & Delinquent Children Even FY (CFDA 84.013)			X	
4508	Title I Grants to Local Education Agencies, Carryover (CFDA 84.010)			X	
4509	Migrant Education Carryover (CFDA 84.011)			X	
4520	Individuals with Disabilities Education Act (IDEA) (formula grants)			X	
4530	Carl D. Perkins Vocational & Applied Technology Education Act of 1990			X	
4541	Abstinence Education (CFDA 93.235)			X	
4542	Juvenile Justice and Delinquency Prevention – State Grants, (DHR) (Student Advocate / Family Support Specialist) (CFDA 16.540)			X	
4543	Juvenile Justice and Delinquency Prevention – State Grants, (DHR) (Compliance with Federal Juvenile Justice and Delinquency Prevention Act) (JJDPA) (CFDA 16.540)			X	
4544	Juvenile Justice and Delinquency Prevention – State Grants, (DHR) (Community Collaboration Support) (CFDA 16.540)			X	
4545	Juvenile Justice and Delinquency Prevention – State Grants, (DHR) (Youth Input Programs) (CFDA 16.540)			X	

			Program Revenue		
Source	**Description**	**General Revenue**	**Charges for Serv.**	**Operating Grants**	**Capital Grants**
4546	Juvenile Accountability Incentive Block Grant (JAIBG) (Juvenile Drug Court) (DHR) (CFDA 16.523)			X	
4547	Consolidated Knowledge Development and Application Program (Reconnecting Youth in Iowa) (DPH) (CFDA 93.230)			X	
4548	Comprehensive School Reform Demonstration (CFDA 84.332)			X	
4549	Class Size Reduction (CFDA 84.340)			X	
4550	Child Nutrition Act			X	
4561	Adult Education - State Grant Program (Adult Basic Education) (ABE) (CFDA 84.002)			X	
4562	Byrne Formula Grant Program (Strengthening Families) (GASA, DE / ISU) (CFDA 16.579)			X	
4563	Eisenhower Professional Development State Grants (CFDA 84.281)			X	
4564	Immigrant Education (CFDA 84.162)			X	
4565	Education for Homeless Children and Youth (School Programs and Services for Homeless Children and Youth) (CFDA 84.196)			X	
4566	Public Assistance Grants (FEMA Disaster Assistance) (CFDA 83.544)			X(def)	X
4567	Even Start - State Education Agencies (CFDA 84.213)			X	
4568	Head Start (Iowa Head Start Collaborative) (CFDA 93.600)			X	
4569	Family Preservation & Support Services (DHS Decategorization – Federally funded) (CFDA 93.556)			X	
4571	Petroleum Violation Escrow Funds (DNR Energy), (No CFDA number, but A-133)			X	
4572	Learn and Serve America – School and Community Based Programs, (Next Steps) (CFDA 94.004)			X	
4573	Learn and Serve America – School and Community Based Programs (ComServ Iowa) (Service Learning) (CFDA 94.004)			X	
4574	Education and Human Resources (National Science Foundation President's Award for Excellence in Math & Science Teaching) (CFDA 47.076)			X	
4576	Star Schools, (IPTV, DE) (CFDA 84.203)			X	
4577	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems (AIDS Education) (CFDA 93.938)			X	
4578	State and Community Highway Safety (Safety Education) (CFDA 20.600)			X	
4579	Promotion of the Arts – Partnership Agreements (National Endowment for the Arts) (Cultural Affairs) (CFDA 45.025)			X	
4581	Goals 2000 - State and Local Education Systemic Improvement Grants (CFDA 84.276)			X	
4582	Fund for the Improvement of Education (Character Education) (CFDA 84.215)			X	
4583	Bilingual Education Support Services (CFDA 84.194)			X	
4584	Byrd Honors Scholarships (CFDA 84.185)			X	
4585	Technology Literacy Challenge Fund Grants (CFDA 84.318)			X	
4586	AmeriCorps (DED) (CFDA 94.006)			X	
4587	Senior Community Service Employment Program (SCSEP) (CFDA 17.235)			X	
4588	Employment Services and Job Training – Pilot and Demonstration Program (School to Work) (CFDA 17.249)			X	
4589	Secondary Education and Transitional Services for Youth with Disabilities (Project Iowa: Statewide Systems Change to Enhance (CFDA 84.158) (Del 1998B)			X	
4590					
4591	Safe and Drug Free Schools and Communities - State Grants, Even FY (CFDA 84.186)			X	
4592					

