

## CHAPTER 7

### FINANCIAL ACCOUNTING

#### Uniform Financial Accounting (UFA)

One of the duties of the department of education is to prepare forms and procedures as necessary to be used by AEA boards, 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 AEA board, 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))**. The procedure prescribed by the department of education and required of school districts and AEAs is use of the most current edition of *Uniform Financial Accounting for Iowa School Districts and AEAs*. This manual is adapted from a federal handbook and is the standard reporting system that is required of all states and U.S. territories. The SBRC and the state board shall specify procedures and require the school districts and AEAs to conform to generally accepted accounting principles (GAAP) commencing with the school year beginning July 1, 1996 **(257.31(4))**. *Uniform Financial Accounting for Iowa School Districts and AEAs* is the correct Governmental GAAP accounting and reporting required of Iowa school districts and AEAs. The manual is available on the department of education's website.

The department of education is authorized to prescribe a uniform system of accounting. That system is Uniform Financial Accounting **(OAG #83-12-1(L))**.

Two comprehensive annual financial reports shall be issued by every school district and AEA: the annual audit prepared in accordance with Iowa Code chapter 11 and the annual Certified Annual Report (CAR-COA) prepared in accordance with Iowa Code sections 291.10 and 256.9(18). Interim financial statements should be prepared to facilitate management control of financial operations, and shall be prepared to comply with Iowa Code sections 291.7, 279.33, and 12B.11. It is the officers of the district who file and attest to the accuracy of reports required by Code (*board president, board secretary, board treasurer, and superintendent*). The AEA board shall provide data and prepare reports as directed by the director of the Department of Education **(273.3(3))**.

The basic philosophy of Uniform Financial Accounting (UFA) includes:

1. The chart of accounts encourages full disclosure of the financial position of the district/AEA. Emphasis is placed on the accurate classification of financial transactions. Expenditures are recorded in the accounting categories applicable, regardless of the implications of some of those decisions. Districts and AEAs should never allocate, estimate, or use cost accounting in governmental accounting accounts.
2. Comprehensiveness of financial reporting is encouraged. The district/AEA incorporates all financial activities into a single accounting and reporting system for full disclosure. The account classifications encourage this procedure. Accounts for such activities as food services, student activities, community services and business-like enterprises are all included in the financial reports of the district/AEA.
3. Simplified reporting is encouraged. GAAPFR encourages using the minimum number of funds necessary for legal and operational use. Only the minimum number of funds consistent with legal and operating requirements should be established, since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.
4. Financial reporting emphasizes the results of district/AEA operations more than the resources applied.
5. The account classification system is flexible: it meets the needs of both small and large districts/AEA's while retaining comparability of reported data. Uniform Financial Accounting includes a minimum list of accounts essential for federal and state reporting—called a “minimum chart of accounts.” The Uniform Financial Accounting system also provides a variety of optional classifications for districts/AEA's interested in a more comprehensive approach to financial accounting and reporting;
6. The classification of accounts and the reporting structure remain in accordance with generally accepted accounting principles (GAAP). The district/AEA shall follow *Uniform Financial Accounting for Iowa School Districts and AEAs* and is not authorized to interpret GAAP accounting or reporting outside of Uniform Financial Accounting as provided by the Department of Education.

#### Generally Accepted Accounting Principles (GAAP)

School districts and AEAs are required to conform to GAAP commencing with the school year beginning July 1, 1996 **(257.31(4))**. The department of education has provided the *Uniform Financial Accounting for Iowa School Districts and AEAs* manual to include GAAP requirements as they apply to Iowa school districts and AEAs.

Legal provisions may conflict with GAAP. Statement 1 of GAAFR says, "Where financial statements prepared in conformity with GAAP do not demonstrate finance-related legal and contractual compliance, the governmental unit should present such additional schedules and narrative explanations in the comprehensive annual financial report as may be necessary to report its legal compliance responsibilities and accountabilities. In extreme cases, preparation of a separate legal-basis special report may be necessary....Conflicts between legal provisions and GAAP do not require maintaining two accounting systems. Rather, the accounting system shall be maintained on a legal compliance basis [CAR-COA/Uniform Financial Accounting], but should include sufficient additional records to permit GAAP-based reporting [audits]." Funds 01 and 02 have been provided for the purpose of these additional records. Otherwise, *Uniform Financial Accounting for Iowa School Districts and AEAs* contains the accounts and procedures required by GAAP as they apply to Iowa school districts and AEAs and is updated as new statements are released by the governmental accounting standards board (GASB). Uniform Financial Accounting is written to conform to GAAP, a uniform minimum standard of and guidelines for financial accounting and reporting. For districts/AEAs, adherence to GAAP as written into Uniform Financial Accounting implies that their financial reports contain the same types of financial statements for the same categories and types of funds and account groups. Such conformity will enhance the comparability of district/AEA financial reporting. When GAAP provides more than one method for accounting for a financial transaction, the Department of Education shall determine which method will be used for school districts and AEAs to ensure consistency in reporting as required by Iowa Code **256.9(18)**.

