CHAPTER 13 – FINANCIAL ACCOUNTING AND REPORTING

SECTION 1 – COST ALLOCATION STANDARDS

Introduction

The purpose of this chapter is to define how costs should be distributed to expenditure accounts. The goals are to achieve adherence to state and federal statutes and Generally Accepted Accounting Principles (GAAP), and to achieve uniform reporting among the districts and schools.

I. Principles and Criteria for Cost Allocation

Merely providing a comprehensive chart of accounts (Part I in this manual) does not solve the problems related to providing comparable programmatic financial data on a statewide basis. This section, along with Chapter 10 in Part I, Permitted Code Combinations, should provide the desired comparability results.

Since many revenues are restricted in their uses, it is important to identify all costs that can be associated with each of these revenues, whether they can be charged directly or charged back to the activity from a particular cost center pool. The standards included in this chapter cover costs that must be prorated or distributed prior to reporting to the State with the distribution based on such factors as square footage, mileage, timesheets, etc. Section VI of this chapter covers Indirect Costs Relating to Federal Grants and Contracts.

A. Introduction

Cost allocation is the system used to apportion or distribute costs. The principles and criteria cover all UFARS program dimensions. For example, if a central service program or department serves programs in different funds, the costs should be applied across all funds receiving the benefit and to all relevant programs within these funds.

It is imperative that expenditures can be compared among districts within the state and that all costs are reflected within every program. Obviously, for all programs where the costs drive funding (such as special education, secondary vocational, English learners (EL) and some transportation activities all costs must be reflected. Also, any programs that require a reserved fund balance need to reflect all costs. There are other programs that receive restricted revenues and those programs need all costs allocated to them. Finally, to assure fund integrity, all costs incurred in one fund but with benefits to other funds must be allocated. See Attachment A summarizing the cost allocation standards using a flow chart.

B. Allocation of Costs to Other Accounts

A central consideration in deciding whether cost components of a program may or should be distributed to other funds is whether the activity in question is causing additional costs. For example, if the community education program is causing additional maintenance costs, the maintenance costs should be charged to that program. However, if these expenses would have occurred even if the community education program did not exist, these costs should not be charged to the community education program. The same would hold true of items such as accounting expenses and utilities.

Costs are distributed to other funds from the General Fund using the chargeback method (or, are directly distributed as in C.1.). Central service department costs (e.g., the printing shop) recorded within Program Code 110, Business Support; or Program Code 810, Operations and Maintenance should generally be distributed to other programs since other departments have some freedom to acquire the central service from outside sources and/or are free to determine the degree of service to utilize. A basis for allocating these costs must be documented. A district may also use the Internal Service Fund (Fund 20) if the district intends to recover the full cost of providing the service (including depreciation expense) through user charges.

Usually, only the following General Fund programs may distribute costs using the chargeback method to other funds: Program Code 110, Business Support Services; Program Code 810, Operations and Maintenance; and Program 930, Employee Benefits.

C. Methods for Distributing Costs

1. Direct distribution of costs - This method shall be used when costs can be readily and accurately distributed **at the time costs are incurred**. Generally it is the most accurate method, and it should be utilized whenever feasible. In those instances where an employee is spending time in different functional areas, which can be documented, the salary should be directly distributed as the expense is incurred or distributed based on a time report. Position descriptions, along with functions actually performed by an individual, should determine the proper salary distribution. Position titles do not determine proper allocation in many instances. For example, if in a small school district the superintendent and/or secretary carry out the daily operations of the food service department, these pro-rated costs should be directly charged to food service (Program Code 770, rather than Program Code 020). Also, according to Minnesota Statutes, section 124D.111, Subdivision 3, the charges by the superintendent and/or secretary must be at a wage rate not to exceed the statewide average for food service directors as determined by the Minnesota Department of Education (MDE). Another example of direct distribution of costs would be the custodial time spent in kitchen clean-up for the food service program.

2. Chargeback allocation method – This method should be used to distribute the costs that cannot be easily, conveniently and accurately allocated at the same time as the costs are being incurred. This method allows a school district to allocate costs consisting of several object line items to programs receiving the benefit by utilizing a single chargeback object account. Only the following UFARS object dimension codes may be used and only within specific UFARS program dimension codes:

Object Dimension Code(s) Code Costs	Description	UFARS Program Dimension Originally Incurring
195*	Interdepartmental Employee Salaries and Wages (Chargeback)	001-850
295	Interdepartmental Employee Benefits	001-850, 930 (Chargeback)
365	Interdepartmental Transportation (Allocation)	760
398	Interdepartmental Miscellaneous (Chargeback)	110, 770, 810
545	Interdepartmental Operating Capital (Chargeback)	000-420, 605-850
895	Federal Indirect Cost Chargeback	105, 110, 810

*Caution must be used when using the chargeback allocation method involving salaries since many restricted revenue programs require detailed salary information. This includes, but is not limited to, basic skills, learning and development, special education and Title I, II and VI federal programs.

A credit entry using the above object codes with the appropriate program code creates a contra-expenditure account (credit amount) which must be equal to a corresponding set of debit entries using the same object code. The debit entries result in districts charging the prorated expenditures to the specific program code(s) receiving the benefit of the service. **FOR EACH OF THE ABOVE CHARGEBACK OBJECT DIMENSION CODES USED, DEBITS MUST EQUAL CREDITS WHEN TOTALING ALL FUNDS.**

II. Application of Cost Allocation Principles

A. Direct Distribution Costing Method - Accounting for the cost in the user program by a direct charge.

- General Examples

  - All regular secondary classroom teacher salaries allocated to specific Program Codes 212 to 270.
  - Custodian is assigned to district bus garage (Program Code 760, Object Code 170).
  - Superintendent's salary is assigned five percent to the daily operation of the food service program (as stipulated in the contract, the superintendent is performing the function of a food service supervisor and not as a district-wide executive for five percent of his/her time (Program Code 770, Object Code 110). In a medium or large size school district, the food service supervisor and/or secretary handle these daily operational activities.
  - Utility costs directly associated with providing food by the food service program (Program Code 770, Object Code 330). Using a separate utility meter is preferred.

- Food Service Fund

  1. Food Costs

     Accurate accounting and effective program management requires that costs of food, labor and fringe benefits, and other direct costs be allocated to each of the food programs. Each food program is identified in UFARS by a specific finance code (lunch – FIN 701, after-school snack – FIN 702, milk – FIN 703, breakfast – FIN 705, a la carte – FIN 707, summer food service program – FIN 709).

     There are two appropriate methods suggested to allocate food costs to the appropriate food programs (using the appropriate finance code).

     a. Standard meal cost allocation.
        The average cost of food served based on the actual food purchases calculated from a random selection of menus or a complete menu cycle. This average cost of a meal is multiplied by the actual number of meals served in each program during the reporting period.

     b. Menu costing.
        Purchased food used daily to prepare each meal is recorded for a period of one month for each program. At the end of the month, the percentage of total food costs used in each program is calculated. These percentages can then be used for the entire year to allocate food costs to each program.

  2. Labor Costs

     a. Time and attendance records. Actual time and attendance records may be used to allocate labor costs to each program.

     b. Percentage of total hours worked in each program to total hours worked during a specific period of time (one month) can be established and used during the entire year to allocate labor costs.

     c. Percentage of food costs. The same percentages established to allocate food costs to each program can be used to allocate labor costs.

3. General Administrative Costs

   Currently, districts may not charge the Food Service Fund for general administrative costs such as portions of the salary for the district superintendent or fiscal manager unless the district does not employ or contract for a food service director.

4. General Requirement/UFARS Coding

   Cost Allocation (7 CFR 210.14 and 210.19; Minn. Stat. § 124D.111 and 123B.77)

   a. Federal regulations for school meal programs require school food service expenditures to be in accordance with the financial management system established by the state agency.

   b. Minnesota Statutes require food service revenues and expenditures to be attributed to a school food service fund and require school districts to adopt the Uniform Financial Accounting and Reporting Standards (UFARS).

   c. UFARS requires school districts to allocate their expenses by program, which for food service are lunch, breakfast, milk, a la carte and any other federal nutrition program in which the school food authority participates, such as summer food service program and child and adult care food program. A chart showing UFARS codes is attached.. For example, the costs of providing the school breakfast program must be allocated to that program and not allowed to remain under school lunch.

If you have questions, please contact:

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FOOD SERVICE FUND 2 REPORTING FOR PUBLIC SCHOOLS

Revenues	Lunch (Finance 701)	After School Snack (Finance 702)	Special Milk (Finance 703)	Kindergarten Milk (Finance 703)	Breakfast (Finance 705)	A La Carte Other (Finance 707)	Summer Food (Finance 709)	Child & Adult* Care Food Program (Finance 469)
Student	Source 601	Source 601	Source 601	Source 601	Source 601	Source 601	Source 601	Source 400
Adult	Source 606	n/a	Source 606	n/a	Source 606	Source 606	Source 606	Source 606
Special Function Food Sales	Source 608	Source 608	Source 608	Source 608	Source 608	Source 608	Source 608	Source 608
State Reimbursement	Source 300	n/a	n/a	Source 300	Source 300	n/a	Source 300	n/a
Federal Reimbursement	Sources 471-472	Source 499	Source 475	n/a	Source 476	n/a	Source 479	Source 400
Commodity Distribution	Source 474	n/a	Source 474	n/a	Source 474	n/a	Source 474	Source 477

Expenditures	Lunch (Finance 701)	After School Snack (Finance 702)	Special Milk (Finance 703)	Kindergarten Milk (Finance 703)	Breakfast (Finance 705)	A La Carte Other (Finance 707)	Summer Food (Finance 709)	Child & Adult* Care Food Program (Finance 469)
Food	Object 490	Object 490	n/a	n/a	Object 490	Object 490	Object 490	Object 490
Milk	Object 495	Object 495	Object 495	Object 495	Object 495	Object 495	Object 495	Object 495
Labor	Object 100-299-305	Object 100-299-305	Object 100-299-305	Object 100-299-305	Object 100-299-305	Object 100-299-305	Object 100-299-305	Object 100-299-305
Interest	n/a	n/a	n/a	n/a	n/a	Object 740	n/a	n/a
Other	All Other Objects	All Other Objects	All Other Objects	All Other Objects	All Other Objects	All Other Objects	All Other Objects	All Other Objects
Commodity Distribution	Object 491	n/a	n/a	n/a	Object 491	n/a	Object 491	n/a

- Community Service Fund

  Only the additional costs associated with the existence of community education can properly be allocated to this fund.

  Examples:

  - Additional custodial time necessary to clean the classrooms after community education classes.
  - Additional electrical and heating costs incurred in maintaining classrooms ready for community education classes.
  - Any costs which would still be incurred if community education activities were to be discontinued shall remain in the General Fund. This test of whether to allocate costs applies in particular to community education sharing a facility with the K-12 classes.

  In the case where community education has the exclusive use of a building, any operating expenses can properly be charged to the Community Service Fund. Any capital improvements made to the building must be made out of the General Fund and should not be allocated in any way to the Community Service Fund. The building remains the property of the school district. Therefore, the school district is responsible for any capital expenditure associated with the building.

  Example A (Community Education Building Located in a Non-K-12 Learning Site)

  If the community education programs or administrative offices for the community education program are housed in a district-owned building which is used only for non-instructional purposes (separate district office, warehouse area, or vacant school), the square footage occupied would be the basis for allocation. The costs of custodial salaries, heat, water and general repairs would be totaled (Program Code 810). The useable square footage would then be determined for each occupant (e.g., community education, transportation, district office, etc.). This percentage of the total useable square footage would be applied to total costs and allocated to the proper funds. See Attachment C for an example illustrating the above situation.

  Example B (Community Education Building Located in a K-12 Learning Site)

  If a community education program uses space that is also used by the K-12 program, the simple square foot allocation basis is not appropriate. In this case, the program should still pay for its costs. However, certain costs should remain in the General Fund. Custodial costs, for example, will be incurred because of the K-12 program. Therefore, community education should only be charged for excess costs, overtime pay to staff to maintain the boiler, or late cleanup after a program. These costs are best obtained by job timesheet entries. A sample period may be used if job timesheets are not available. The remaining costs, principally heat, light, and water should be allocated by a percentage of usage. Usage is determined by both the amount of space and the percentage of time used. See Attachment C for an example illustrating the above situation.

  Example C (Swimming Pools)

  Swimming pools present a special problem due to their high utility usage and intensive custodial care required. The best method to allocate costs for buildings with pools are to use a consultant to determine operation costs. Districts must subtract costs from the total building costs thus reducing the available square footage in the building. The pool would be allocated on an hours used basis; the remaining space would be allocated as appropriate. See Attachment C for an example illustrating the above situation.

- Nonpublic School Programs

  Public schools are required by law to provide services to nonpublic schools in the areas of health (Finance Code 350), guidance and counseling (Finance Code 353), and textbooks and instructional materials (Finance Code 351). Public schools must maintain a separate accounting for each nonpublic school they deal with. Each nonpublic school is assigned a number.