			Program Revenue		
Source	**Description**	**General Revenue**	**Charges for Serv.**	**Operating Grants**	**Capital Grants**
4593	Job Training Partnership Act (JTPA), (DED) (CFDA 17.250)			X	
4594	Safe and Drug Free Schools and Communities – State Grants, (Governor's Replication Grant) (CFDA 84.186)			X	
4595	Safe and Drug Free Schools and Communities – State Grants (D.A.R.E.) (CFDA 84.186)			X	
4596					
4597	Employment Services and Job Training – Pilot and Demonstration Program (Work Start) (CFDA 17.249)			X	
4598	Rehabilitation Services - Vocational Rehabilitation Grants to States (Cooperative Program for Youth with Disabilities in Transition to Competitive Employment) (TAP) (CFDA 84.126)			X	
4599	Public Health and Social Services Emergency Fund (Prevention Flood Relief Grant) (DPH) (CFDA 93.003)			X	
4600	**Additional Restricted grants Grants-in aid from the Federal Government through the State**				
4610	Health and Human Services Grants			X	
4611	Child Care Development Block Grants (DHS) (CFDA 93.575) and Child Care Mandatory and Matching Funds of the Child Care and Development Fund (DHS) (CFDA 93.596) Note: DHS does not give districts enough information to split the child care grant into the two components.			X	
4612	Refugee and Entrant Assistance – Discretionary Grants (Refugee Service Impact Grants) (CFDA 93.576)			X	
4613	State Children's Insurance Program (HAWK –I) (DHS) (CFDA 93.767)			X	
4614	Drug Abuse Research Programs (Capable Families and Youth Program) (ISU) (CFDA 93.279)			X	
4615	Temporary Assistance for Needy Families (TANF) (DHS) (Empowerment) (CFDA 93.558)			X	
4633	Medical Assistance Program (Medicaid Administration or time study) (CFDA 93.778,			X	
4634	Medical Assistance Program (Medicaid Direct Services Reimbursement) (CFDA 93.778, not subject to A-133 since Districts are vendors, not subrecipients)			X	
4640	Department of Education Grants				
4641	Reading Excellence Program (CFDA 84.338)			X	
4662	Fund for the Improvement of Education (Iowa Demonstration Construction Grants) (CFDA 84.215)				X
4670	Other Agency Grants				
4671	State Administrative Matching Grants for Food Stamp Program (BASICS - Building and Strengthening Iowa Community Support for Nutrition and Health) (DPH) (CFDA 10.561)			X	
4700	**Grants-in aid from the Federal Government through other agencies**				
4710	Through an Iowa LEA			X(def)	X
4720	Through an AEA			X(def)	X
4731	Community Development Block Grant (CFDA 14.218)			X(def)	X
4752	Aerospace Education Services Program (Iowa Space Grant) (CFDA 43.001)			X	
4760	Through a Community College			X(def)	X
4800	**Revenue in lieu of taxes**				
4810	Payments in Lieu of Taxes	X			
4900	**Revenue for/on behalf of the LEA/AEA**				
4950	Child Nutrition Act				
4951	Food Distribution (Child Nutrition Act, Commodities) (CFDA 10.550)			X	
5000	**Other sources (governmental funds only)**				
5100	**Issuance of bonds**				
5110	Bond principal	X(spec)			
5120	Premium or discount on issuance	X			

			Program Revenue		
Source	**Description**	**General Revenue**	**Charges for Serv.**	**Operating Grants**	**Capital Grants**
5130	Accrued interest	X			
5200	**Interfund transfers**	**X**			
5300	**Proceeds from dispostal of real or personal property**	**X**			
5400	**Proceeds from Loans greater than 12 months**	**X**			
5410	Loan principal	X			
5420	Premium or discount	X			
5430	Accrued Interest	X			
5500	**Proceeds from Capital Leases/Lease Purchases**	**X**			
5600	**Other Long-term debt proceeds**	**X**			
6300	**Special Items**				
6310	Reorganization settlements	X(spec)			
6320	Significant Sales of real property (IC 297.22) (PPEL Fund only)	X(spec)			
6330	Significant Sales of capital assets	X (spec)			
6400	**Extraordinary Items**				
6410	Compensation for loss of fixed assets	X(extra)			
6420	Significant Bequests or donations from private sources	X (extra)		X	X