The Governmental Accounting Standards Board (GASB) defines financial reporting as the means of communicating financial information to users (GASB Statement 1, Paragraph 32). For this communication to be effective, financial information must have the following basic characteristics:

- **Understandability.** Information should be clear, but not oversimplified. Explanations and interpretations should be included where necessary.
- **Reliability.** Information should be verifiable and free from bias. It should be comprehensive; thus, nothing should be omitted that is necessary to accurately represent events and conditions. However, nothing should be included that might 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 decisionmaking.
- **Consistency.** Once a principle or a method is adopted, it should be used for all similar events and conditions. If a change is made, the nature of and reason for the change, as well as its effects, 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 because of arbitrary implementation (GASB Statement 1, Paragraphs 63 through 68).

Each board shall adopt by written policy a system for maintaining accurate records. The system shall provide for recording and maintaining the minutes of all board meetings, coding all receipts and expenditures, and recording and filing all reports required by the Iowa Code or requested by the director of the department of education. Financial records of school districts shall be maintained in a manner as to be easily audited according to accepted accounting procedures (**IAC 281—12.3(1)**).

The board shall develop and maintain a policy manual which provides a codification of its policies, including the adoption date, the review date, and any revision date for each policy. Policies shall be reviewed at least every 5 years to ensure relevance to current practices and compliance with the Iowa Code, administrative rules and decisions, and court decisions (**IAC 281--12.3(2)**).

## **Management Information Systems (MIS)/Data Warehouse**

At one time it was common to have stand alone data systems. However, today it is more common to use integrated systems databases as one management information system, called a data warehouse. Various databases could include financial accounting, student information, staffing information, curriculum, fixed assets, payroll, etc. A comprehensive education information system, data warehouse, can provide benefits such as the following:

- **Using data in decisionmaking.** Good information helps drive good decisions. An information system can make good decisionmaking possible for school-based administrators as well as for external users of education information.
- **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 baselines for improvement.

- **Using data for timely program evaluation.** To be effective, program evaluation must be timely as well as complete. When program and other data are compiled and linked in a well-designed information system, the goals of schooling can be met more effectively and efficiently.
- **Using data for budgetary control.** Greater budgetary control is possible when all of the costs of school operations are available.
- **Using data to improve administrative efficiency and mandated reporting.** Building core databases around data elements of the National Center for Education Statistics (NCES) Common Core of Data (CCD) provides comparability and can improve administrative efficiency and facilitate mandated reporting.

### 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 chart of accounts, 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 basic 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 combinations of classifications called dimensions. Each dimension describes one way of classifying financial activity. Each dimension is described in detail in the Uniform Financial Accounting manual. The following table shows the dimensions possible and required for each financial transaction for Iowa school districts and AEAs.

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

Note: Facility may be a combination of operational unit and level of instruction or it may be the BEDS facility code. Due to activity on the national level and the expectation of school-level expenditure data collections becoming required in the future, the district may want to seriously consider converting to using its BEDS facility code if it does not already do so.

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—program—project—source

Expenditures and other fund uses: Fund—facility—function—program—project—object

Balance sheet accounts: Fund—facility—program—project—account

## Types of Education Agencies

To keep the references to the different levels of education agencies simple and concise, Uniform Financial Accounting uses the following terminology:

- Local Education Agency, or LEA, refers to an education agency at the local level, which exists primarily to operate schools or to contract for educational services. Normally, such publicly operated agencies may levy taxes for school purposes. This is true in Iowa but may not be true in all other states. This term is used synonymously with the terms “school district,” “school system,” “school corporation,” and “local basic administrative unit”.

- Area Education Agencies, or AEAs, are intermediate units of government in between local and state levels having some independent fund-raising and dependent taxing capability. In Iowa, AEAs have no taxing authority.
- State Education Agency, or SEA, refers to State Departments of Education.
- Federal Education Agency, or FEA, refers to any Federal agency or subdivision having responsibilities for supporting or delivering education services. It particularly refers to the U.S. Department of Education and its various subdivisions.

## **Iowa Finance Policy**

When GAAP provides a choice between one or more accounting methods, it is the responsibility of the Department of Education to determine which method shall be used by all school districts and AEAs to insure consistent uniformity, accuracy, and efficiency as required by section **256.9(18)**). A few of those determinations are discussed as follows, for all others, contact the school finance consultants at the Iowa Department of Education.

### **Crediting an Expenditure Account**

In nearly all situations, including whole grade sharing and other 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 account.
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 school 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 non-routine basis, where the inventory item was never placed in service by the school district. An example would be one school district purchasing 500 computers 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 Fund, then transfers money between bank accounts from the School Nutrition Fund to General Fund to cover those expenditures. In that case, the expenditure accounts in the General Fund are credited and General Fund cash debited to reflect the "reimbursement" from the School Nutrition Fund. The expenditure accounts in the School Nutrition Fund would be debited to reflect the correct entries by object. This would not be reported as an interfund operating transfer.

Shared contracts and tuition-related sharing do not fall into the above categories and would be shown in full as revenues and expenditures. For example, the school district or AEA has hired a curriculum coordinator and is "selling" the services of that coordinator to another school district or AEA, or the school district or AEA is "selling" a commodity it produced called "education" to another school district or AEA. 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.