  If a school district is using its own personnel, the following steps should be followed to allocate expenditures associated with health services and guidance and counseling.

  First, determine the percentage of time spent with the nonpublic schools for the purpose of determining the total expenditures to be coded to them. Second, allocate those expenditures on the basis of the number of students in each nonpublic school.

  If the school district hires personnel strictly to deal with nonpublic schools, the total expenditures to be allocated are clear. These expenditures should then be allocated to the various nonpublic schools on the basis of the number of students in each nonpublic school.

  Public schools can charge actual costs of up to five percent of expenditures as administrative costs. When these administrative costs are reimbursed, the revenues should be coded back to the fund having generated the administrative costs. See Part B below.

B. Chargeback Allocation Method – Account for the cost initially in the central service department and then allocate by utilizing a negative dollar amount chargeback account within the central service department (credit amount).

Examples:

- Central Printing

  Account for the cost in the user programs by offsetting the central printing department costs with a negative chargeback entry, using Object Code 398 - Interdepartmental Miscellaneous Services, and charging the user programs with a positive chargeback entry, using Object Code 398.

- Central Warehouse

  Account for the cost in the user program by offsetting the central warehouse department costs monthly (or at least annually) by making a negative chargeback entry, using Object Code 398 - Miscellaneous Services Chargeback, and charging the user programs with a positive chargeback entry, using Object Code 398 - Miscellaneous Services Chargeback. The dollar amount of the chargeback could be based on the square footage of the warehouse space, or some other similar basis such as a service charge method as follows: If we assume that the warehouse operation would require $150,000 to operate and would make inventory purchases of $2,000,000, there would be a service charge of 7.5 percent ($150,000/$2,000,000).

- Work-Order Cost System Covering Capital Projects

  Utilize Object Code 545 to reclassify all direct costs relating to capital projects handled by the central maintenance program to the user program.

- Other Food Service Costs

  Utility costs that can be identified with food preparation in the kitchen and custodial time needed to move groceries or clean the kitchen may be allocated to the Food Service Fund from the General Fund using Chargeback Object Code 398.

- Transportation Program

  Normally during the year, all costs associated with a district-owned bus fleet, or a combination district- and contractor-owned bus fleet, are accumulated in a central cost pool with a Finance Dimension Code 720. However, in some cases bus driver salaries and other expenditures can be allocated as the cost is being incurred to another appropriate finance dimension. At year-end, these costs must be allocated to all appropriate finance codes. The basis for allocation should normally be cost per mile. However, in some cases, allocation based on cost per student is appropriate. Object Code 365 should be used. Refer to Attachment 5 for a sample cost allocation of a district-owned operation and Attachment 6 for a sample cost allocation method for a combined district- and contractor-owned operation.

- Employee Benefits

  See Attachment B.

- Federal Indirect Cost Chargeback

  Use Object Code 895 to reclassify the indirect cost allowance in federal grants (see Part VI). Use Program Codes 105, 110 and 810 to reclassify those expenditures.

III. Allocation of Costs to Sites

Certain costs should be allocated to each budgeted learning site using the UFARS Organization Dimension. The same principles and criteria covered in Section I apply to allocating costs to learning sites. The following table should be used to help determine the costs to be allocated to a learning site.

GUIDE TO COST ALLOCATION TO SITES

	Specific Restricted Program			Other Programs
UFARS Programs	**Basic Skills/ Compensatory Education (Minn.Stat. § 126C.15) Finance Code 317**	**School Site Decision Making Agreement (Minn. Stat. § 123B.04 Minn. Stat. § 122A.61)**	**Staff Development and Staff Development Incentive (Minn. Stat. § 122A.62) Finance Codes 306-308**	**Unrestricted Revenue and Other Restricted Revenue Not Specifically Mentioned***
001-099 Administration	Not applicable	Only costs associated with Code 050, School Administration	Not applicable	Use Org. Dim. Code 005 except for UFARS Program Code 050, School Administration where it is recommended to use learning site org. codes.
100-199 District Support Services	Not applicable	Only costs associated with Human Resource activity for acquiring and maintaining staff, attendance recording and reporting, and any district central support services negotiated in the agreement such as purchasing, printing, and warehousing	Not applicable	Use Org. Dim. Code 005
200-299 Elementary And Secondary Regular Instruction	Require Learning Site Org. Codes, however, districts receiving compensatory transition revenue may use Org. Code 005 for the statutorily unrestricted part of this revenue. (1998 Laws, Article I, Section 35 – Must not exceed 5% of the former comp. revenue	Require Learning Site Org. Codes	Not applicable	Recommend for Learning Site Org. Code

UFARS Programs	Basic Skills/ Compensatory Education (Minn.Stat. § 126C.15) Finance Code 317	School Site Decision Making Agreement (Minn. Stat. § 123B.04 Minn. Stat. § 122A.61)	Staff Development and Staff Development Incentive (Minn. Stat. § 122A.62) Finance Codes 306-308	Unrestricted Revenue and Other Restricted Revenue Not Specifically Mentioned*
300-399 Vocational Educational Instruction	Require Learning Site Org. Codes	Require Learning Site Org. Codes	Not applicable	May use Learning Site Org. Coded
400-499 Special Education Instruction	May use unfunded costs with Learning Site Org. Codes	May use non-funded costs with Learning Site Org. Codes	Not applicable	May use non-funded costs with Learning Site Org. Codes
500-599 Community Educational Services	Not applicable.	Not applicable	Not applicable	May use Learning Site Org. Codes
600-699 Instructional Support Services	Require Learning Site Org. Codes	Require Learning Site Org. Codes	Require Learning Site Org. Codes	May use Learning Site Org. Codes
700-799 Pupil Support Services	Require Learning Site Org. Codes	Require Learning Site Org. Codes	Not applicable	May use Learning Site Org. Codes
800-899 Sites, Buildings And Equipment	Require Learning Site Org. Codes with Code 810 only	Require Learning Site Org. Codes	Not applicable	May use Learning Site Org. Codes
900-999 Fiscal And Other Fixed Costs Programs	Not applicable	Not applicable	Not applicable	May use Learning Site Org. Codes

***** Generally, salaries and fringe benefits should be included when it is recommended that costs be allocated to learning sites. However, for those districts whose management philosophy dictates they pool all staff salaries and benefits district-wide and only account for full-time equivalent staff (FTE) for each site, Organization Dimension Code 005 may be used.

IV. Allocation of Costs to UFARS Programs

All identifiable costs should be allocated to the UFARS programs which are receiving the benefit. The same principles and criteria covered in Section I apply to allocating these costs. The following table should be used to help determine the costs to be allocated to various UFARS programs which include the Food Service Fund (Program 770) and the Community Service Fund (Program 500s).

GUIDE FOR COST ALLOCATION TO UFARS PROGRAMS

UFARS Programs Incurring Costs	Cost Allocation Standards	Basis of Allocation
001-099 Administration	Only Program Code 050, School Administration, may perform activities which can be allocated to other UFARS programs within the General Fund including various restricted revenue programs	Allocate actual costs directly.
100-199 District Support Services	Only Program Code 110, Business Support Services, may perform activities which can be allocated to other UFARS programs, including various restricted revenue programs. These activities include, but are not limited to, purchasing, printing, data processing, and warehousing	Purchasing – Number of orders Printing – Number of pages Warehousing – By item Data Processing – By CPU time
200-299 Elementary And Secondary Regular Instruction	Only activities that relate to restricted revenue programs must be allocated. See Part V.	Use actual costs of the following: Salaries – Average/FTE various employee groups Benefits – Average percent of salary for various employee groups Instructional Supplies – ADM
300-399 Vocational Education Instruction	Only activities that relate to other restricted revenue programs must be allocated. See Part V.	Use actual costs of the following: Salaries – Average/FTE various employee groups Benefits – Average percent of salary for various employee groups Instructional Supplies – ADM
400-499 Special Education Instruction	Only activities that relate to other restricted revenue programs must be allocated. See Part V.	Use actual costs of the following: Salaries – Average/FTE various employee groups Benefits – Average percent of salary for various employee groups Instructional Supplies – ADM
500-599 Community Education Services	Only activities that relate to other restricted revenue programs must be allocated. This includes distributing costs within the 500 program series. Also, not more than 5% of ECFE revenue may be used to administer ECFE programs (Minn. Stat. § 124D.135, subd. 5). According to Minnesota Statute 124D.20, Subdivision 9, a district may use up to 10% of its community education revenue for equipment that is used exclusively in community education programs and is further restricted to certain capital items. See Part II and Part V.	Use actual costs of the following: Salaries – Average/FTE various employee groups Benefits – Average percent of salary for various employee groups Instructional Supplies – ADM

UFARS Programs Incurring Costs	Cost Allocation Standards	Basis of Allocation
600-699 Instructional Support Services	Only activities that relate to restricted revenue programs must be allocated. See Part V.	Use actual costs of the following: Salaries – Average/FTE various employee groups Benefits – Average percent of salary for various employee groups Instructional Supplies – ADM.
700-799 Pupil Support Services	Only activities that relate to restricted revenue programs must be allocated including the various food service programs and transportation programs. There are limitations on costs to be allocated to Food Service (Minn. Stat. § 124D.111, Subd. 3). For the nonpublic pupil aid activities, the district may claim and receive 5% of the allocation for the administration of the program. Minn. Stat. § 123B.46. See Part II and Part V.	Use actual costs of the following: Salaries – Average/FTE various employee groups Benefits – Average percent of salary for various employee groups Instructional Supplies – ADM
800-899 Sites, Buildings And Equipment	Only Program Code 810, Operations and Maintenance, may perform activities which can be allocated to other UFARS programs including various restricted revenue programs. These activities include repairs and maintenance of equipment. For restricted revenue programs and the food service and community service funds, this includes custodial care and ordinary upkeep.	Use actual costs of the following: Salaries – Average/FTE various employee groups Benefits – Average percent of salary for various employee groups Instructional Supplies – ADM

V. Allocation of Costs to Restricted/Reserved Revenue Programs

Certain sources of revenue require that all costs related to this revenue be identified. The following programs should include all costs that satisfy the standards in this section.

A. Certain Components of General Education Revenue

1. General Education Revenue for Area Learning Centers and State-Approved Public Alternative Programs

   Use **Finance Code 303** to identify all expenditures associated with the district's students attending an area learning center (Minn. Stat. § 123A.05-123A.09). Use **Finance Code 305** to identify all expenditures associated with the district's students attending state-approved public alternative programs. School districts must reserve revenue in an amount equal to at least 90 percent of the district average general education revenue less compensatory revenue times the number of pupil units attending an area learning center program or alternative program.

2. Basic Skills Revenue

   Use **Finance Code 317** to identify all expenditures itemized under basic skills legislation (Minn. Stat. § 126C.10, Subd. 4). Basic skills revenue is comprised of the following four revenue components: (1) compensatory education; (2) English learners basic; (3) English learners concentration; and (4) an additional basic skills match up to $22.50 times the number of fund balance pupil units in kindergarten to grade 8.

3. Staff Development Revenue

   Use **Finance Codes 306, 307 and 308** to identify all expenditures associated with the district's staff development programs (Minn. Stat. § 122A.61). One percent of Basic General Education Revenue must be restricted/reserved for staff development activities.

4. Operating Capital Revenue

   Use **Finance Dimension Code 302** to identify all expenditures stipulated in Minnesota Statutes, section 126C.10, Subdivisions 13 and 14. Expenditures for capital items not associated with Total Operating Capital Revenue should be recorded using Finance Code 000 or other appropriate finance code. Revenue for a district equals $100 times the district's maintenance cost index times its actual pupil units, plus $68 times the actual pupil units for the school year.

5. Learning and Development Revenue

   Use **Finance Dimension Code 330** to identify all expenditures to reduce and maintain the district's instructor-to-learner ratio in kindergarten through grade 6 to a level of 1 to 17 on average as stipulated in Minnesota Statutes, section 126C.12.

B. Community Education

Use **Finance Dimension Code 321** to identify community education activities defined in Minnesota Statutes, section 124D.20, Subdivision 8. Do not include community education expenditures for which other finance codes exist (Finance Codes 322, 325, 326, and 438).

C. Early Childhood Family Education (ECFE)

Use **Finance Dimension Code 325** within Program Code 580 to identify all expenditures for the ECFE activities offered by the school district according to Minnesota Statutes, section 124D.135.

D. Adult Basic

Use **Program Code 520** to identify all expenditures along with various finance codes including Finance Code 322, State Adult Basic Education; and Finance Code 438, Adult Basic Education. In no case shall federal and state aid plus levy equal more than 100 percent of the actual cost of providing these programs (Minn. Stat. § 124D.52).

E. Special Education

Use **Finance Code 740** to identify all expenditures incurred for state fund special education programs. Special education salary expenditures eligible to generate state special education aid include expenditures for essential personnel including special education teachers, related services staff, and support services staff who provide direct services to students with disabilities. Salaries of administrative and supervisory personnel are not eligible to generate special education aid. Expenditures for contracting with outside consultants to conduct assessment and Individual Education Program (IEP) planning for individual pupils are eligible to generate special education aid.