YOUR SCHOOL DISTRICT

STATEMENT OF NET ASSETS
AS OF JUNE 30,XXXX

FOR EXAMPLE ONLY - FINAL SAMPLE SUBJECT TO CHANGE

		GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL ACTIVITIES
ASSETS:				
CURRENT ASSETS:				
CASH AND CASH EQUIVALENTS	100-106	0	0	0
INVESTMENTS	110-115	0	0	0
TAXES RECEIVABLE, NET	120-129	0	0	0
DUE FROM OTHER GOVERNMENTS	140-149	0	0	0
OTHER RECEIVABLES	150-169	0	0	0
NET INTERNAL BALANCE	130-139, 400-409	0	(0)	0
INVENTORY AND PREPAID EXPENSES	170-189	0	0	0
OTHER CURRENT ASSETS	190-195, 198-199	0	0	0
TOTAL CURRENT ASSETS		0	0	0
NONCURRENT ASSETS:				
RESTRICTED CASH AND CASH EQUIVALENTS	196 & 197	0	0	0
CAPITAL ASSETS:				
LAND	210-229	0	0	0
CONSTRUCTION IN PROGRESS	270-279	0	0	0
BUILDINGS	230-239	0	0	0
LESS: ACCUMULATED DEPRECIATION		(0)	(0)	(0)
EQUIPMENT	240-249	0	0	0
LESS: ACCUMULATED DEPRECIATION		(0)	(0)	(0)
WORKS OF ART & HISTORICAL TREASURES	250-259	0	0	0
LESS: ACCUMULATED DEPRECIATION		(0)	(0)	(0)
INFRASTRUCTURE	260-269	0	0	0
LESS: ACCUMULATED DEPRECIATION		(0)	(0)	(0)
TOTAL NON-CURRENT ASSEST		0	0	0
TOTAL ASSETS		0	0	0
LIABILITIES:				
CURRENT LIABILITIES:				
ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES	400-499 EXCEPT 424 & 480-489	0	0	0
DEFERRED REVENUE	480-489	0	0	0
CURRENT PORTION OF L/T OBLIGATIONS	510-599	0	0	0
TOTAL CURRENT LIABILITIES		0	0	0
NON-CURRENT LIABILITIES:				
NON-CURRENT PORTION OF L/T OBLIGATIONS	510-599 BALANCE	0	0	0
TOTAL NON-CURRENT LIABILITIES		0	0	0
TOTAL LIABILITIES		0	0	0
NET ASSETS:				
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	740-749	0	0	0
RESTRICTED FOR:				
DEBT SERVICE	FUND 40 750-759	0	0	0
CAPITAL PROJECTS	FUNDS 30-39 750-759	0	0	0
OTHER ACTIVITIES	OTHER FUNDS 750-759, 714-719	0	0	0
UNRESTRICTED	711-713, 720-739, 760-769	0	0	0
TOTAL NET ASSETS		0	0	0