### **Interagency Transactions, Bartering and Netting**

School districts and AEAs are required to budget, account for, and report each and every expenditure. This means budgeted and accounted for gross, not net. Interagency transactions including whole and partial grade sharing, personnel sharing, and other sales of services are shown gross and shall not be shown net. If the agencies bartered for services rather than issuing payments, the barter is reported as if payment had been made, valued at the fair value of the services received; revenues will equal expenditures for those services.

### **Consortium Accounting for Pooled Grants**

In a consortium, multiple LEAs pool grant moneys and one LEA or a contracted AEA or community college administers the funds and coordinates and executes the projects.

As a general rule, cash pass-through grants should be recognized as revenues and expenditures in a governmental fund (almost always, the general fund). In those cases where a recipient government serves only as a cash conduit (fiscal agent), the grant should be reported in an agency fund with only the fiscal agent's own portion of the grant reported in the governmental fund. A recipient government serves only as a cash conduit if it merely transmits grantor-supplied money without having any administrative or direct financial involvement in the program.

It is recommended that any district or AEA discuss with its auditor whether or not its role is that of a fiscal agent as defined by GASB statement 24, paragraph 5 for purposes of each pass-through grant or consortium arrangement.

Accounting by the fiscal agent:

- The entire grant is received into the agency fund.
- The fiscal agent's own portion is disbursed from the agency fund to the general fund (or other fund if legally appropriate). The fiscal agent will use the source and project code as defined in Uniform Financial Accounting for that grant in the recipient fund.
- The fiscal agent's own district share of expenditures is recorded in the same fund where the revenue was deposited. The fiscal agent will use the project code as defined in Uniform Financial Accounting for that grant.
- As expenditures/disbursements are made, the expenditure/disbursements on behalf of the other districts are accounted for in the agency fund.
- The revenues/receipts and expenditures/disbursements should be recorded using some locally-defined project coding to indicate each district's/AEA's share so that each district/AEA can record its own share in its own accounting records.

Accounting by the other members of the consortium:

- The district/AEA will record as revenue in the general fund (or other fund if legally appropriate) its share of the grant when received by the fiscal agent. The district/AEA will use source code 47XX since the grant was received through an agency other than the state or federal government. The district /AEA will use the project code as defined in Uniform Financial Accounting for that grant.
- The cash account used will be "Cash Held by Fiscal Agent" since the district/AEA did not receive the cash for this account.
- If the district/AEA pays its own grant expenditures and then is reimbursed from the fiscal agent, the district/AEA will record its grant expenditures in the general fund (or whatever fund accounted for the revenues) as they occur using the project code as defined in Uniform Financial Accounting for that grant.
- If the fiscal agent handles all of the grant disbursements to vendors, employees, etc. directly and then prepares an accounting to each member district/AEA, then the member district/AEA will record its share of these expenditures periodically, but at least quarterly (September, December, March, and June).
- If at the end of the fiscal year, the entire grant has not been disbursed, the balance remaining with the fiscal agent will be reported in the cash account "Cash Held by Fiscal Agent" and as Deferred Revenue. The amount reported as expenditures is the amount of grant revenues disbursed by the fiscal agent on behalf of the district/AEA, and not the amount actually paid to the member district (reimbursement method) or actually paid out by the fiscal agent (fiscal agent paying all expenditures/disbursements on behalf of member districts method). The revenue amount reported is the amount of grant revenues reported as expended.

## Charter School Accounting

1. Charter schools and innovation zone schools shall be part of the state's program of public education.
  2. A charter school may be established by creating a new school within an existing public school or converting an existing public school to charter status.
  3. The purpose of a charter school or an innovation zone school established pursuant to this chapter shall be to accomplish the following:
    - a. Improve student learning.
    - b. Increase learning opportunities for students.
    - c. Encourage the use of different and innovative methods of teaching.
    - d. Require the measurement of learning outcomes and create different and innovative forms of measuring outcomes.
    - e. Establish new forms of accountability for schools.
    - f. Create new professional opportunities for teachers and other educators, including the opportunity to be responsible for the learning program at the school site.
    - g. Create different organizational structures for continuous learner progress.
    - h. Allow greater flexibility to meet the education needs of a diverse and constantly changing student population.
    - i. Allow for the allocation of resources in innovative ways through implementation of specialized school budgets for the benefit of the schools served.
  4. An innovation zone school may be established pursuant to this chapter to encourage diverse approaches to learning and education within individual schools (**256F.1**).
1. Within fifteen days after approval of a charter school or innovation zone school application submitted in accordance with section 256F.3, subsection 2, a school board or innovation zone consortium shall report to