Districts may generate state special education aid when contracting with a public or private agency, other than another public school, for individual student services. The purchase of instructional equipment and supplies are reimbursable with state special education aids when purchased for student use.

F. Health and Safety

Use **Finance Codes 347, 349, 352, 358, 363, and 366** to identify all expenditures approved in the application to the commissioner of education for health and safety revenue (Minn. Stat. § 123B.57). The revenue may not be used for a building or property or part of a building or property used for postsecondary instruction or administration or for a purpose unrelated to elementary and secondary education.

G. Secondary Vocational Education

Use **Finance Code 830** to identify all expenditures eligible for state funded secondary vocational aid (use with Program Code Series 301-399 and Program Code 610) according to Minnesota Statutes, section 124D.4531.

H. Alternative Facilities Program

Use **Finance Code 386** to identify all expenditures that qualified school districts identify under the alternative facilities bonding aid and levy program. A 10-year facility plan must be prepared by the qualifying district aid approved by the commissioner. Refer to Minnesota Statutes, section 123B.59 for eligible expenditures.

I. Disabled Access Levy

Use **Finance Code 794** to identify all expenditures for the removal of architectural barriers and for fire safety modifications according to Minnesota Statutes, section 123B.58. The district may levy up to $300,000 under this authority as approved by the commissioner and the amount may be levied over eight or fewer years.

J. Health and Development Screening Aid

Use **Finance Code 354** to identify all expenditures related to the state aid for each child screened according to Minnesota Statutes, section 121A.17. Use Fund 04, Community Service Fund.

K. Integration Revenue

Use **Finance Code 315** to identify expenditures related to Integration Revenue according to Minnesota Statutes, section 124D.86.

L. State School to Work Disabled Program

Use **Finance Code 835** to identify all expenditures funded by this program according to Minnesota Statutes, section 124D.454.

VI. Indirect Costs Relating to Federal Grants and Contracts

Minnesota Indirect Cost Rate LEA Delegation Agreement (Updated June 2011)

The U.S. Office of Management and Budget (OMB) Circular A-87 sets forth the cost principles and standards for determining the allowable costs of federally funded grants and contracts administered by state and local governments and contains provisions for determining indirect cost rates for grantees and sub grantees of federal grants. The objectives of the circular are:

A. Establish Uniform Standards of Allowability

All federal agencies agree to recognize the central service costs which benefit grant programs as allowable costs of those programs, so long as they are calculated in accordance with the circular.

B. Establish Uniform Standards of Allocation

All federal agencies accept the method of allocation agreed to by the “cognizant” federal agency. Costs are allocated to the benefiting departments regardless of the funding source or the ability of that source to pay.

C. Identify the Full Cost of Federal Programs

By identifying, accumulating, and allocating all allowable direct and indirect costs to the program for which the cost was incurred, the exact cost of all federal programs may be determined.

D. Ensure Federal Programs Bear Their Fair Share of Costs

Only by identifying and allocating all direct and indirect costs within a central service cost allocation plan, in conformity with the circular, will localities be reimbursed for the total cost of federal programs.

E. Simplify Intergovernmental Relations

Under the OMB Circular A-87 concept of the “cognizant” agency, one agency with one group of reviewers approves a cost plan. All other agencies accept the plan. Thus, uniform methods of allocation and allowability are applied to all federal grants.

F. Encourages Consistency of Treatment

Grantee organizations are encouraged to process all grant applications through a central office that is also aware of the basis of which an indirect cost rate was developed to minimize inconsistent treatment.

The Minnesota Department of Education (MDE) has, in cooperation with the U.S. Department of Education (US-DOE), developed an indirect cost proposal to be used by local education agencies (LEAs) in Minnesota. The department has been delegated the authority by the US-DOE to approve indirect cost rates for LEAs. To recover any indirect costs for the administration of federal or state grants, an LEA must have an approved indirect cost rate.

INDIRECT COST RATES

An indirect cost rate is a means of determining, in a reasonable manner, the percentage of allowable general management costs that each federal grant should bear. Indirect costs are generally administrative costs such as the salaries and expenses for people who are engaged in administrative activities from which the entire LEA benefits.

Generally, an indirect cost rate is a ratio of total indirect costs to total direct costs, based on an LEA’s actual expenditures, exclusive of any extraordinary or distorting expenditures, such as capital outlay and major subcontracts. When calculating the indirect cost rate, the expenditures for the second preceding fiscal year are used. For example, expenditures for FY 2007 will be used when calculating the rates for FY 2009. The second preceding year is used because the actual costs for the immediately preceding year will not be available at the time the LEA needs to calculate the rate for the following year.

Beginning in FY 2011, LEAs will use the fixed with carry-forward rate for indirect costs. This means that the following year’s rates will be reduced or increased for under/over application of indirect costs in the current year. For example, in FY 2011, the actual indirect costs from FY 2009 will be compared to the estimated FY 2007 indirect costs used to calculate the indirect cost rate in that year. The difference will be applied to the FY 2011 estimated indirect cost used in the calculation of the FY 2011 indirect cost rate.

Indirect costs are recovered only to the extent of direct costs incurred. Once a rate is received, it is applied to the net direct cost amount expended (total direct costs less equipment purchases, alterations and renovations, the portion of individual sub-awards exceeding $25,000, and flow-through funds). The approved rate is the maximum rate and can be applied at less than the maximum.

The sources of information utilized to determine indirect cost rates are the LEA's official audited UFARS (Uniform Financial Accounting and Reporting Standards). Therefore, it is essential that LEAs classify expenditures uniformly and consistently. Types of expenditures, which are identified as indirect costs, shall not also be included as direct costs. All expenditures detailed on UFARS must have been made, and records supporting them must be maintained by the LEA.

CLASSIFICATION OF COSTS

Indirect costs are those costs which are not readily identifiable with the activities of the grant but are, nevertheless, incurred for the joint benefit of those activities and other activities or programs of the organization.

In accordance with OMB Circular A-87, indirect costs are costs meeting the following criteria:

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.

A cost may not be allocated to a federal financial assistance program as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a federal financial assistance program as a direct cost.

Due to the diverse characteristics and accounting practices of state and local agencies, the types of costs which may be classified as indirect costs cannot be specified in all situations. However, typical examples of indirect costs may include: procurement, payroll, personnel functions, maintenance and operations of space, data processing, accounting, auditing, budgeting, communications (telephone, postage), etc.

Direct costs are those that can be identified specifically with a particular cost objective. These costs may be charged directly to grants, contracts, or to other programs against which costs are finally assigned. Typical direct costs chargeable to a grant include, but are not limited to: compensation of employees for the time devoted and identified specifically to the performance of those programs; cost of materials acquired, consumed, or expended specifically for the purpose of those programs; travel expenses incurred specifically to carry out the program, etc.

Disallowed costs, according to OMB Circular A-87, are certain costs for which federal funds cannot be used. These are costs directly attributable to governance. However, for rate computational purposes, these disallowed costs should be included in the base for allocation along with direct costs if they generated or benefited from allowable indirect cost. Examples of disallowed costs are bad debts, contingencies, entertainment, fines and penalties, governance, and/or contributions and donations to outside organizations.

Excluded costs, according to OMB Circular A-87, are costs that are extraordinary or distorting expenditures and are excluded from the computation of the indirect cost rate. Excluded costs in this category include capital outlay, debt service, judgments against the school district, certain transfers, and internal service fund expenditures. For formula computational purposes, these costs are excluded from the rate computation. Indirect cost recoveries on federal or state programs and refunds returned on federal or state programs are also categorized as excluded costs.

RATE TYPES

Restricted rates, as defined in the Education Department General and Administrative Regulations (EDGAR), at 75.563, restricted rates apply to grants that are made under federal programs with supplement and in no case supplant requirements. This means that the funds are for support in addition to state and local funding. Such amounts are intended to supplement, but in no way replace, local funds. Most of the federal grants that the LEA obtains through the department are of the "restricted" type.

Restricted grants include only indirect costs consisting of general management costs and fixed charges as defined below:

General management costs consist of the salaries and expenses for employees performing accounting, payroll preparation, or personnel management activities. Those activities that are limited to one school, subject, or phase of operation are not general management costs such as the salaries and expenditures related to the direction and supervision of such functions as instruction, guidance, attendance, transportation, community services, and student services. The costs of these functions are considered direct costs.

Generally, salaries and expenses for auditing, budgeting, payroll, personnel, purchasing, and employee relations are examples of services which typically benefit several activities and programs for which costs may be attributed by means of an indirect cost proposal. For LEAs this would include most of the costs recorded in General Administrative Support (Program Code 105) and Business Support Services (Program Code 110). In theory, all such costs can be charged directly. However, practical limitation and consideration of efficiency in accounting preclude such an approach and therefore these costs are considered indirect.

(a) As stated in EDGAR 76.565, "general management costs mean the costs of activities that are for the direction and control of the grantee's affairs that are organization-wide. An activity is not organization-wide if it is limited to one activity, one component of the grantee, one subject, one phase of operations, or other single responsibility. General management costs include the costs of performing a service function, such as accounting, payroll preparation, or personnel management, that is normally at the grantee's level even if the function is physically located elsewhere for convenience or better management."

When calculating a restricted indirect cost rate, the term "General Management Costs" does not include expenditures for the governing body (members of the board of education) of the grantee; compensation of the chief executive officer (superintendent of a school district) of the grantee; and operation of the immediate offices of these officers.

Accordingly, the superintendent's and board of education's salary, benefits, communications and telephone charges and other expenditures related directly to the operation of the superintendent's and board of education offices, specifically, are not included in indirect costs and are considered, for rate computation purposes, to be disallowed costs in the calculation of the restricted indirect cost rate.

Charges for individuals whose time is divided between district-wide management responsibilities and specific program or administrative activities will be based on Personal Activity Reports prepared at least monthly in compliance with OMB Circular A-87, Attachment B, Paragraph (11)(h)(5). If the superintendent is part-time, both superintendent-time and non-superintendent-time must be captured by time distribution records.

An individual principal's salary, benefits and expenditures related to the operation of the principal's immediate offices are also not considered indirect costs. These costs are disallowed costs and are considered to be direct costs for rate computation purposes for both the restricted and unrestricted rate.

Fixed charges classified as indirect costs are limited to those amounts which are associated with general management costs. The fixed charges can be viewed as appended to those administrative functions, and the classification rules are the same as those applied to salaries.

These expenditures are exclusively identified as employee retirement, Social Security, pension fund payments, premium expenditures for employee insurance or liability insurance, unemployment and workers compensation, and all similar costs normally considered being employee fringe benefits.

No other items are to be classified as indirect fixed charges.

Note that per OMB Circular A-87, Attachment B (11)(d)(3), payments to separating employees for termination benefits and/or unused leave ("terminal leave costs"; Object Codes 191 and 291) are treated as indirect costs when computing the restricted and unrestricted indirect cost rate with one exception. When computing the restricted indirect cost rate, terminal leave costs to employees who are indirect for the unrestricted rate, but direct for the restricted rate (i.e., superintendent and their office), are considered direct cost payments for rate calculation purposes only. Payments to separating employees for termination benefits and/or unused leave are NOT charged as direct costs to any federal awards.

All Pay-As-You-Go Post-Retirement Health Benefits ("PRHB") will be treated as indirect costs for both the restricted and unrestricted rate regardless of where the employees' salary is recorded, with one exception. For purposes of calculating the restricted rate, PRHB costs associated with superintendent, chief executive officer (CEO) of components (as defined by EDGAR 76.565(d)(2)) and their immediate offices will be treated as direct. All PRHB paid to a trust (up to or equal to the annual required contribution – Object Code 252) will be considered direct costs for the purpose of indirect cost rate calculations. Excess PRHB contributions (Object Codes 289 and 290) will be excluded from the calculation.

Unrestricted Rates apply to grants not subject to the supplement but not supplant legislative restriction.

Indirect Costs - Expenditure for the board of education (Program Code 010), office of the superintendent (Program Code 020), and other administrative support (Program Code 107) in addition to operations and maintenance of plant are classified as an indirect cost when calculating an unrestricted rate. All other costs are classified the same as the restricted rate calculations.

Direct costs, disallowed costs, and excluded costs are also classified the same as the restricted rate calculations.

AUDIT REQUIREMENTS

General Statement – The classification of expenditures will conform to the program and object codes used in the Uniform Financial Accounting and Reporting Standards (UFARS).

Additional Documentation - Indirect Costs – Detailed records are required to support any indirect costs attributed to Program Code 105 (General Administrative Support). These records should contain a detailed analysis of costs classified as indirect which should include a justification or explanation as well as other pertinent information. Failure to provide adequate documentation may result in single audit questioned costs related to indirect cost recovery. All expenditures recorded in Program Code 110 (Business Support Services) do not require additional documentation in support of classification as indirect costs.

Additional Documentation - Excluded Costs – Schedules or other records that document the reporting of all expenditures recorded as excluded costs should be maintained. Failure to document that all excluded type costs have been reflected accurately may result in single audit comments relative to indirect cost calculation.