EXCLUDED FROM ABOVE ARE TRUST AND AGENCY FUNDS

YOUR SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, XXXX

FOR EXAMPLE ONLY - FINAL SAMPLE SUBJECT TO CHANGE

FUNCTIONS/PROGRAMS		PROGRAM REVENUES				NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIB.	CAPITAL GRANTS AND CONTRIB.	GOVERNMENT ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
INSTRUCTION:							
REGULAR INSTRUCTION 1000-(100 PROGRAMS)	0	0	0	0	0	0	0
SPECIAL INSTRUCTION 1000-(200 PROGRAMS)	0	0	0	0	0	0	0
OTHER INSTUCTION 1000-(300 THRU 599 PROG)	0	0	0	0	0	0	0
TOTAL INSTRUCTION	0	0	0	0	0	0	0
SUPPORT SERVICES:							
STUDENT SERVICES 2100	0	0	0	0	0	0	0
INSTRUCTIONAL STAFF 2200	0	0	0	0	0	0	0
ADMIN SERVICES 2300 THRU 2599	0	0	0	0	0	0	0
OPERATION & MAINTEN 2600	0	0	0	0	0	0	0
TRANSPORTATION 2700	0	0	0	0	0	0	0
CENTRAL SUPPORT 2900 THRU 2999	0	0	0	0	0	0	0
TOTAL SUPPORT SERVICES	0	0	0	0	0	0	0
NON-INSTRUCTIONAL PROGRAMS:							
NON-INSTRUCT SERV 3300 THRU 3399	0	0	0	0	0	0	0
TOTAL NON-INSTRUCT PROGRAMS	0	0	0	0	0	0	0
OTHER EXPENDITURES:							
FACILITIES ACQUIS. 4000	0	0	0	0	0	0	0
INTEREST ON L/T DEBT 5000, 832	0				0		0
AEA FLOWTHRU 6100, 961	0		0		0		0
DEPREC UNALLOCATED 4000	0	0	0	0	0		0
TOTAL OTHER EXPENDITURES	0	0	0	0	0		0
TOTAL GOVERNMENTAL ACTIVITIES	0	0	0	0	0		0
BUSINESS TYPE ACTIVITIES:							
NON-INSTRUCTIONAL PROGRAMS:							
FOOD SERVICES 3100	0	0	0	0	0	0	0
OTHER PROGRAMS 3200	0	0	0	0	0	0	0
TOTAL NON-INSTRUCTIONAL PROGRAMS	0	0	0	0	0	0	0
TOTAL BUSINESS TYPE ACTIVITIES	0	0	0	0	0	0	0
TOTAL SCHOOL DISTRICT	0	0	0	0	0	0	0

YOUR SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, XXXX

FOR EXAMPLE ONLY - FINAL SAMPLE SUBJECT TO CHANGE

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIB.	PROGRAM REVENUES: CAPITAL GRANTS AND CONTRIB.	NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS: GOVERNMENT ACTIVITIES	NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS: BUSINESS TYPE ACTIVITIES	NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS: TOTAL
GENERAL REVENUES:							
TAXES:							
TAXES LEVIED FOR GENERAL PURPOSES					0	0	0
TAXES LEVIED FOR DEBT SERVICE					0	0	0
TAXES LEVIED FOR A SPECIFIC PURPOSE					0	0	0
INCOME SURTAX, LOCAL OPTION, MOBILE HOME TAXES					0	0	0
FEDERAL AND STATE AID, UNRESTRICTED:							
GENERAL					0	0	0
OTHER					0	0	0
INTEREST EARNINGS					0	0	0
MISCELLANEOUS REVENUES					0	0	0
SUBTOTAL, GENERAL REVENUES					0	0	0
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE SPECIAL ITEMS					0	0	0
TRANSFERS					0	0	0
SPECIAL ITEMS - GAINS AND SALES					0	0	0
EXTRAORD. ITEMS - REORG SETTLEMENTS					0	0	0
TOTAL GENERAL REVENUES, TRANSFERS, SPECIAL AND EXTRAORDINARY ITEMS					0	0	0
CHANGES IN NET ASSETS					0	0	0
NET ASSETS - BEGINNING					0	0	0
NET ASSETS - ENDING					0	0	0

EXCLUDED ABOVE ARE LONG TERM DEBT PRINCIPAL, ALL INTERFUND
TRANSFERS, AND INTERNAL SERVICE FUNDS AND TRUST FUNDS

APPENDIX E: CRITERIA FOR DISTINGUISHING EQUIPMENT FROM SUPPLY ITEMS

SUPPLIES AND EQUIPMENT

This appendix discusses the importance of distinguishing between supplies and equipment and suggests criteria for making that decision.