- the department the name of the charter school applicant if applicable, the proposed charter school or innovation zone school location, and the charter school or innovation zone school's projected enrollment.
2. Although a charter school or innovation zone school may elect to comply with one or more provisions of statute or administrative rule, a charter school or innovation zone school is exempt from all statutes and rules applicable to a school, a school board, or a school district, except that the charter school or innovation zone school shall do all of the following:
    - a. Meet all applicable federal, state, and local health and safety requirements and laws prohibiting discrimination on the basis of race, creed, color, sex, sexual orientation, gender identity, national origin, religion, ancestry, or disability. A charter school or innovation zone school shall be subject to any court-ordered desegregation plan in effect for the school district at the time the charter school or innovation zone school application is approved.
    - b. Operate as a nonsectarian, nonreligious public school.
    - c. Be free of tuition and application fees to Iowa resident students between the ages of five and twenty-one years.
    - d. Be subject to and comply with chapters 216 and 216A relating to civil and human rights.
    - e. Provide special education services in accordance with chapter 256B.
    - f. Be subject to the same financial audits, audit procedures, and audit requirements as a school district. The audit shall be consistent with the requirements of sections 11.6, 11.14, 11.19, 256.9, subsection 20, and section 279.29, except to the extent deviations are necessary because of the program at the school. The department, the auditor of state, or the legislative services agency may conduct financial, program, or compliance audits.
    - g. Be subject to and comply with chapter 284 relating to the student achievement and teacher quality program. A charter school or innovation zone school that complies with chapter 284 shall receive state moneys or be eligible to receive state moneys calculated as provided in section 257.10, subsections 9 and 10, and section 257.37A as if it did not operate under a charter school or innovation zone school contract.
    - h. Be subject to and comply with chapters 20 and 279 relating to contracts with and discharge of teachers and administrators.
    - i. Be subject to and comply with the provisions of chapter 285 relating to the transportation of students.
    - j. Meetings and records of the advisory council are subject to the provisions of chapters 21 and 22.
  3. A charter school or innovation zone school shall not discriminate in its student admissions policies or practices on the basis of intellectual or athletic ability, measures of achievement or aptitude, or status as a person with a disability. However, a charter school or innovation zone school may limit admission to students who are within a particular range of ages or grade levels or on any other basis that would be legal if initiated by a school district. Enrollment priority shall be given to the siblings of students enrolled in a charter school or innovation zone school.
  4. A charter school or innovation zone school shall enroll an eligible resident student who submits a timely application unless the number of applications exceeds the capacity of a program, class, grade level, or building. In this case, students must be accepted by lot. A charter school or innovation zone school may enroll an eligible nonresident student who submits a timely application in accordance with the student admission policy established pursuant to section 256F.5, subsection 1. If the charter school or innovation zone school enrolls an eligible nonresident student, the charter school or innovation zone school shall notify the school district of residence and the sending district not later than March 1 of the preceding school year. Transportation for the student shall be in accordance with section 282.18, subsection 10. The sending district shall make payments to the charter school or innovation zone consortium in the manner required under section 282.18, subsection 7. If the nonresident pupil is also an eligible pupil under section 261E.6, the innovation zone consortium shall pay the tuition reimbursement amount to an eligible postsecondary institution as provided in section 261E.7.
  5. A charter school or innovation zone school shall provide instruction for at least the number of days required by section 279.10, subsection 1, or shall provide at least the equivalent number of total hours.
  6. Notwithstanding subsection 2, a charter school or innovation zone school shall meet the requirements of section 256.7, subsection 21.
  7.
    - a. A charter school shall be considered a part of the school district in which it is located for purposes of state school foundation aid pursuant to chapter 257.
    - b. Students enrolled in an innovation zone school shall be counted, for state school foundation aid purposes, in the student's district of residence.
  8. A charter school or innovation zone consortium may enter into contracts in accordance with chapter 26 **(256F.4)**.

A charter school or innovation zone school shall report at least annually to the school board or innovation zone consortium, advisory council, and the state board the information required by the school board or innovation zone consortium, advisory council, or the state board. The reports are public records subject to chapter 22 (256F.10(1)).

The intent of the legislature is that Charter School be given the greatest flexibility within the limitations of law, rules and regulations. This flexibility applies to the programs and standards rather than public funding, GAAP accounting, reporting, and internal controls. For financial purposes, the charter school is a part of the public school district in the same way as a school building site is a part of the public school district. All financial records are public records. Exemptions granted to the charter school do not exempt the charter school or the public school district in which it is located from legal uses or handling of funds, reporting requirements, or similar financial requirements. Dillon's Rule governs charter schools and districts in which charter schools are located.

#### **Day-to-Day Financial Management**

The charter school is required to transmit requisitions, purchase orders, receipts, etc. to the district central office for processing and board approval in the same manner as other school building sites within the district that are not charter schools.

#### **Budgets**

The charter school is required to provide a budget request to the local school district in the same format as provided to the district by the Department of Management, in sufficient time so that the local school district can accurately incorporate the charter school's budget into the district-wide aid and levy worksheet and certified budget document.

#### **Student Counts**

The charter school is required to provide the local school district on the same timeline and in the same format as used by other school sites that are not charter schools in the district to determine resident student count for certified enrollment purpose. The charter school enrollment must be incorporated into the district-wide certified enrollment counts.