Generally, records and documentation supporting the indirect cost allocation plan must be retained for a period of five years after the last day of the fiscal year to which the proposal applies or until audited, whichever occurs sooner. If audit exceptions have been noted, records must be retained until those exceptions have been resolved.

BUDGETING INDIRECT COSTS IN FIXED GRANT AWARDS

Use of Rates – Once the applicable rate has been determined, the amount available to earn indirect cost dollars can be computed as follows:

The amount available to earn indirect cost is determined by subtracting excluded costs (items of equipment, subawards/subcontracts in excess of $25,000 and flow-through funds) from the grant award. Note that only the first $25,000 of a subaward/subcontract is included in the Base of Application, and only during the first year of the subaward/subcontract. Amounts exceeding $25,000 during the first year, as well as the entire subaward/subcontract amounts during subsequent years, are excluded from the Base of Application.

The remaining amount is the net available for both indirect and direct costs. To determine the amount available to be assessed indirect costs, the net amount is divided by the combined percentage of 100.00 percent plus the applicable indirect cost rate percentage. For example: the indirect cost rate is 5.45 percent, the total entitlement for a Title 1 project is $945,000.00, and the project included $1,395.00 for capital outlay.

Grant Award $945,000.00
Less: Capital Outlay $1,395.00
Net Available for Indirect and Direct Cost $943,605.00

Amount Available to be Assessed Indirect Costs	*Indirect Cost Dollar Amount =*
$943,605 ÷ 105.45%	$894,836 x 5.45% = Indirect Cost Dollar Amount
$943,605 ÷ 1.0545	$894,836 x .0545 = Indirect Cost Dollar Amount
$894,836	$ 48,769 = Indirect Cost Dollar Amount

NOTE: The above example shows how to calculate the maximum amount of indirect costs that could be claimed against a grant; however, the amount of indirect costs actually paid for a fixed grant will depend on the actual amount of direct costs actually incurred for the grant. In no case can the amount of actual direct costs plus calculated indirect costs plus capital outlay costs exceed the total amount of the fixed grant award.

INDIRECT COST RATE CALCULATION PROCESS

1. The LEA is required to report expenditures in a uniform and consistent manner according to UFARS.

2. The LEA is required to maintain proper timekeeping records and accounting records to support the audited UFARS submission.

3. The LEA is required to utilize and comply with the proper accounting treatment defined in OMB Circular A-87 and EDGAR.

4. The sources of information utilized in completing the indirect rate calculation is obtained from the audited UFARS submitted to the department from the second preceding fiscal year. The department, for the convenience of the LEA, will prepare the calculation for the LEA using the reported UFARS.

5. MDE will publish the calculated rates and post them on the department website at http://education.state.mn.us/MDEAnalytics/Data.jsp. Please scroll down on the Web page to School Finance Spreadsheets > Indirect Cost Rates.

6. Once the indirect cost rate is posted, the rate may be applied at the maximum rate or less than the maximum rate. If the rate applied is less than the maximum rate, then it is not necessary that the reduced rate be applied uniformly to all projects. However, LEAs may not average the indirect cost charges to projects: that is, if the approved rate was six percent, charge one project at three percent and another project at nine percent for an average of six percent.

7. The rate negotiated with the department is the maximum allowable indirect cost rate. Federal law or grant conditions may limit the amount of indirect costs or the indirect cost rate. For example, if a district has a restricted rate of five percent and the law allows only a three percent rate of recovery, then it can recover only indirect costs equal to three percent of the direct costs.

   Grant terms and conditions may also exist for some grants that prohibit any recovery or allow limited recovery of indirect costs. Recovery of indirect costs on grants is subject to the availability of funds. Most restricted grants are allocated to the state as a block grant in which each district is entitled to a maximum grant amount. The total direct costs plus indirect costs cannot exceed the maximum entitlement. Indirect costs are recovered only to the extent of direct costs incurred. The indirect cost rate is applied to the direct cost amount expended, not to the grant award.

An indirect cost rate certification issued by the department is established for a specific fiscal year. The rate is valid from July 1 through June 30 of the applicable fiscal year of approval. To recover indirect costs, LEAs apply the indirect cost rate in effect for a given fiscal year to the grant expenditures during the fiscal year, including any disbursements made on a project balance that is brought forward.

Listed below are the program codes, program categories and object codes used by MDE to establish restricted and unrestricted indirect cost rates. Also identified are the excluded program codes, program categories and object codes to be excluded from the calculations.

RESTRICTED RATE GUIDE
FUND 01, 02, 04

Indirect Costs (numerator)

Program Codes	Program Categories	Object Codes
105	General Administration Support	All-1
110	Business Support Services	All-1
All-4	Terminal Leave	191
All-4	Pay-As-You-Go PRHB	291

Direct/Disallowed Base Costs (denominator)

Program Codes	Program Categories	Object Codes
010	Board of Education	All-1
020	Office of Superintendent	All-1
030	Instructional Administration	All-2
050	School Administration	All-2
107	Other Administration	All-1
200 series	Regular Instruction	All-2
300 series	Vocational Instruction	All-2
400 series	Special Education Instruction	All-2
500 series	Communication Education and Services	All-2
600 series	Instructional Support	All-2
700 series	Pupil Support Services (except 770)	All-2
770	Food Service	All-3
805-810	Operations and Maintenance	All-2
940	Insurance	All-2

Excluded Costs

Program codes	Program Categories	Object Codes
All-5	Federal Sub-award/Subcontract > $25,000	304, 341-349, 351-356
All-5	Payments to Others	307, 390-394, 399
All-5	Capital Expenditures	500-599
All-5	Debt Service	700-799
All-5	Other Expenditures	800-899 except 820 and 899
All-5	Other Financing	900-999
770	Food Service	Objects listed above plus 490-499
850	Capital Facilities	All
855	Alternative Facilities	All
870	Building Construction	All
910	Retirement of Long-Term Obligations	All
920	Retirement of Non-bonded Obligations	All
930	Employee Benefits Clearing Account	All
950	Transfers	All
960	Other Nonrecurring Items	All

All-1 = All costs of the program except: Objects 289, 290, 304, 307, 341-349, 351-356, 390-394, 399, 500-599, 700-799, 800-899 except 820, 897, 899, and 900-999

All-2 = All costs of the program except: Objects 191, 289- 291, 304, 307, 341-349, 351-356, 390-394, 399, 500-599, 700-799, 800-899 except 820, 897, 899, and 900-999

All-3 = All costs of the program except: Objects 191, 291, 304, 307, 341-349, 351-356, 390-394, 399, 490- 499, 500-599, 700-799, 800-899 except 820, 897, 899, and 900-999

All-4 = All Program Codes except: 10, 20, 105, 107, 110, 805, and 810

UNRESTRICTED RATE GUIDE
FUNDS 01, 02, 04

Indirect Costs (numerator)

Program Codes	Program Categories	Object Codes
010	Board of Education	All-1
020	Office of Superintendent	All-1
105	General Administration Support	All-1
107	Other Administration	All-1
110	Business Support Services	All-1
805-810	Operations and Maintenance	All-1
All-4	Terminal Leave	191
All-4	Pay-As-You-Go PRHB	291

Direct/Disallowed Base Costs (denominator)

Program Codes	Program Categories	Object Codes
030	Instructional Administration	All-2
050	School Administration	All-2
200 series	Regular Instruction	All-2
300 series	Vocational Instruction	All-2
400 series	Special Education Instruction	All-2
500 series	Communication Education and Services	All-2
600 series	Instructional Support	All-2
700 series	Pupil Support Services (except 770)	All-2
770	Food Service	All-3
940	Insurance	All-2

Excluded Costs

Program codes	Program Categories	Object Codes
All-5	Federal Sub-award/Subcontract > $25,000	304, 309, 341-349, 351-356, 364
All-5	Payments to Others	307, 390-394, 399
All-5	Capital Expenditures	500-599
All-5	Debt Service	700-799
All-5	Other Expenditures	800-899 except 820 and 899
All-5	Other Financing	900-999
770	Food Service	Objects listed above plus 490-499
850	Capital Facilities	All
855	Alternative Facilities	All
870	Building Construction	All
910	Retirement of Long-Term Obligations	All
920	Retirement of Non-bonded Obligations	All
930	Employee Benefits Clearing Account	All
950	Transfers	All
960	Other Nonrecurring Items	All

All-1 = All costs of the program except: Objects 304, 307, 341-349, 351-356, 390-394, 399, 500-599, 700-799, 800-899 except 820, 897, 899, and 900-999

All-2 = All costs of the program except: Objects 191, 291, 304, 307, 341-349, 351-356, 390-394, 399, 500-599, 700-799, 800-899 except 820, 897, 899, and 900-999

All-3 = All costs of the program except: Objects 191, 291, 304, 307, 341-349, 351-356, 390-394, 399, 490, 491, 495, 499, 500-599, 700-799, 800-899 except 820, 897, 899, and 900-999

All-4 = All Program Codes except: 105, 107, 110, 805, 810, and 850

All-5 = All Program Codes except: 850, 855, 870, 910, 920, 930, 950, and 960

CARRY-FORWARD CALCULATION

Beginning in FY 2011, LEAs will use a fixed rate **with** a carry-forward provision. A fixed rate with carry-forward provision has characteristics of both a provisional rate, which is a temporary rate subject to adjustment, and a predetermined rate, which is a permanent rate not subject to adjustment. A rate is computed and fixed for a specified future period based on an estimate of that future period's level of operations. However, when the actual costs of that period become known, the difference between the estimated costs and the actual costs is carried forward as an adjustment to a subsequent period for which a rate is established. The adjustment cannot be made in the fiscal period immediately following because the fixed rate for the immediately following fiscal period will already have been determined. An adjustment generally will be carried forward to the second fiscal period following the period being adjusted. A fixed rate should be selected that will closely approximate the actual rate expected to be incurred. An accurate forecast will confine carry-forward amounts to minimal differences.

The calculation used for FY 2012 for the restricted and unrestricted carry- forward computations is as follows:

Step #1:
(FY 2010 Actual UFARS Denominator) x (FY 2010 Estimated Indirect Cost Rate*) = Estimated Amount Eligible for Indirect Cost

Step #2:
(Estimated Amount Eligible for Indirect Cost) – (FY 2010 Actual Indirect Cost) = Carryover

Step #3:
(FY 2010 Actual UFARS Numerator) **-** (Carryover) = Adjusted FY 2010 UFARS Numerator

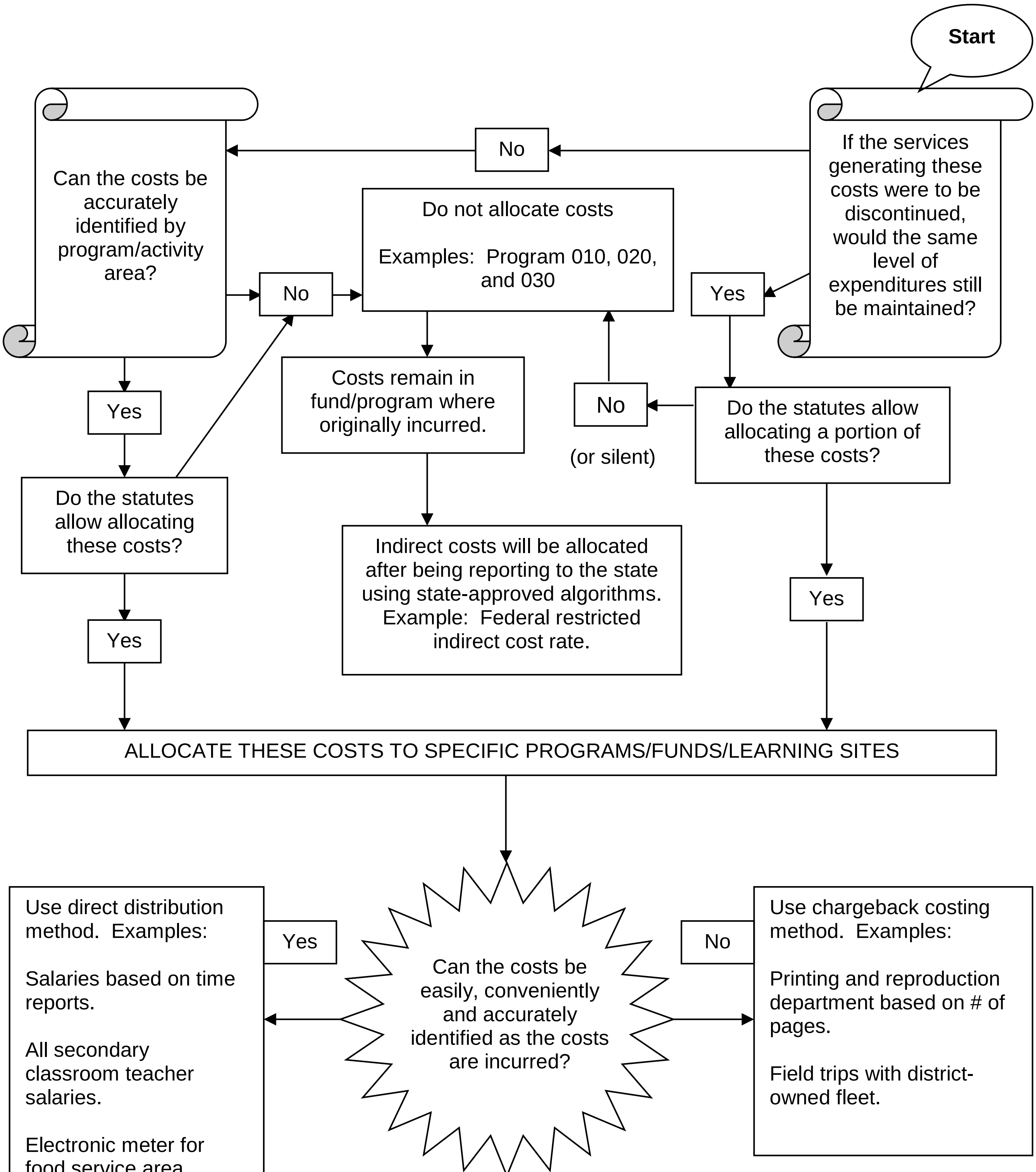
Step #4:
(Adjusted FY 2010 UFARS Numerator) / (FY 2010 Actual UFARS Denominator) = FY 2012 Indirect Cost Rate

*FY 2010 Estimated Indirect Cost Rate was calculated using
(FY 2008 Actual UFARS Numerator) / (FY 2008 Actual UFARS Denominator)

Note: Numerator means the same as indirect costs. Denominator means the same as the direct/disallowed base costs.