REASONS FOR DISTINGUISHING BETWEEN SUPPLIES AND EQUIPMENT

Education agencies have found it useful to distinguish between supplies and equipment for several reasons:

- The distinction may assist in deciding how to control or keep track of an item. For example, some funding programs require that all equipment items be inventoried annually. At the same time, many school districts will inventory certain items, regardless of whether they are equipment or whether the districts are required by law to do so.
- The distinction may bear on insurance decisions. Supplies and movable equipment are usually insured as part of the contents of buildings, whereas built-in equipment is usually insured as part of the structure.
- The distinction is important in identifying the funds with which to purchase a given item. For example, some funds, such as bond funds, typically cannot be used to purchase supplies, while other funds might exclude the purchase of equipment.
- The distinction can affect calculations of cost of operations and cost per student. Although most school districts include expenditures for supplies in calculating current operating costs, many school districts treat equipment differently. Some include all expenditures for replacement equipment in the current operating cost total, excluding the cost of new and additional equipment. Others prorate the cost of all equipment over several years. In both cases, the incorrect classification of supplies or equipment items can affect the resulting cost calculations.
- The distinction can affect the amount of State or Federal aid allocated to a school district. Several funding sources use per-student costs as part of their funding formula (see the preceding paragraph). Most funding programs limit the ways in which their funds may be spent, sometimes excluding either supplies or equipment from the list of eligible purchases.

There are two basic approaches to distinguish between supplies and equipment in the decision-making situations just mentioned:

- Adopt a predetermined list of items, classifying each entry as either a supply or an equipment item.
- Adopt a set of criteria to use in making its own classification of supply and equipment items.

Each approach is discussed in the following text, although the second option is the one currently used.

THE DISADVANTAGES OF A SUPPLY/EQUIPMENT LIST

State Departments of Education and School Districts maintain detailed lists of material items used in school district operations, identifying each entry as either a supply or an equipment item. These lists are helpful in many situations, but they have at least four limitations in financial

reporting:

- Various state and federal aid programs offer supply/equipment categorizations that conflict with one another.
- Technological and philosophical changes in education continue at an ever-increasing pace. It is impractical to list and classify the thousands of materials and devices used in school districts today, particularly in the vocational education curricula. Therefore, without periodic updates, supply/equipment lists quickly become obsolete.
- Classifications of certain items change because of changes in price or technology. For example, most school districts classified hand-held, mini-calculators as equipment several years ago when they cost over $100. Now that the price of these items has dropped to the $5 to $25 range, some school districts are changing the classification of these items to supplies;
- Users tend to treat the lists as comprehensive and up-to-date, even when warned otherwise.

For these reasons, developing a universally applicable and easily updateable supply/equipment list is impractical. Instead of presenting a list that might raise as many issues as it would propose to resolve, this guide suggests that the distinction between supplies and equipment can better be made through consistent, statewide application of uniform criteria.

CRITERIA FOR DISTINGUISHING SUPPLY AND EQUIPMENT ITEMS

At one time, the federal accounting handbook contained lists of both supplies and equipment. Such lists can never be comprehensive or exhaustive and quickly become outdated. To resolve the need to differentiate supplies and equipment without exhaustive lists, the NCES has proposed a set of criteria for distinguishing equipment from supply items, listed in priority order. (See figure 2). At the first "no," the item is declared to be a supply, not equipment.

Equipment Items

An equipment item is any instrument, machine, apparatus or set of articles that meets all of the following criteria:

1. It retains its original shape, appearance, and character with use.
2. It does not lose its identity through fabrication or incorporation into a different or more complex unit or substance.
3. It is nonexpendable; that is, if the item is damaged or some of its parts are lost or worn out, it is more feasible to repair the item than to replace it with an entirely new unit.
4. Under normal conditions of use, including reasonable care and maintenance, it can be expected to serve its principal purpose for at least one year.

Supply Items

An item should be classified as a supply if it does not meet all the stated equipment criteria.

DISTINGUISHING BETWEEN BUILT-IN AND MOVABLE EQUIPMENT

Should a school district find it useful to classify certain equipment into built-in and movable categories, and unless otherwise bound by federal, state, or local law, the following criteria should be used.

A *built-in* equipment item meets these criteria:

- It is an integral part of a building; that is, it is permanently fastened to the building, functions as a part of the building, and causes appreciable damage to the building if it is removed.
- It is permanently attached to a site and functions as part of the site (except buildings or other structures).

Built-in equipment may be incorporated into a building at the time the building is erected or at a later date. Built-in equipment is sometimes referred to as fixed equipment.

Movable equipment consists of items that meet these criteria:

- They are transportable from one location to another without appreciable damage or change to the location from which they are removed or to the location where they are installed.
- They do not function as integral parts of the building or site and are not permanently fastened or attached to the building or site.