#### **Financial Records**

The financial records for the charter school are required to be incorporated into the public school district records and will follow Uniform Financial Accounting for Iowa School Officials. All transactions (receipts, requisitions, purchase orders, invoices received, etc.) must be provided to the board secretary of the local school district in such time and manner as required by the local school district for the purpose of inclusion in the records of the district and school board bill listings. The district is required use the Basic Education Data Survey (BEDS) facility code in its account code structure for its charter school.

#### **Financial Transactions between the Charter and public district / Allocating**

Financial transactions between the charter and the local school district shall be reported to accurately account for revenues or expenditures. The costs of the charter school will be shown using a method of reasonably allocating costs. Thus there will not be billings and payments between the charter school and its host district.

The full cost of operating the charter school is required to be identifiable on the records of the school district and on reports required by the Department. Therefore, it will be necessary to implement a method to reasonably allocate joint programs, administration, fixed costs, etc. This will be true, even if the local school district provides certain programs on behalf of the charter for pupil enrolled in the charter school. Under best practice, the Charter Agreement will specify agreed upon criteria for pre-determined expenses (percent of per pupil, categorical, utilities, etc.)

#### **Monthly Board Report**

The charter school financial transactions must be included in the monthly financial report to the board of education as required by Iowa Code. All bills for charter school expenditures are subject to the same audit and approval process before the board as any similar bills of the local school district. All revenues and expenditures and other financial transactions will be handled through the public school district's accounts and will use the same internal control policies and procedures. The board will determine that Charter School transactions and expenditures are appropriate according to the Charter Agreement. It is the intent of the legislation that the Charter School be given the greatest flexibility within the limitations of law, rules and regulations, and the Charter Agreement.

#### **Certified Annual Report and Annual Audit**

The charter school accounts must use the BEDS facility code in its account code structure to ensure that the charter school financial transactions can be separately identified. Charter school financial transactions will be incorporated into and be subject to the same filing requirements for the Certified Annual Report (CAR) and annual audit of the local school district. The CAR is required to be filed and the annual audit contracted by the local school district on behalf of

the charter school as part of the CAR and annual audit of the local school district. These same requirements will apply to any other report required of the district by a state or federal agency.

**Best Practices for Financial Agreements between Charters and Public Districts, Items to Consider and Describe (including, but not limited to), the following operational/financial issues:**

Facilities: Input into or control of physical design of space used by charter, method of financing, sharing of school infrastructure taxes, grants, and other revenues.

Transportation: Input into or control over the number of routes; quality, style, or size of vehicles; method of financing. LEP programs, Special Education programs, Gifted and Talented programs, Title 1 programs, at-risk programs, student activity programs, etc.: Method of financing or sharing of resources.

Other categorical funds, other tax levies and related assets and liabilities, school nutrition grants and sales, other enterprise operations, etc.: Method of sharing resources or requirements.

District cost per pupil (DCPP), school foundation funding: method of sharing resources and potential budgetary reductions or revenue shortfalls.

Early retirement/worker comp/unemployment programs/policies: Method of sharing costs, method of sharing tax resources, any allocation of current liabilities for existing retirement incentives.

Accrued liabilities for future compensated absences, potential early retirements, etc.

Existing VPPEL loans, LOSST/SILO revenue bonds, or general obligation bonds from bond issues for facilities used in whole or in part by the charter school: Method of sharing costs, methods of sharing tax resources, any allocation of assets and liabilities for school infrastructure.

**Dissolution of Public Charter School**

If the public charter school ceases to exist, all remaining assets of the public charter school, after liquidation of any liabilities, shall revert to the public school district. The charter agreement between the public charter school and the public school district will address the disposition of any remaining liabilities if the charter school ceases to exist.

**Reorganization/Dissolution of Public School District**

If the public school district that contains a public charter school reorganizes with another school district, the public charter school will become a public charter school under the newly reorganized school district if included and approved in the reorganization petition.

If the public school district that contains a public charter school dissolves, the public charter school district will be eligible to negotiate a new agreement to remain a public charter school under the public school district to which the territory containing the public charter school is attached.

**Encumbrances**

A school district or AEA may establish an encumbrance system for any obligation not liquidated at the close of the fiscal year in which the obligation has been encumbered. The encumbered obligations may be retained upon the books of the school district until liquidated, all in accordance with general accepted governmental accounting practices (24.34). GASB statement 54 clarifies that encumbrances should not be reported separately within fund balance. Significant encumbrances, however, should be disclosed in the notes to the financial statements in the audits. Even though encumbrances are not reported separately in the balance sheet, school districts and AEAs may continue to use them for internal reporting purposes.

**Inventories**

In governmental funds, GAAP allows either consumption method or purchases method for accounting for inventories. For consistency, if inventories are significant, the consumption method will be used. Inventories will be reported as assets when purchased and reported as expenditures when consumed. There would be no amount in the non-spendable fund balance for inventories. If inventories are not significant, the purchases method may be used. It is not necessary to report insignificant inventories on the balance sheet, however if inventories are reported as an asset on the balance sheet when using the purchases method, an equal amount will be included in the non-spendable fund balance. Consumption method is required for proprietary funds.