ATTACHMENT A

VII. COST ALLOCATION STANDARDS
(to UFARS Program/Funds/Learning Sites)



ATTACHMENT B

UFARS Accounting –Employee Benefits

Program Dimension Code 930 – Employee Benefits

Allocation of Program Costs

According to the UFARS manual, at year-end all costs associated with benefits, Re-employment Insurance, and Workers Compensation are to be allocated to the program which generated the benefit. State reporting requirements to the U.S. Department of Education also require that employee benefits in the Operating Funds be allocated to specific programs which receive the benefit. Because of the above, the description for Program Code 930 was changed to “Employee Benefits (clearing account only).” The Internal Service Fund (20) does not need to have Program Code 930 be zero due to the nature of the fund.

If indirectly allocating employer costs for employee benefits (Object Codes 190, 191, 210-280, 299, 305) that have been charged to Program Dimension Code 930, districts must, at a minimum, allocate employer costs to one or more of the following general areas, using chargeback codes:

Program Code:
- 030 General Administration – Instructional (000 Series)
- 105 District Support Services (100 Series)
- 201 Kindergarten Instructional Services
- 203 Elementary Instructional Services
- 211 Secondary Instructional Services
- 399 Secondary Vocational Instructional Services
- 420 Special Education Instructional Services
- 505 (Fund 04) – Community Service Program (General)(500 Services Except for ECFE)
- 580 (Fund 04) – Early Childhood and Family Education
- 605 Instructional Support Services (600 Series)
- 640 Staff Development
- 760 Pupil Transportation Services
- 770 (Fund 02) – Food Service Program
- 790 Other Pupil Support Services (700 Series except for pupil transportation and food service)
- 810 Operations and Maintenance of Facilities Services (800 Series)

For allocating employee costs for Object Codes 190, 191, 270, 280 and postemployment insurance benefits, Org. Code 005 must be used.

According to the Permitted Code Combinations Chapter in the UFARS manual, there are 11 object codes allowed within Program Code 930 – Employee Benefits (clearing account only). The following table details the recommended procedure for complying with UFARS:

Program 930 – Employee Benefits

OBJECT DIMENSION CODES	DESCRIPTION	DIRECT	CHARGEBACK
190 191	Sabbatical Leave Pay Severance Pay	Code to programs 105, 201, 203, 211, 505, 760, 770, or 810 as costs are incurred.	Determine percentage of these expenditures for Program Codes 105, 201, 203, 211, 505, 760, 770, or 810 and chargeback using Object Code 195.
210 214 218	FICA/Medicare PERA TRA	Using payroll system, allocate these costs associated with each employee to the same programs as the salaries.	Determine percentage of salary for these expenses for each employee bargaining group and chargeback, using Object Code 295.
220	Employee Insurance	Using payroll system, allocate these costs associated with each employee who receives the benefit to the same programs as the salaries.	Determine dollar amount of benefit for each employee by the benefit bargaining unit and chargeback using Object Code 295.
250	Tax Sheltered Annuities/MN Deferred Compensation Plan	Using payroll system, allocate these costs associated with each employee who receives the benefit to the same program as the regular salary.	Same as Object Code 220.
270	Workers Compensation	Identify employees receiving benefit during each billing period and proportionately allocate costs to the same programs as the regular salary.	Determine percentage of salary cost for each worker's compensation category using Program Codes 105, 200, or 810 and proportionately chargeback using Object Code 295.
280	Reemployment Compensation Insurance Note: Dedicated levy revenues should be allocated to Funds 02 and 04 to cover the costs.	Identify employees receiving benefit during each billing period and proportionately allocate costs to the same programs as the regular salary.	Determine program area (105, 200 or 810) for person receiving benefit and proportionately charge back using Object Code 295.
299		See recommended method.	See recommended method.
305	Consulting Fees/Fees for Service	See recommended method.	See recommended method.

Example A – Community Education Building Located in a Non-K-12 Learning Site
If a building was occupied as follows:

Square Footage	Location
30,000	District Office
10,000	Community Education
10,000	Food Service
5,000	Vacant Rooms
5,000	Common Areas
60,000	TOTAL

The amount allocated to Community Education would be determined as follows: The amount of square footage allocated would consist of used space plus a prorated share of common area. The common area is 9.09 percent of used space 5,000/55,000, therefore, community educators would have 10,000 + 10,000 X .0909 = 10,909 square feet allocated to it and the yearly costs would equal $80,000 X 10,909/60,000 = $14,545. From this it follows if Community Education was the sole occupant of a building, they would pay 100 percent of the costs (assuming there was no vacant space).

Example B – Community Education Building Located in a K-12 Learning Site
If community education uses 1,500 square feet of a 10,000 square foot building for 4 hours 3 days a week and the K-12 program uses the space for 8 hours 5 days a week. The allocation to community education would be the percentage of space multiplied by the percentage of time used (this is the percentage of utilization). In this case, the space allocation is 1,500/10,000 = .15. The time allocation is 12/52 = .23 for a utilization of 3.46 percent (.15 X .23). Community education should be allocated 3.46 percent of total costs.

The General Fund should pay for the remaining costs, which include the 77 percent of utilized time and all of the non-used time (weekends, etc.).

Example C – Swimming Pools
The following example shows a calculation with journal entries of a K-12 learning site that has a pool, community education classes, and administration offices in it.

FACTS

Use	Square Footage
Instructional Usage (K-12 and Community Education)	6,000 Square Feet
District Offices	2,000 Square Feet
Community Education Offices	1,000 Square Feet
Pool	1,500 Square Feet
Common Areas	500 Square Feet
Total	11,000 Square Feet

ATTACHMENT C

Costs – All Program Code 810

Object Code	Use	Cost
170	Custodial	$48,000
170	Custodial Overtime for Community Education Other Overtime	$4,000
200s	Benefits	$12,000
300	Utilities, Repairs	$19,000
401	Custodial Supplies, Repair Supplies	$3,000
440	Fuel for Building	$5,000
500	Costs Attributable to Pool (according to study)	$30,000
Total Costs		$91.500

General Community Education classes use 3,000 square feet M-W-F - 4 hours per day
K-12 use 6,000 square feet M-T-W-Th-F – 8 hours per day
Community Education Pool – 8 hours per week
K-12 Pool – 20 hours per week

COMMUNITY EDUCATION COSTS

Facilities Uses

Action	Cost	Description	Action	Cost	Description
	$91,500	Total Costs		11,000	Square Feet
less	4,000	Overtime	less	1,500	Pool
less	30,000	Pool	less	500	Common Areas
	$57,500	Cost to Allocate		9,000	Specific Uses

Allocate Common .0555 = 500/9,000

Location	Square Feet	Comments
K-12	6,334	(6,000 + Prorated Share of Common)
District Office	2,111	(2,000 + Prorated Share of Common)
Community Education Office	1,055	(1,000 + Prorated Share of Common)
	9,500	Total

1) Custodial Overtime - $4,000

2) Community Education Administrative Offices

(Allocated to Community Education)	1,055/9,500 X $57,500 =	$6,385
District Office Cost (These costs are not allocated to maintain program integrity.)	2,111/9,500 X $57,500 =	$12,777
Instructional Space	6,334/9,500 X $57,500 =	$38,338
TOTAL		$57,500

3) A portion of the instructional space must be allocated to community education for use of 3,000 square feet of space 3 days a week, 4 hours a day.

Total Usage is	6,000	Square feet X 8 hours X 5 days =	240,000
	3,000	Square feet X 4 hours X 3 days =	72,000
TOTAL			312,000

Community Education's allocation is 72,000/312,000 = .2307 of the instructional space which is .2307 X $38,338 = $8,847.

4) Pool Costs allocation

Use	Hours
K-12 Usage	20 hours
Community Education Usage	8 hours
Total	28 hours

The Community Education allocation would be 8 / 28 * $30,000 = $8,571

JOURNAL ENTRY

Entry		Code	Debit	Credit
1)	E	04-005-505-000-195-000	$4,000	
2)	E	04-005-505-000-398-000	$6,385	
3)	E	04-005-505-000-398-000	$8,847	
4)	E	04-005-505-000-398-000	$8,571	
5)	G	04-101-00	$27,803	
1)	E	01-005-810-000-195-000		$4,000
2-4)	E	01-005-810-000-398-000		$23,803
5)	G	01-101-00		$27,803

Entry 1) could be made at the time the overtime is incurred which would imply using Object Code 170 rather than 195.

This example is only one method of allocation; other methods may be used as long as they use identifiable costs, allocated using a logical, appropriate methodology.

SECTION 2 – STUDENT TRANSPORTATION SERVICES

The following information on financial accounting and cost allocation methods for student transportation services can also be viewed on the Minnesota Department of Education's website http://education.state.mn.us.

Financial Accounting for Student Transportation Services

Minnesota Statutes, section 123B.92, Subdivision 5 defines how school districts report transportation expenditures. The 2013 legislation amended the law to allow a school district that contracts for transportation services to allocate certain transportation expenses based on contract rates under certain circumstances. It also permits districts to report district-owned transportation expenditures based on a cost-per-mile, cost-per-hour, cost-per-route or a cost-per-student method. The exceptions are:

1. Bus driver salaries and related fringe benefits may either be directly charged to the appropriate transportation category or allocated among categories.

2. Contracts with a privately-owned company or an individual who provides transportation exclusively in "one" transportation category, for example only providing transportation to special education students in district or parent transporting a child to and from school, must be charged directly to the appropriate transportation finance code.

3. Expenditures for capital outlay, leased buses, student board and lodging, crossing guards and aides on buses must be charged directly to the appropriate transportation finance code.

In addition, districts will be limited to which staff salaries can be included in the finance codes associated with the transportation program. Staff salary limitations are being done to ensure an equitable distribution of state aids among districts.

In order to implement this system, districts will be required to keep detailed records in a number of areas. The records may include log sheets on the number of miles, hours or routes traveled, actual time sheets, or time studies for employees who work part-time in transportation. In addition, the district must send worksheets to Minnesota Department of Education (MDE) on how the district arrived at the final costs reported in each transportation category. Also, the district may be asked to supply log sheets, time studies, contracts, etc. The written documentation must be available to the MDE auditor if the transportation program is audited. If districts are unable to produce the written documentation, the expenditures may be disallowed.

Reporting Transportation Expenditures

There are four possible methods of reporting transportation expenditures. Districts that contract for services may allocate based on contract rates or the contract-owned standard allocation method based upon a cost-per-mile, cost-per-hour, cost-per-hour or cost-per-student. Districts that use district-owned transportation services may report expenditures based on direct rates or district-owned standard allocation method based on a cost-per-mile, cost-per-hour, cost-per-route or a cost-per-student. A district may use a variety of these methods to report transportation expenditures at year-end.

Contractor-Owned Transportation Services

School districts that contract for transportation services may allocate their transportation costs either based on contracted rates or the standard cost-per-mile, cost-per-hour, cost-per-route or cost-per-student basis. Transportation services provided by contractor-owned school bus companies incorporated under different names but owned by the same individual or group of individuals must be treated as the same company for cost allocation purposes.

Contract-Owned Allocation Based on Contract Rates

A school district that contracts for transportation service may allocate transportation expenses to transportation categories based upon contract rates. Districts may only allocate transportation expense to transportation categories based upon contract rates if contract rates are reasonably consistent on a cost-per-hour, cost-per-mile, cost-per-route, or cost-per-student basis. In order to allocate transportation expense based upon contract rates, a school district, if audited, must be able to demonstrate to the auditor that variances in the application of transportation cost basis rates are appropriate.