A piece of equipment that is simply bolted or screwed to the floor, such as a heavy lathe or desk, and that can be moved as a unit once these fasteners have been removed, is movable equipment. The term *movable* refers to the permanency of installation and not to size or weight.

FIGURE 2. CRITERIA FOR DISTINGUISHING EQUIPMENT FROM SUPPLY ITEMS

At the first "NO", the item is declared to be a supply, not equipment. If all are "YES", the item is declared to be equipment.

CRITERIA FOR DISTINGUISHING EQUIPMENT FROM SUPPLY ITEMS
(Listed in Priority Order)

Lasts more than one year → NO
↓
YES

Repair rather than replace → NO
↓
YES

Independent unit rather than being incorporated into another unit item → NO
↓
YES

Cost of tagging and inventory small percent of item cost → NO
↓
YES

Exceeds minimum dollar value mandated by State or other Governmental unit (with due regard for group control of some items) e.g. $300.00 → NO

↓
YES

If all YES
item is declared
to be EQUIPMENT.
Use Object Codes 730-739.

At first NO
item is declared
to be a SUPPLY.
Use Object
Codes 600-699.

This diagram was conceived by James Bliss, Ph.D., Assistant Superintendent for Business Services, Grandview Consolidated School District, Grandview, Missouri, and Stuart Graf, CPA, of the American Institute for Certified Public Accountants (AICPA).

SELECTING THE LEVEL OF CONTROL FOR SUPPLIES AND EQUIPMENT

School district managers carry great responsibilities for stewardship of the funds and property of the school district. They are responsible for tracking and periodically reporting on the condition of these financial and physical resources. A major decision in devising methods for carrying out these responsibilities is selecting the level of control to be applied to various kinds of supplies and equipment.

The level of control applied to any supply or equipment item can be thought of as the amount of time and effort spent in keeping track of the item and the amount of information kept about the condition and whereabouts of the item. The level of control applied to a supply or equipment item usually falls into one of three broad categories:

1. ***Little or no control after purchase.*** Items in this category are of such little value that the cost of implementing procedures to safeguard them, monitor their use, or track their location and condition are not justifiable. Such items include staplers and wastebaskets.
2. ***Group control.*** Items in this category are of little individual value but taken as a group are valuable enough to justify the cost of providing some type of control over their safety, use, location, and condition. Such items include chairs and school desks.
3. ***Individual control.*** Items in this category are of sufficient value to justify applying control measures to each individual item. Such items usually include all relatively expensive pieces of equipment, although the minimum value of such equipment may vary with the school district.

Selecting the level of control to apply to an item is a straightforward process. Often, certain kinds of control are required by law or standard practice. For example, a federal funding program might require that all items purchased from these funds be inventoried and reported on periodically. Similarly, some funding programs require that all items of a certain minimum value must be inventoried and reported on periodically. The school district may decide on its own to inventory certain kinds of items, regardless of their funding source, simply because these items or the inventory information are valuable to the school district. The level of control can range from an annual inventory to daily check-out from and return to a central storage room or station. When applied to a given item, the level should be based on the relative importance of the item to the overall operation of the school district and is usually in direct proportion to the item's purchase, replacement, or repair cost.

It is important to note that deciding how to control an item is relevant not only to equipment but also to certain stocks of supplies. For example, any large stock of supplies—such as instruction supplies, food, or custodial supplies—should be periodically counted and checked for damage, deterioration, and pilferage. Thus, the level-of-control issue applies to all tangible goods of any significant value to the school district.

APPENDIX F: Guidance on Crediting Expenditures

When to Credit an Expenditure Account Rather Than a Revenue Account

In most all situations, including whole grade sharing and shared contracts, receipts to a school district are shown on the books as revenues and are not used to reduce an expenditure account. There are a few exceptions to this if the transaction occurs within the same fiscal year as the expenditure:

1) To correct an error in an expenditure line item.
2) To show a true refund from the original vendor such as for a return of merchandise.
3) To show a true refund that would have come from the original vendor except that Iowa law requires districts to obtain refunds from the state such as gas tax and construction sales tax refunds.
4) To show a transaction involving the resale of an inventory-type item on a nonroutine basis, where the inventory item was never placed in service by the district. An example would be one district purchasing 500 typewriters bulk to take advantage of lower prices, then "reselling" 300 at cost to neighboring districts.
5) To show a transaction involving a relatively straightforward agency relationship in which the district (or fund) provides no service other than acting as a fiscal intermediary. An example would be when a district pays cooks with regular payroll from the General Operating Fund, then makes transfers from the School Nutrition Fund to cover those expenditures. In that case, the expenditure accounts in the Operating Fund are credited and Operating Fund cash debited to reflect the transfer of money from the School Nutrition Fund.