**Prepaid Expenditures**

In governmental funds, GAAP allows either consumption method or purchases method for accounting for prepaid expenditures such as insurance or rent. However, different than inventories, GAAP does not require that significant balances of prepaid expenditures be reported on the balance sheet as an asset and included in the non-spendable fund

balance for prepaid expenditures. For consistency, prepaid expenditures will use the purchases method and will not be reported on the balance sheet.

## Classifying Fund Balance

The board may set aside funds for a particular purpose to the extent allowed by the accounting system designated by the department of education and local budget law (**OAG #83-12-1(L)**).

The non-spendable fund balance category includes amounts that cannot be spent either because of the legal or contractual requirements or their physical form. The latter would include such things as inventories and prepaid expenditures. An example of the former would be the principal portion of a permanent fund.

The restricted fund balance category is spendable, but may only be used as directed by an external party, enabling legislation, etc. The restricted fund balance cannot be negative.

The committed fund balance category is spendable, but may only be used as board specified by formal board action. The committed fund balance cannot be negative.

The assigned fund balance category is spendable, and represents the amounts that the district or AEA intends to use for a specific purpose. This does not require formal board action to establish or to reassign. In all governmental funds, other than the General Fund, the assigned fund balance category will include all fund balance that is not restricted, committed or non-spendable. The assigned fund balance cannot be negative. Since all funds are defined in Iowa law and are restricted for a specific use, only the General Fund will have an assigned fund balance.

The unassigned fund balance category is spendable and is the residual amount of fund balance in the General Fund (everything that is not restricted, committed, assigned or non-spendable). No fund, other than the General Fund, will report any positive fund balance as unassigned. Other governmental funds will only use the unassigned fund balance category to report negative residual amounts.

In order for fund balance to be classified in this manner, it must meet the following criteria:

1. Unemployment. AEA's and school districts that do not contribute on a regular basis to the unemployment program may assign fund balance for this purpose.
  - a. The maximum amount is no more in one year than the amount that would have been "contributed".
  - b. The maximum amount that may be accumulated is five times the current annual calculation as provide in (1) above.
  - c. Payments to be made in a fiscal year shall reduce the assigned fund balance so that "b" continues to apply.
2. Replacement of Equipment:
  - a. A replacement of equipment committed or assigned fund balance shall be for specific items, and not for general contingency.
  - b. The committed fund balance shall be the result of a written purchase plan which includes:
    - i. Description of specific item.
    - ii. Estimated cost less estimated trade-in.
    - iii. Approval by the AEA or school district board (and the DE if an AEA).
    - iv. Number of years needed to accumulate sufficient funds—maximum of five years.
  - c. The assigned fund balance shall be the result of a written purchase plan which includes all of the above except formal approval action of the board.
  - d. No minimum amount is set, except that the planned purchase dollar amount must represent an extraordinary expenditure if it were to be made in a single year.
  - e. No maximum amount is set, except it must be reasonably expected that the amount accumulated will be sufficient to make the purchase.
  - f. Upon purchase of the item, the committed or assigned fund balance, as applicable, is to be depleted.
  - g. Technology equipment must be in compliance with the statewide technology plan required of AEA's.
3. Initial Purchase of Equipment. The same criteria apply for this category as for the replacement of equipment category, except trade-in value is not a consideration for an initial purchase.
4. Building Remodeling, Construction, or Purchase (school districts only). The same general criteria apply for building remodeling, construction, and purchase as do for equipment purchase, with these additional considerations:
  - a. The remodeling, construction, or purchase must satisfy legal requirements of the Code that apply to remodeling, construction, and purchase.
  - b. If the building is leased and the owner is to pay for the remodeling or construction, the committed or assigned category may not be used in that the owner has the ability to spread the cost over several years.

- c. If the building is leased and the school district is to pay for the remodeling or construction, the committed or assigned category plan must include a written agreement between the school district and the owner.
  - d. If the building is owned by the school district, the committed or assigned fund balance category may be used in a manner similar to equipment purchase.
5. Building Lease-Purchase. The same general criteria apply as for 3 and 5 above, except that only the actual amount of principal and interest payment on the lease-purchase that is due in the first subsequent period may be committed, and no amounts may be accumulated. This committed fund balance category may only be used by an AEA after state board approval has been given to enter into the lease-purchase agreement.

## Technology

The AEA board shall collaborate with the department of education to provide a statewide infrastructure for educational data to create cost efficiencies, provide storage and disaster mitigation, and improve interconnectivity between schools and school districts. In addition, the AEA boards shall work with the department to provide systemwide coordination in the implementation of the statewide longitudinal data system consistent with the federal American Recovery and Reinvestment Act of 2009. The AEAs shall provide support to school districts' information technology infrastructure that is consistent with the statewide infrastructure for the educational data collaborative (**273.2(8)**).