Contract-Owned Standard Cost-per-mile, Cost-per-hour, Cost-per-route, or Cost-per-student Basis

Districts that receive separate bills for different categories of transportation service from a specific contractor must add the bills together and reallocate the expenditures on a cost-per-mile, cost-per-hour, cost-per-route or cost-per-student basis. If further allocation is needed because students from more than one category ride on the same bus run, districts must further allocate the expenditures on a cost-per-student.

District-Owned Transportation Services

School districts may either direct charge district-owned transportation cost or allocate the amount to the transportation categories based on a cost-per-mile, cost-per-hour, cost-per-route, or a cost-per-student basis.

District-Owned Operation – Direct Charged

Districts may directly charge transportation costs to the appropriate categories based on actual costs from detailed records. Detailed records include timesheets or time studies, fuel slips, insurance premiums, etc.

Even though the district reports expenditures based on actual amounts, the number of miles must be reported on the Pupil Transportation Annual Report.

District-Owned Standard Cost-per-mile, Cost-per-hour, Cost-per-route or Cost per-student Basis

School districts may allocate the transportation expenditures among categories based on a cost-per-mile, cost-per-hour, cost-per-route or cost-per-student basis.

Definition of Miles, Hours, Routes

Districts must maintain daily records on miles, hours, or routes in order to properly allocate costs at year end. The miles, hours, or routes reported at year end will be a cumulative total of the daily miles, hours, or routes. The basic route definition is the actual daily path of travel of a school bus from an approved bus facility, a school, or the first pick-up point through a series of pick-up stops and delivery points to a final delivery point plus the shortest reasonable path for the bus to travel back to the approved bus facility, school or first pick-up point.

Counting Miles

The starting mileage is the odometer reading when the vehicle starts its route. The ending mileage is the odometer reading when the vehicle terminates its route. The starting or ending mileage may be taken at a school or at the vehicle storage area.

Counting Hours

The starting hour is when the vehicle starts its route. The ending hour is when the vehicle terminates its route. The staring or ending hour may be taken at a school or at the vehicle storage area.

Counting Routes

A route must consist of a trip “to and from” a school, program, event, etc. Each run on a route will be counted as a route.

Following are some examples on how districts would report routes. In the following examples, the school district has 175 student contact days.

• For a bus route that consists of a secondary/elementary run and a special education run each day, the district would report 175 regular routes in the Regular/Excess Category and 175 special education routes in the Disabled Category.

• If a district has 10 regular routes to and from school daily, the district would report 1,750 (10 x 175) regular routes in the Regular/Excess Category on the year-end report.

• If a special education student was placed in a program for 30 days and transported to and from the program daily, the district would report 30 special education routes in the Disabled Category on the year-end report.

•Each student activity trip or field trip would be a route. This is true even though the routes will vary in length. These routes will be reported in the Non-authorized Category on the year-end report.

• If the district operates a late bus that takes students home after school every day of the school year, the district would report 87.5 (175 / 2) routes in the Late Activity Category. This is because the route did not operate “to and from” a school, program or event.

Mileage, Hour, or Route Log

Based on the cost allocation method used, districts must maintain either a mileage, hour or route logs for buses in their district-owned fleet. Districts that contract for school bus service must obtain the records from the contractor.

It is imperative that the beginning and ending mileage be recorded for each bus on July 1 at the beginning of the fiscal year and on June 30 at the end of the fiscal year. If a bus is used on a predetermined route (same miles every day), the daily miles, hours or routes should be multiplied by the number of days in the school year to determine the annual mileage for the vehicle. It is important to determine the type of route, for example regular (Finance Dimension 720), special education (Finance Dimension 723), student activity trip (Finance Dimension 733), etc.

When buses are not used on predetermined routes, mileage, hours or routes must be recorded by trip. A bus route begins when a bus leaves a point, for example a garage, home, or school empty and proceeds on a route picking up pupils and then traveling to a school(s) until the bus is empty and returning the pupils to a designated point after school. A bus route may have more than one run. For example, it is possible to have six runs on the same route, one high school run, one middle school run, and one elementary run, both morning and afternoon.

There are sample monthly logs in this manual if the district/contractor does not have a system currently in place. The log on page 54 can be used for predetermined routes. The log on page 55 should be used when the length of the route varies from trip to trip. If districts do not use these mileage logs, an equivalent substitute log may be used.

Salaries and Fringe Benefits

A district may include the salaries and benefits of 1) an employee designated as the district transportation director, 2) an employee providing direct support to the transportation director or 3) an employee providing direct transportation services such as a bus driver or bus aide. Salaries and fringe benefits of district employees, whose primary duties are other than transportation, including central office administrators and staff, building administrators and staff, teachers, social workers, school nurses and instructional aides cannot be included in finance codes associated with the transportation program unless the employee has been designated as the district’s transportation director.

The salaries and fringe benefits of the district employees who work part-time in transportation and part-time in other areas (e.g., custodian/bus driver, MARSS Secretary/Transportation Secretary) may only be included in transportation if there is written documentation. For part-time transportation employees, the following forms of documentation will be acceptable:

1. Timesheets: timesheets must identify the hours worked on transportation responsibilities. The employee and his/her supervisor must sign and date the time sheets.

2. Time Studies: time studies must be conducted at least three times during a school year. The first time period studied should be from August 15 through September 15; the second period should be from January 15 to February 15; and the third time period should be from April 15 through May 15. The time study must include the name of the employee, title, specific transportation job responsibilities, and the hours worked on those responsibilities. The employee and his/her supervisor must sign and date the time study. There is a sample time study on page 56 of this manual that may be used for this purpose.

Failure to sign and date any of the above documents will result in an employee's salaries/fringe benefits being disallowed. In addition, districts may be asked to produce position descriptions identifying a part-time employee's transportation responsibilities. General statements such as "works on transportation matters" will not be acceptable. An after-the-fact time study or survey will not be accepted. The time study must be done during the specified time periods.

For full-time transportation employees, the only acceptable form of written documentation will be contracts, agreements or position descriptions that identify the specific transportation responsibilities of each employee.

Once the total amount of salaries/fringe benefits have been identified for full-time and part-time employees, the salaries/fringe benefits may or may not be allocated among all finance dimensions depending on the employee's transportation responsibilities. For example, if an employee works only on arranging transportation for student activity and field trips, that employee's salaries/fringe benefits may only be charged to the finance dimension associated with that type of service (733 – Non-authorized Transportation).

Overview of District in the Sample

The following are sample cost allocations for a district to use in allocating its transportation expenditures. Districts may allocate its expenditures based on either miles, hours, routes or students. These examples use miles as a cost driver. Districts that choose to allocate either on hours, routes or students should use those as cost drivers instead.

This introduction gives a general overview on what type of transportation services the district is providing. It is recommended that transportation costs that are to be allocated based on miles be coded to Finance Dimension 720, Regular To and From School, during the school year. Districts would then allocate those expenditures to other finance dimensions or transportation categories at the end of the school year based on the cost allocation method. The following is an explanation of the types of expenditures and the level of transportation services offered by the district used in the samples.

Determining Total Transportation Expenditures for the Year

When allocating by the standard mileage, hour or route rate, districts must first determine their total transportation expenditures for the entire school year. If the district contracts for bus service and the privately-owned school bus company or companies send separate bills for the different categories of transportation, the bills must be added together to determine total transportation expenditures for the year and then allocated among the categories of service that the contractor provided for the district. The exception would be for those contractors that provide only one type of transportation service.

Contractor-Owned Operation – Allocation Based on the Standard Mileage, Hour or Route Rate

The district contracts for all pupil transportation services. All bills from the contractor are recorded in Finance Dimension 720 during the school year and allocated to other finance dimensions by a cost per mile or student.

The district transports students to and from school (both regular and special needs students on regular routes), between school buildings, kindergarten students at noon, students home after school (late activity), special routes to and from school for students with disabilities, student activity trips, and field trips. The district also has its contractor travel outside the district to pick up open enrollment students. It also transports some students to and from school who live less than one mile from school and who were ineligible for transportation (no hazards).

This district contracts with two privately-owned school bus companies. One company provides most of the district's transportation services. The second company only transports special needs students from the resident district to another district so that the student may attend special education classes in that district.

The district also has a part-time transportation director and secretary who work with the contractor by designing transportation routes, determining safe school bus stops, dealing with discipline issues, coding students and expenditures for state reporting, and negotiating contracts. An individual was hired by the district to assist students at hazardous crossings.

The following is an explanation of the exhibits in this sample cost allocation:

Exhibit A lists all transportation expenditures. Those marked with an asterisk are allocated among all finance dimensions.

Exhibit B is the year-end pupil transportation data reported by the district. Mileage and students reported on this page will be used to allocate expenditures among all finance dimensions.

Exhibit C is the items marked with an asterisk in Exhibit A and the calculation of the cost-per-mile.

Exhibit D shows the steps necessary to determine the total cost of each category. The amount the district paid to the second contractor for transporting students with disabilities is coded directly to Finance Dimension 723 along with the cost of transporting those students on the regular bus routes. Also, the salaries paid to an individual who assisted students at hazardous crossings are coded directly to Finance Dimension 719.

Although districts are still required to report the number of students transported in the secondary one-to-two mile and hazard riders' categories (also known as excess), they are no longer required to allocate costs separately for these transportation services. The costs are coded to Finance Dimension 720, Regular.

Exhibit E shows how the district determined the cost per student riding on regular bus routes and/or the cost per mile.

Exhibit F shows the journal entries necessary to record the expenditures in the proper finance dimension.

Total Transportation Expenditures, Exhibit A

Description	UFARS Code	Amount
*Transportation Supervisor Salary	01-005-760-720-110	$44,106.55
*Secretary Salary	01-005-760-720-170	21,603.36
Crossing Guard Salary	01-005-760-719-170	5,339.25
*FICA/Medicare	01-005-760-720-210	5,437.33
*PERA	01-005-760-720-214	3,930.51
*Group Hospitalization Insurance	01-005-760-720-220	3,426.99
*Group Dental Insurance	01-005-760-720-220	420.00
*Other Employee Benefits	01-005-760-720-220	135.85
*Workers Compensation	01-005-760-720-270	962.00
*Snow Removal	01-005-760-720-305	3,859.05
*Data Processing Services	01-005-760-720-316	362.94
*Communication Services	01-005-760-720-320	427.87
*Repair and Maintenance Services	01-005-760-720-350	6,117.30
*Transportation Contract Private Carrier	01-005-760-720-360	495,382.96
Transportation Contract Private Carrier	01-005-760-723-360	12,602.91
TOTAL TRANSPORTATION EXPENDITURES		$604,114.87

Pupil Transportation Data Reported on Year-end Reports, Exhibit B

The following data were reported on the MARSS Report and the Pupil Transportation Annual Report by the district in this sample. These data are used to calculate the cost per mile (Exhibits C and D) and the cost per student (Exhibit E).

TO AND FROM SCHOOL TRANSPORTATION CATEGORIES – REGULAR TERM

FINANCE DIMENSION	CATEGORY	PUBLIC STUDENTS FROM MARSS	NONPUBLIC STUDENTS FROM ANNUAL REPORT
720	REGULAR EARLY CHILDHOOD DISABLED	0	0
720	REGULAR ELEMENTARY (K-6)	423	35
720	REGULAR SECONDARY (7-12)	318	17
720	EXCESS (SECONDARY 1-2 and Hazards Riders)	56	6
723	DISABLED	7	0
728	SPECIAL TRANSPORATION	0	0
714	DESEGREGATION	0	N/A
737	INELIGIBLE/NONRESIDENT	2	0
TOTAL TO AND FROM		806	58

SCHOOL BUSES

OWNERSHIP	TYPE A	TYPE B	TYPE C	TYPE D	TYPE III	MFSAB	TOTAL
DISTRICT-OWNED	0	1	12	3	2	0	18
DISTRICT-OWNED SPECIAL EDUCATION	0	0	0	0	2	0	1
CONTRACT-OWNED	0	0	0	0	1	1	2
NONPUBLIC-OWNED	0	0	0	0	0	0	0
TOTAL	0	1	12	3	5	1	22

MILEAGE BY CATEGORY

FINANCE DIMENSION	CATEGORY	DISTRICT MILEAGE	CONTRACT MILEAGE
720	REGULAR/EXCESS	0	233,485
711	LEARNING YEAR SUMMER	0	0
713	OPEN ENROLLMENT OUTSIDE DISTRICT	0	1,400
714	INTERDISTRICT DESEDGREAGTION	0	0
315	INTRADISTRICT	0	0

FINANCE DIMENSION	CATEGORY	DISTRICT MILEAGE	CONTRACT MILEAGE
	DESEGREGATION		
716	NOON KINDERGARTEN	0	35,113
717	LATE ACTIVITY PUBLIC	0	0
721	SUMMER SCHOOL REGULAR	0	0
723	DISABLED	0	3,652
725	BETWEEN SCHOOL BUILDINGS PUBLIC	0	7,962
726	BETWEEN SCHOOL BUILDINGS NONPUBLIC	0	0
728	SPECIAL	0	0
733	NONAUTHORIZED	0	43,715
737	INELIGIBLE	0	0
739	LOW INCOME MILEAGE REIMBUSEMENT	0	0
TOTAL		0	325,327

Total Expenditures to be Allocated, Exhibit C

Description	UFARS Code	Amount
*Transportation Supervisor Salary	01-005-760-720-110	$44,106.55
*Secretary Salary	01-005-760-720-170	21,603.36
*FICA/Medicare	01-005-760-720-210	5,437.33
*PERA	01-005-760-720-214	3,930.51
*Group Hospitalization Insurance	01-005-760-720-220	3,426.99
*Group Dental Insurance	01-005-760-720-220	420.00
*Other Employee Benefits	01-005-760-720-220	135.85
*Workers Compensation	01-005-760-720-270	962.00
*Snow Removal	01-005-760-720-305	3,859.05
*Data Processing Services	01-005-760-720-305	362.94
*Communication Services	01-005-760-720-316	427.87
*Repair and Maintenance Services	01-005-760-720-350	6,117.30
*Transportation Contract Private Carrier	01-005-760-720-360	495,382.96
TOTAL – EXPENDITURES MARKED WITH ASTERISK		$586,172.71

COST PER MILE CALCULATION

Total Expenditures to Be Allocated / Total Mileage (Contractor-Owned Fleet) = Cost Per Mile
$586,172.71 / 321,675 = $1.82 Cost Per Mile.