In each of these cases, however, the manner in which the transaction is treated is a matter of materiality. That is, for relatively immaterial amounts, the transaction could be treated by recording a revenue, even though it might fall into one of the above categories.

Shared contracts and tuition-related sharing do not fall into the above categories. In these cases, for example, the district has hired a curriculum coordinator and is "selling" the services of that coordinator to another district or the district is "selling" a commodity it produced called "education" to another district. The first district is not acting as a fiscal intermediary nor is it receiving a true refund from the original vendor, and, therefore, all such receipts are revenues.

If the board of directors requests that the financial reports which they use for their own management purposes be shown with expenditures net of sharing receipts, this is allowable as long as these unofficial reports are appropriately footnoted. However, official financial reports, audits, and the LEA Certified Annual Report shall not be reported net.

APPENDIX G:
History and Acknowledgements for the Federal Handbooks

Uniform Financial Accounting for Iowa LEAs and AEAs, 2004 Edition, was adapted, with minor revisions for Iowa law, from the following publication:
U.S. Department of Education, National Center for Education Statistics. *Financial Accounting for Local and State School Systems: 2003 Edition* (NCES 2004–318), by the Core Finance Data Task Force, The National Forum on Education Statistics. Project Officer: Frank Johnson. Washington, DC: 2003.

A complete copy of the federal handbook can be viewed on the website of the U.S. Department of Education.

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The National Center for Education Statistics (NCES) is the primary federal entity for collecting, analyzing, and reporting data related to education in the United States and other nations. It fulfills a congressional mandate to collect, collate, analyze, and report full and complete statistics on the condition of education in the United States; conduct and publish reports and specialized analyses of the meaning and significance of such statistics; assist state and local education agencies in improving their statistical systems; and review and report on education activities in foreign countries.
NCES activities are designed to address high priority education data needs; provide consistent, reliable, complete, and accurate indicators of education status and trends; and report timely, useful, and high quality data to the U.S. Department of Education, the Congress, the states, other education policymakers, practitioners, data users, and the general public.
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November 2003
The NCES World Wide Web Home Page address is **http://nces.ed.gov**
The NCES World Wide Web Electronic Catalog is **http://nces.ed.gov/pubsearch**

This handbook is one in a series published by the National Center for Education Statistics (NCES). It continues a half-century's tradition of sharing the best practices in data collection and reporting with the schools, school districts, and state agencies that are our partners in providing good information to manage, assess, and guide elementary and secondary education.
In addition to this volume, the data handbooks include the *Student Data Handbook: Elementary, Secondary and Early Childhood Education* and the *Staff Data Handbook: Elementary, Secondary and Early Childhood Education.* The NCES data handbooks are updated annually; current versions are available online at http://nces.ed.gov/pubsearch/index/asp.
The data handbooks do not include every possible data element. They are intended, rather, as a

comprehensive set of data element definitions and suggestions for structuring a paper or an electronic record system. Every attempt has been made to include all data elements routinely required for federal education reporting. The rationale for this inclusion is that if these items are part of a comprehensive information system used for the daily management of schools and districts, they can be reported with minimal additional burden on teachers and principals.

The NCES and representatives of state and local education agencies, as well as members of the research and statistical communities, have worked together through the National Cooperative Education Statistics System to improve the quality and comparability of data used for education policy decisions at all levels of government. This handbook, like other data handbooks published by the NCES, was written through the efforts of education professionals from a range of backgrounds. Their input ensures that such products are useful for managing the daily business of schools and districts as well as for identifying the information needed for program monitoring and statistical purposes.