## Capitalized Leases and Installment Purchase Contracts

- a. At the inception of the agreement, the asset acquired and the related liability are simultaneously recorded in the Governmental Long-term Assets Summary Accounts (08) and Governmental Long-term Liabilities/Debt Summary Accounts (09), respectively, in amounts equal to the present value of the total future payments.
- b. An entry is also simultaneously made in the fund from which the payments will be made, debiting a capital outlay expenditure account and crediting an "other financing source" in an amount equal to the present value of the total future payments. Payments during the life of the agreement are then treated as interfund operating transfers from the fund into which the receipts were deposited to the debt service fund and as debt service fund expenditures.

An AEA may hold property and execute purchase agreements within 2 years of a disaster as defined in section 29C.2, subsection 1, and lease-purchase agreements pursuant to section 273.3, subsection 7, and if the lease-purchase agreement exceeds 10 years or the purchase price of the property to be acquired pursuant to a purchase or lease-purchase agreement exceeds [or equals] twenty-five thousand dollars [\$25,000], the AEA shall conduct a public hearing on the proposed purchase or lease-purchase agreement and receive approval from the AEA board of directors and the state board of education or its designee before entering into the agreement (**273.2(2)**).

An AEA is authorized to lease, purchase, or lease-purchase, subject to the approval of the state board of education or its designee and to receive by gift and operate and maintain facilities and buildings necessary to provide authorized programs and services. However, a lease for less than 10 years and with an annual cost of less than twenty-five thousand dollars [\$25,000] does not require the approval of the state board. The state board shall not approve a lease, purchase, or lease-purchase until the state board is satisfied by investigation that public school corporations within the area do not have suitable facilities available. A purchase of property that is not a lease-purchase may be made only within 2 years of a disaster as defined in section 29C.2, subsection 1, and subject to the requirements of this subsection (**273.3(7)**).

## Petty Cash

Petty cash shall be handled on an imprest basis:

- 1. The existence and amount of petty cash funds is authorized by board action.
- 2. The sum of cash on hand and the total of all receipts/vouchers for expenditures is always equal to the original amount of the petty cash fund.
- 3. Cash received is receipted and deposited at the bank into the appropriate fund, not placed in petty cash. Petty cash funds are not used to cash checks and other receipts to the district are not used to replenish petty cash.
- 4. Petty cash is balanced at least once a month.
- 5. Cash "over" is deposited at the bank and accounted for as a revenue.
- 6. Cash "under" is accounted for as an expenditure.
- 7. The "expenditure" receipt/voucher is attached to a requisition order requesting reimbursement. Code the reimbursement according to the types of expenditures on the receipts/vouchers using the usual procedures used for any other expenditure request.

8. A check is issued for the exact amount of those expenditures on the receipt/vouchers so that petty cash will again be the original amount of cash.
9. Petty cash funds shall not be used to circumvent the audit and allowance provisions in the Iowa Code or for any expenditure more appropriate to the purchase order process.
10. Petty cash shall be produced and counted at the time of any settlement with the treasurer if requested by the board (12B.11).

### Internal Control of Vending Machines

1. Observe the vendor filling the machine or count/verify that all merchandise was received. Generally, it is better internal control to keep no inventory on hand other than in the machine.
2. Weekly (more or less often as necessary) have a designated staff member remove the money from the machine, inventory the merchandise in the machine, and record the number on the machine counter.
3. Do a vending machine recap similar to a ticket recap for gate receipts:
  - a. Subtract the beginning machine count from the ending machine count. Multiply this by the selling price to determine how much cash should have been collected.
  - b. Add beginning inventory plus inventory added during the period less ending inventory. Again, multiply this by the selling price to determine how much cash should have been collected.
  - c. Count the cash collected from the machine (excluding the standard amount of change left in the machine),
  - d. All three counts above should be equal.
4. Better internal control will be maintained if the individual designated to remove money from the machines is switched with no warning and no pattern.

If the vending machines used by the district do not have counters, request of the vendor that counters be added or machines be replaced. Counters are very important to internal control.

### Proof of Cash

A proof of cash helps identify error types for differences between the accounting records and the bank statements:

	Balance 6/30/Yr 1	Deposits	Withdrawals	Balance 6/30/Yr 2
Per bank	\$4,523.82	\$10,000.00	\$14,000.00	\$523.82
Deposits in transit:				
6/30/Yr 1	3,295.66	-3,295.66		
6/30/Yr 2		1,860.75		1,860.75
Outstanding checks:				
6/30/Yr 1	-1,620.00		-1,620.00	
6/30/Yr 2			983.00	-983.00
True adjusted Cash balance:	6,199.48	8,565.09	13,363.00	1,401.57
Per books:	6,199.48	7,000.00	13,263.00	-63.52
Unrecorded deposit:		1,565.09		1,565.09
Math error on check:			100.00	100.00
True adjusted Cash balance:	\$6,199.48	\$8,565.09	\$13,363.00	\$1,401.57

**A bank reconciliation** would only indicate that the bank shows \$1,465.09 more than the accounting records. **A proof of cash** pinpoints specifically that there was a \$100.00 error in disbursements and a \$1,565.09 error in receipts.