Determination of Expenditures for Each Finance Dimension, Exhibit D

NOON KINDERGARTEN, FINANCE DIMENSION 716

Allocated Mileage Cost: 35,113 miles X $ 1.82	$63,905.66

HAZARDS - WALKERS, FINANCE DIMENSION 719

Crossing Guard Salaries	$5,339.25

DISABLED, FINANCE DIMENSION 723

Contract with Private Operator	$12,602.91
Allocated Regular Route Cost (See Exhibit E)	$3,448.69
Total Disabled Transportation Cost	$16,051.60

BETWEEN SCHOOL BUILDINGS - PUBLIC, FINANCE DIMENSION 725

Allocated Mileage Cost: 7,962 miles X $ 1.82	$14,490.84

OPEN ENROLLMENT OUTSIDE DISTRICT, FINANCE DIMENSION 713

Allocated Mileage Cost: 1,400 miles X $ 1.82	$2,548.00

INELIGIBLE/NONRESIDENT STUDENTS, FINANCE DIMENSION 737

Allocated Regular Route Cost (See Exhibit E)	$985.34

(NOTE: This district charges the parents of these students a fee for this transportation service. The district would record the fees received from the parents in UFARS Revenue Account 01-xxx-760-737-050-000.)

NONAUTHORIZED TRANSPORTATION, FINANCE DIMENSION 733

Allocated Mileage Cost: 43,715 miles X $ 1.82	$79,561.30

Calculation of a Cost Per Student – Regular Bus Route, Exhibit E

TOTAL STUDENTS TRANSPORTED ON REGULAR BUS ROUTES

Eligible Public Students	741
Eligible Nonpublic Students	52
Students with Disabilities on Regular Routes	7
Excess (Secondary One-To-Two Mile and Hazards -Riders)	62
Ineligible/Nonresident Students	2
Total Students Transported on Regular Bus Routes	864

NET COST REGULAR TO AND FROM SCHOOL

Total Expenditures (Exhibit A)		$604,114.87
Less:	Noon Kindergarten (Fin Dim 716)	63,905.66
	Hazards-Walkers (Fin Dim 719)	5,339.25
	Disabled (Fin Dim 723)	12,602.91
	Between School Buildings-Pub (Fin Dim 725)	14,490.84
	Open Enrollment-Outside (Fin Dim 713)	2,548.00
	Non-authorized Transportation (Fin Dim 733)	79,561.30
		(178,447.96)
Net Cost Regular To and From School		$425,666.91

CALCULATION OF COST PER STUDENT

Net Cost Regular To and From School / Total Students Transported on Regular Bus Routes = Cost Per Student on Regular Bus Routes

$425,666.91 / 864 = $492.67 Cost Per Student

Disabled, Fin Dim 723: 7 Students X $492.67 =$3,448.69

Ineligible/Nonresident, Fin Dim 737: 2 Students X $492.67 =$985.34

Journal Entries – Allocated Expenditures, Exhibit F

The following are the journal entries that are necessary to transfer expenditures to the proper finance dimensions. Only the allocated mileage and regular route costs will be transferred. Salaries, contractor's fees, and equipment purchases are directly coded to the proper finance dimensions when they are paid.

Transportation Category	Fund	Org	Prg	Fin	Obj	Debit	Credit
Noon Kindergarten	01	005	760	716	365	$63,905.66	
Disabled	01	005	760	723	365	3,448.69	
Between School Building Public	01	005	760	725	365	14,490.84	
Open Enrollment Outside District	01	005	760	713	365	2,548.00	
Ineligible/ Nonresident	01	005	760	737	365	985.34	
Non-authorized	01	005	760	733	365	79,561.30	
Regular	01	005	760	720	365		$164,939.83

The total dollar amounted debited to Object Dimension 365, Transportation Chargebacks, is $164,939.83. This amount equals the total dollar amount credited to Object Dimension 365, Transportation Chargebacks. Remember, whenever a district uses a chargeback code, the dollar amounts debited and credited to a chargeback code must zero out at year-end.

Cost Allocation by Mileage for Combination District-owned and Contract-owned Operation

Many school districts own school buses and also contract for some school bus service. There are some transportation expenditures that relate to both types of service and, therefore, must be allocated based on the total miles incurred for both types. Examples of these expenditures include the transportation supervisor's salary/fringe benefits and snow removal. The transportation supervisor oversees both the district- and contractor-owned operations. Snow is removed from the bus loading and unloading areas for both district- and contractor-owned buses.

Expenditures reported by a contractor who provides services for more than one transportation category must have the contractor's expenses allocated among all categories provided by the contractor on a cost per mile. The only exception would be a contractor who works exclusively in one area. In that situation, the one contractor's bills will be directly charged to the appropriate code.

Following is a list of the expenditures that are to be allocated in this sample district. The district has other transportation expenditures that are charged directly to the appropriate finance dimension (e.g., bus purchase). The direct-charged expenditures are not shown in this sample. The district in this sample codes all costs to be allocated to Finance Dimension 720, Regular To and From School, during the school year. At year-end, it moves the costs, using Object Dimension 365, Interdepartmental Transportation (Chargebacks), to the appropriate finance dimensions based on the amounts determined during this allocation process.

As noted earlier, some of expenditures to be allocated relate to both types of service. Those expenditures are listed under the column titled District- and Contractor-Owned Vehicles. Expenditures to be allocated among the categories utilizing district-owned vehicles are listed under the District-Owned Vehicles Column and expenditures to be allocated among the categories utilizing the contractor-owned vehicles are listed under the Contractor-Owned Vehicles Column.

Costs To Be Allocated	UFARS Code	District-Owned Vehicles	Contractor-Owned Vehicles	District- and Contractor-Owned Vehicles
Transportation Supervisor Salary	01-005-760-720-110-000			60,389.42
FICA	01-005-760-720-210-000			4,619.79
PERA	01-005-760-720-214-000			3,339.53
Medical/Dental/Life Insurance	01-005-760-720-220-000			9,058.41
Workers Compensation	01-005-760-720-270-000			905.84
Re-employment Compensation	01-005-760-720-280-000			47.05
Safety and Driver Trainer Salary	01-005-760-720-170-000			41,392.22
Transportation Secretaries Salaries	01-005-760-720-170-000			78,928.23
FICA	01-005-760-720-210-000			9,204.51
PERA	01-005-760-720-214-000			6,653.72
Medical/Dental/Life Insurance	01-005-760-720-220-000			18,048.47
Workers Compensation	01-005-760-720-270-000			1,804.81
Re-employment Compensation	01-005-760-720-280-000			93.74
Bus Drivers Salaries	01-005-760-720-170-000			965,395.56
Mechanics Salaries	01-005-760-720-170-000			85,393.20
Custodians Salaries who Drive Bus	01-005-760-720-170-000			28,392.48
FICA	01-005-760-720-210-000			70,146.78
PERA	01-005-760-720-214-000			55,038.24
Medical/Dental/Life Insurance	01-005-760-720-220-000			196,410.31
Workers Compensation	01-005-760-720-270-000			19,021.01
Re-employment Compensation	01-005-760-720-280-000			998.04
Physicals/Drug Testing	01-005-760-720-305-000			7,103.65
Licenses	01-005-760-720-305-000			934.28
Advertising	01-005-760-720-305-			12,075.36

Costs To Be Allocated	**UFARS Code**	**District-Owned Vehicles**	**Contractor-Owned Vehicles**	**District- and Contractor-Owned Vehicles**
	000			
Duplicating/Copying	01-005-760-720-305-000			217.00
Snow Removal	01-005-760-720-305-000			3,766.82
Communications/ Telephones	01-005-760-720-320-000			804.27
Water/Sewer/Garbage	01-005-760-720-330-000			2,096.30
Electricity	01-005-760-720-330-000	21,712.45		
Property Insurance	01-005-760-720-340-000	38,958.79		
Repair and Maintenance Buildings	01-005-760-720-350-000	19,429.06		
Repair and Maintenance Equipment	01-005-760-720-350-000	18,001.58		
Transportation Contracts	01-005-760-720-360-000		317,496.50	
Travel Expense	01-005-760-720-366-000	4,337.94		
General Supplies	01-005-760-720-401-000	6,509.25		
Uniforms	01-005-760-720-401-000	3,413.73		
Oil and Grease	01-005-760-720-401-000	5,810.36		
Tires and Tubes	01-005-760-720-401-000	12,992.58		
Fuel	01-005-760-720-440-000	159,292.31		
Dues Membership	01-005-760-720-820-000	70.00		
TOTAL COSTS TO BE ALLOCATED:		$1,734,554.53	$317,496.50	$238,252.56

Calculation to Determine Cost per Mile

District-Owned Vehicles	Contractor-Owned Vehicles	District- and Contractor-Owned Vehicles
$1,734,554.53 = Rate Per Mile Mileage on District-Owned Vehicles	$317,496.50 = Rate per Mile Mileage on Contractor-Owned Vehicles	$238,252.56 = Rate per Mile Mileage on Both District- and Contractor-Owned Vehicles

Mileage was obtained from the Pupil Transportation Annual Report. For categories that used district-owned vehicles, a district would multiply the mileage on district-owned vehicles times both the District-Owned Vehicles Rate and the District- and Contractor-Owned Vehicles Rate. For categories that used contractor-owned vehicles, a district would multiply the mileage on contractor-owned vehicles times the Contractor-Owned Vehicles Rate and the District- and Contractor-Owned Vehicles rate. There will be four calculations for those categories where the district used both district-owned and contractor-owned vehicles. The district would add the results together along with other costs that were directly charged to determine the total cost of providing the transportation service.

District-Owned Operation – Allocation Based on the Standard Mileage, Hour or Route Rate

The district included the salary of the transportation supervisor and his staff (router, dispatcher, secretary, etc.). Their salaries and fringe benefits, along with the mechanic's salary and fringe benefits, are allocated among all finance dimensions or directly charged to the category that the employee preformed their work in. Bus driver salaries and fringe benefits may be coded directly to the appropriate finance dimensions. For example, the salary paid to the bus driver of the noon kindergarten route could be coded directly to Finance Dimension 716, Object Dimension 170. If detailed records are not available, bus driver salaries and fringe benefits may be coded to Finance Dimension 720 and allocated among all finance dimensions like the salaries of the transportation director, dispatcher, router, etc.

Students with disabilities rode the regular bus route to school but then transferred to a special bus route to go to the location of their special education classes. This is a contracted special route and this contractor did not provide any other transportation services in the district. The amount paid to the contractor for transporting students with disabilities in this instance is coded directly to Finance Dimension 723 and not allocated among all finance dimensions. Object Dimension 360 should be used for all contracted transportation services. The district must also include the cost of transporting the students with disabilities on the regular bus route in Finance Dimension 723.

The district also hired an individual to assist students at hazardous crossings on their walk to and from school. The salary and fringe benefits of this individual must be coded directly to Finance Dimension 719.

The district also travels outside its borders to pick-up and discharge nonresident public school open enrollment students. The mileage incurred outside the district is not authorized (Minnesota Statutes 123B.92, Subd. 3). Districts must report expenditures for this travel to Finance Dimension 713.