This 2003 revision of the National Center for Education Statistics (NCES) handbook, *Financial Accounting for State and Local School Systems*, reflects the many changes that have taken place since its initial publication in 1980 and modest update in 1990. It is anticipated that this handbook will receive periodic updates to ensure that contemporary issues are regularly incorporated into the accounting guidance for schools. The online version of this handbook will be updated as revisions are approved.

This handbook represents a national set of standards and guidance for school system accounting through January 2003, incorporating guidance from Governmental Accounting Standards Board (GASB) statements through 39. Its purpose is to help ensure that education fiscal data are reported comprehensively and uniformly. To be accountable for public funds and to assist educational decisionmakers, all school financial reports need to contain the same types of financial statements for the same categories and types of funds and account groups. This revised and restructured guidance focuses on

- defining account classifications that provide meaningful financial management information for its users;
- complying with generally accepted accounting principles (GAAP), established by the GASB;
- recognizing the changes that have taken place in technology, safety, and security; and
- supporting federal reporting requirements.

This revision was prepared with guidance from a national panel of experts representing national accounting firms, accounting board officials, and practitioners. A working Task Force of the National Forum on Education Statistics (NFES) included national, state, and local education accounting practitioners. The members of the review panel and the Task Force are listed on the opening pages of this handbook.

The statutes and regulations regarding school accounting differ from state to state. Those differences may require states, school districts, and schools to adapt the guidance that appears in this handbook. However, consistent practices and terminology are critical to accountability for government funds. The accounting methods must be capable of producing financial reports that conform with GAAP and with the legal requirements of each state, if the two differ.

ACKNOWLEDGMENTS
This document is the result of many individuals from around the country who generously contributed their knowledge, time and commitment.

A special thanks goes to the NCES National Forum on Education Statistics, Core Finance Data Task Force. Under the leadership of Linda Champion, this Task Force embraced the task of reconceptualizing the structure and content of this handbook and systematically rewriting nearly the entire text, incorporating new chapters and reviewing and revising the account code structure and account code definitions. Through tremendous perseverance, a sizeable and diverse knowledge base, and intense discussions spanning over 2 years, this handbook has been transformed into a document that is not only updated, but is also user friendly for a variety of potential readers. A list of the members of this Task Force appears on the next page.

Special thanks are given to David Thompson from Kansas State University for his expertise and insight into writing the Activity Fund Guidelines chapter and for his review and comments on the entire handbook. Special thanks are also given to David Morris from the Florida Department of Education for his experience, insight and knowledge in writing the Cost Accounting and Reporting for Educational Programs chapter.

Thanks are extended to Greg Higgins and George Scott from Deloitte & Touche whose work as subcontractors for American Institutes for Research was the foundation for much of the writing of chapters 3 through 5, including assistance in the revision of account codes in this handbook. Kenneth Lee Carter, Vice President and Partner of Capital Management of the Carolinas, and Gregory Allison of the Institute of Government, University of North Carolina, acted as thirdparty technical reviewers to ensure that the entire document met the latest accounting standard changes.

A sincere thanks is extended to the members of the Information Committee and the Extended Reviewing Committee for providing the initial input and guidance for what was then to be only a set of addendums to the 1990 version of this handbook. Their insight and suggestions were the major, first step forward in revising this handbook after a decade. A list of the members of these committees appears on the next page.

Steven Honegger, Senior Analyst from the American Institutes for Research coordinated the work of the various authors and directed work of subcontractors for this handbook. He provided guidance to resolve potentially problematic issues and provided recommended changes and additions for this handbook.

Beginning with the work of William Fowler, Jr., and the establishment of the Finance Handbook Information Committee and the Finance Handbook Extended Reviewing Committee, and ending with the NCES Common Core Data Task Force, this process has been a collegial and collaborative effort involving representatives from federal, state, and local education agencies, public and private educational institutions, and national professional associates, as well as education practitioners and researchers.

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Other organizations that were part of the Extended Reviewing Committee but which did not designate a specific representative include:
National School Board Association
Council of Chief State School Officers

APPENDIX H: Journal Entries for Selected Transactions

See separate document on the Iowa Department of Education Website for the Appendix H.

APPENDIX I: Quick Reference List to UFA Chart of Account Codes

Effective July 1, 2004

See separate document on the Iowa Department of Education Website for the Appendix I.