### Indirect Costs

## Cost Accounting

A true allocation of indirect costs from supporting programs to operating programs is not done in governmental accounting in education. The expenditures related to supporting programs are maintained separately in the accounting system using the correct function, program, project, and object. Cost reporting software can be developed to interface with existing payroll systems to expeditiously identify staff salaries and hours worked. The cost reporting software can also interface with student data systems to compute full-time equivalent (FTE) students. Linking assigned classroom and facilities files containing the square footage of classrooms can produce a space use attribution factor. Most costs can be allocated using attribution factors such as space use, teacher FTE, and student FTE. All of these interfaces/links to the financial accounting software allow for meaningful allocations of costs to programs or district strategic plan goals. 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 on which consumer dollars/taxes can be spent. Cost reporting adds to the workload for school district accounting personnel. Advances in technology and the development of electronic databases make the provision of cost data a manageable task for most districts. However, it must be emphasized that this cost reporting is only done within a separate data warehouse or database system at the local level and is never recorded on the official accounting records of the district or AEA.

Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments regulates how indirect costs and restricted indirect cost rates are calculated and applied for federal award purposes. The purpose of applying indirect cost rates is to provide that federally-assisted award programs bear their fair share of costs without profit or other increment above cost. This principle does not apply to state grants or allocations unless Iowa Code expressly states that indirect cost recovery is allowed.

If the district or AEA desires to report the indirect costs in the financial accounting records, it will be permitted to do so only if the expenditure is reported as a credit to the appropriate 95X expenditure objects and an equal amount is reported in other functions as debits to the appropriate 95X expenditure objects. The total of all 95X objects related to indirect costs will be zero at all times.

## Allowable Costs

To be allowable under a federal award program, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of federal award.
- b. Be allocable to federal awards under the provisions of Circular A-87.
- c. Be authorized or not prohibited under state or local laws or regulations.
- d. Conform to any limitations or exclusions set forth in these principles, federal laws, terms and conditions of the federal award, or other governing regulations as to types or amounts of cost items.
- e. Be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.
- f. Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.
- g. Except as otherwise provided for in Circular A-87, be determined in accordance with generally accepted accounting principles (GAAP).
- h. Not be included as a cost or used to meet cost sharing or matching requirements of any other federal award in either the current or a prior period, except as specifically provided by federal law or regulation.
- i. Be net of all applicable credits.
- j. Be adequately documented.

## Direct Costs

Direct costs are those that can be identified specifically with a particular cost objective. Typical direct costs chargeable to federal awards are:

- a. Compensation of employees for the time devoted and identified specifically to the performance of those awards. Use time records if the employee is assigned to more than one purpose.
- b. Cost of materials acquired, consumed, or expended specifically for the purpose of those awards.
- c. Equipment and other approved capital expenditures specific to the award.
- d. Travel expenses incurred specifically to carry out the award.

Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

## Indirect Costs

Indirect costs are those (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved.

An indirect cost rate is a device for determining in a reasonable manner the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs pool to a direct cost base. A restricted indirect cost rate is required for grant awards which are subject to the "supplement but not supplant" restrictions.

The indirect cost pool is the accumulated costs that jointly benefit two or more programs or other cost objectives.

The direct cost base is the accumulated direct costs, exclusive of any extraordinary or distorting expenditures, used to distribute indirect costs to individual federal awards. The direct cost base should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs.

### **Indirect Cost Recovery Rates**

The federal government and the Iowa Department of Education have negotiated a five-year plan for determination of indirect costs and restricted indirect costs for subrecipient school districts and AEAs. These rates will serve as the sole basis for budgeting and allocating direct cost reimbursement under federal programs. The application of these rates is binding on all federal agencies and subject to periodic review pursuant to single audit requirements for state and local governments. The Iowa department of education will calculate annually indirect cost rates, restricted and unrestricted, for each school district and AEA from expenses delineated within the CAR-COA. Expenditures from the second preceding year will be used to complete the indirect cost rates for the current fiscal year. By means of a computer application, the matrix will be applied and data for each school district or AEA will be brought into the appropriate calculation. Total indirect costs will be divided by the total direct costs after exclusions and adjustments, and the indirect cost rate will be determined.

Indirect costs are further identified as either "restricted" or "unrestricted." "Restricted" means that the grant has a "supplement, not supplant" clause. Unrestricted indirect costs may only be claimed for federal programs that are not specifically declared as restricted. Restricted indirect costs may be claimed for certain federal programs where allowed and where there is a "supplement, not supplant" clause.

Applying the maximum restricted rate against the direct costs of the award will generate the maximum indirect costs that may be recovered from the award. If the grant award contains costs that are excluded from the direct or indirect cost base, the direct costs of the awards will be modified to reflect the elimination of these costs from inclusion in the indirect cost reimbursement calculation. State managers of federal programs may assign to districts or AEAs more restricted levels of direct costs for application of the rate, thereby reducing total indirect cost recovery. Additionally, the school district or AEA may elect to apply a rate that is less than the approved rate, including a rate of zero.

### **Maintenance of Effort**

Each federal program that contains a "supplement, not supplant" clause has a maintenance of effort calculation. The calculation for the federal program is published in the federal register. Although most calculations compare total current expenditures in excess of all federal revenues in one year to the same calculation in the previous year, some calculations use revenue numbers or budget numbers.