The expenditures for repairs made to a school bus after an accident was reimbursed by the district's insurance company. These expenditures were properly coded to Finance Dimension 720 – Regular To and From School, Object Dimension 350 - Repairs and Maintenance Services. The insurance receipts were coded to Finance Dimension 720, Source Dimension 625 - Insurance Recovery. Insurance receipts for repairs must be deducted from the expenditures before those expenditures can be allocated to all finance dimensions. In other words, the repair expenditures covered by insurance receipts must remain in Finance Dimension 720 and not allocated to other finance dimensions. See Exhibit C. In addition, MDE will reduce expenditures reported in Finance Dimension 720 by the insurance receipts recorded in Finance Dimension 720, Source Dimension 625. This will be done before the expenditures are transferred to the transportation aids database for the calculation of the final transportation aid payment. The reason for this step is so that the expenditures already reimbursed by an insurance company will not be included as authorized expenditures in Finance Dimension 720.

Capital expenditures (purchase of school buses, vans, radios, etc.) must be coded directly to Finance Dimension 302 or 000. See information at the bottom of Exhibit A to determine the appropriate finance dimension to use. Refer to the 500 Object Series in your Uniform Finance Accounting and Reporting Standards (UFARS) Manual for a definition of capital expenditures. Also, loan interest must be coded directly to Finance Dimension 733.

Expenditures for purchased services, supplies, materials, insurance, fuel, etc., may be allocated among all finance dimensions.

Once it is known at year-end how many miles were traveled for each type of transportation service or how many students were transported, that information will be used to calculate the cost per mile or the cost per student. Districts would divide the expenditures coded to Finance Dimension 720 by the total number of miles (see Exhibit C) to determine the cost per mile or students.

Districts determine the cost for each type of service by multiplying the mileage or students reported in each category times the rate that was just calculated. If students from more than one category are riding on the same bus routes together, the district will have to allocate costs to some categories based on a cost per student or a cost per mile (see Exhibit E). This is especially true for the Ineligible Category. Usually districts transport these students on the regular school bus routes.

Once districts have determined the total expenditures for each category, they move the expenditures using Object Dimension 365- Transportation Chargebacks, from Finance Dimension 720 to the other finance dimensions or categories by debiting the other finance dimensions by the amount that was calculated and crediting Finance Dimension 720. Remember that the total dollar amount debited to a chargeback code must equal the total dollar amount credited to the chargeback code.

The following is an explanation of the exhibits in this sample cost allocation:

Exhibit A lists all transportation expenditures. Those marked with an asterisk are allocated among all finance dimensions.

Exhibit B is the year-end pupil transportation data reported by the district. Mileage and students reported on this page will be used to allocate expenditures among all finance dimensions.

Exhibit C is the items marked with an asterisk in Exhibit A, subtraction of insurance receipts, and the calculation of the cost per mile.

Exhibit D shows the steps necessary to determine the total cost of each category. This district coded salaries directly to each finance dimension (see Exhibit A) and allocated the cost of operating the vehicles (see Exhibits B and C). (Normally, salaries and fringe benefits would be coded directly to the proper finance dimension. This sample, however, shows the fringe benefits being allocated in the cost of operating the vehicles.) The amount the district paid to the contractor for transporting students with disabilities is coded directly to Finance Dimension 723 along with the cost of transporting those students on the regular bus routes. See Exhibit E for the method used to calculate the cost per student riding on regular bus routes.

Although districts are still required to report the number of students transported in the secondary one-to-two mile and hazard riders' categories (also known as excess), they are no longer required to allocate costs separately for these transportation services. The costs are coded to Finance Dimension 720, Regular.

Exhibit E shows how the district determined the cost per student riding on regular bus routes and/or the cost per mile.

Exhibit F shows the journal entries necessary to record the expenditures in the proper finance dimension.

Total Transportation Expenditures, Exhibit A

Description	UFARS Code	Amount

Description	UFARS Code	Amount
*Transportation Supervisor Salary	01-005-760-720-110	$39,814.65
*Secretary Salary	01-005-760-720-170	27,302.71
Bus Driver Salaries	01-005-760-720-170	127,678.39
*Bus Mechanic Salary	01-005-760-720-170	27,861.54
Bus Driver Salaries	01-005-760-716-170	13,117.08
Crossing Guard Salary	01-005-760-719-170	5,339.25
Bus Driver Salaries	01-005-760-725-170	3,404.10
Bus Driver Salaries	01-005-760-733-170	19,982.32
*FICA/Medicare	01-005-760-720-210	20,983.12
*PERA	01-005-760-720-214	12,183.75
*Group Hospitalization Insurance	01-005-760-720-220	8,207.33
*Group Dental Insurance	01-005-760-720-220	1,539.11
*Other Employee Benefits	01-005-760-720-220	763.00
*Workers Compensation	01-005-760-720-270	4,873.50
*Snow Removal	01-005-760-720-305	941.66
*Data Processing Services	01-005-760-720-316	1,061.45
*Communication Services	01-005-760-720-320	805.78
*Utility Services	01-005-760-720-330	3,514.63
*Liability Insurance	01-005-760-720-340	8,106.42
*Repair and Maintenance Services	01-005-760-720-350	6,117.30
Transportation Contract Private Carrier	01-005-760-720-360	12,602.91
*Custodial Supplies	01-005-760-720-401	453.75
*Repair Supplies	01-005-760-720-401	5,146.39
*Fuels	01-005-760-720-440	60,119.47
Bus Equipment	01-005-760-302-532 or 01-005-000-302-532	8,442.01
Pupil Transportation Vehicle	01-005-760-302-548 or 01-005-000-302-548	35,061.70
Total Transportation Expenditures		$455,423.32

*Expenditures to be allocated – See Exhibit C.

- Use Finance Dimension 302 if the district is purchasing equipment/school bus from the Reserved for Operating Capital.

- Use 000 for the finance dimension if the district is purchasing equipment/school bus from the unreserved, undesignated money in the General Fund.

Pupil Transportation Data Reported on Year-end Reports, Exhibit B

The following data were reported on the MARSS Report and the Pupil Transportation Annual Report by the district in this sample. These data are used to calculate the cost per mile (Exhibits C and D) and the cost per student (Exhibit E).

TO AND FROM SCHOOL TRANSPORTATION CATEGORIES – REGULAR TERM

FINANCE DIMENSION	CATEGORY	PUBLIC STUDENTS FROM MARSS	NONPUBLIC STUDENTS FROM ANNUAL REPORT
720	REGULAR EARLY CHILDHOOD DISABLED	0	0
720	REGULAR ELEMENTARY (K-6)	423	35
720	REGULAR SECONDARY (7-12)	318	17
720	EXCESS (SECONDARY 1-2 and Hazards Riders)	56	6
723	DISABLED	7	0
728	SPECIAL TRANSPORATION	0	0
714	DESEGREGATION	0	N/A
737	INELIGIBLE/NONRESIDENT	2	0
TOTAL TO AND FROM		806	58

SCHOOL BUSES

OWNERSHIP	TYPE A	TYPE B	TYPE C	TYPE D	TYPE III	MFSAB	TOTAL
DISTRICT-OWNED	0	1	12	3	2	0	18
DISTRICT-OWNED SPECIAL EDUCATION	0	0	0	0	2	0	1
CONTRACT-OWNED	0	0	0	0	1	1	2
NONPUBLIC-OWNED	0	0	0	0	0	0	0
TOTAL	0	1	12	3	5	1	22

MILEAGE BY CATEGORY

FINANCE DIMENSION	CATEGORY	DISTRICT MILEAGE	CONTRACT MILEAGE
720	REGULAR/EXCESS	184,741	0
711	LEARNING YEAR SUMMER	0	0
713	OPEN ENROLLMENT OUTSIDE DISTRICT	1,400	1,400
714	INTERDISTRICT DESEDGREAGTION	0	0

FINANCE DIMENSION	CATEGORY	DISTRICT MILEAGE	CONTRACT MILEAGE
315	INTRADISTRICT DESEGREGATION	0	0
716	NOON KINDERGARTEN	35,113	0
717	LATE ACTIVITY PUBLIC	0	0
721	SUMMER SCHOOL REGULAR	0	0
723	DISABLED	IN REGULAR	3,652
725	BETWEEN SCHOOL BUILDINGS PUBLIC	7,962	7,962
726	BETWEEN SCHOOL BUILDINGS NONPUBLIC	0	0
728	SPECIAL	0	0
733	NONAUTHORIZED	50,224	0
737	INELIGIBLE	0	0
739	LOW INCOME MILEAGE REIMBUSEMENT	0	0
TOTAL		279,440	3,652

Total Expenditures to be Allocated, Exhibit C

Description	UFARS Code	Amount
*Transportation Supervisor Salary	01-005-760-720-110	$44,106.55
*Secretary Salary	01-005-760-720-170	21,603.36
*FICA/Medicare	01-005-760-720-210	5,437.33
*PERA	01-005-760-720-214	3,930.51
*Group Hospitalization Insurance	01-005-760-720-220	3,426.99
*Group Dental Insurance	01-005-760-720-220	420.00
*Other Employee Benefits	01-005-760-720-220	135.85
*Workers Compensation	01-005-760-720-270	962.00
*Snow Removal	01-005-760-720-305	3,859.05
*Data Processing Services	01-005-760-720-305	362.94
*Communication Services	01-005-760-720-316	427.87
*Repair and Maintenance Services	01-005-760-720-350	6,117.30
*Transportation Contract Private Carrier	01-005-760-720-360	495,382.96
TOTAL – EXPENDITURES MARKED WITH ASTERISK		$586,172.71

The repair and maintenance service amount above includes $1,500 in expenditures that were reimbursed by the district's insurance company. The insurance receipt was coded to Finance Dimension 720, Source Dimension 625. Before allocating the expenditures to all finance dimensions, the insurance receipts must be subtracted from the total. See table below:

Total – Expenditures marked with asterisk	$229,795.56
Minus Insurance Receipts for Repairs/Stolen Equipment (720-625)	1,500.00
TOTAL EXPENDITURES TO BE ALLOCATED	$228,295.56

COST PER MILE CALCULATION

Total Expenditures to Be Allocated / Total Mileage (District-Owned Fleet) = Cost Per Mile

$228,295.56/279,440 = $.82 Cost Per Mile

Determination of Expenditures for Each Finance Dimension, Exhibit D

NOON KINDERGARTEN, FINANCE DIMENSION 716

Bus Driver Salaries	$13,117.08
Allocated Mileage Cost: 35,113 miles X $.82 (Bus)	28,792.66
Total Noon Kindergarten Transportation Cost	$41,909.74

HAZARDS - WALKERS, FINANCE DIMENSION 719

Crossing Guard Salaries	$5,339.25

DISABLED, FINANCE DIMENSION 723

Contract with Private Operator	$12,602.91
Allocated Regular Route Cost (See Exhibit E)	2,267.09
Total Disabled Transportation Cost	$14,870.00

BETWEEN SCHOOL BUILDINGS - PUBLIC, FINANCE DIMENSION 725

Bus Driver Salaries	$ 3,404.10
Allocated Mileage Cost: 7,962 miles X $.82	6,528.84
Total Between School Buildings - Public Transportation Cost	$ 9,932.94

OPEN ENROLLMENT OUTSIDE DISTRICT, FINANCE DIMENSION 713

Allocated Mileage Cost: 1,400 miles X $.82	$ 1,148.00

INELIGIBLE/NONRESIDENT STUDENTS, FINANCE DIMENSION 737

Allocated Regular Route Cost (See Exhibit E)	$ 647.74

(NOTE: This district charges the parents of these students a fee for this transportation service. The district would record the fees received from the parents in UFARS Revenue Account 01-xxx-760-737-050-000.)

NONAUTHORIZED TRANSPORTATION, FINANCE DIMENSION 733

Bus Driver Salaries $19,982.32

Allocated Mileage Cost: 50,224 miles X $.82 41,183.68

Bus Equipment*8,442.01

Eligible Student Transportation Vehicle* 35,061.70

Total Non-authorized Transportation Cost $104,669.71

* Other finance dimensions may be used.

Calculation of a cost per Student – Regular Bus Routes, Exhibit E

TOTAL STUDENTS TRANSPORTED ON REGULAR BUS ROUTES

Eligible Public Students	741
Eligible Nonpublic Students	52
Students with Disabilities on Regular Routes	7
Excess (Secondary One-To-Two Mile and Hazards -Riders)	62
Ineligible/Nonresident Students	2
Total Students Transported on Regular Bus Routes	864

NET COST REGULAR TO AND FROM SCHOOL

Total Expenditures (Exhibit A)		$455,423.32
Less:	Noon Kindergarten (Fin Dim 716)	$41,909.74
	Hazards-Walkers (Fin Dim 719)	5,339.25
	Disabled (Fin Dim 723)	12,602.91
	Btwn Sch Bldgs-Pub (Fin Dim 725)	9,932.94
	Open Enrollment-Outside (Fin Dim 713)	1,148.00
	Non-authorized Transp (Fin Dim 733) 104,669.71	(175,602.55)
Net Cost Regular To and From School		$279,820.77

CALCULATION OF THE COST PER STUDENT

Net Cost Regular To and From School / Total Students Transported on Regular Bus Routes = Cost Per Student on Regular Bus Routes

$279,820.77 / 864 = $323.87 Cost Per Student

Disabled, Fin Dim 723: 7 Students X $323.87 = $2,267.09

Ineligible/Nonresident, Fin Dim 737: 2 Students X $323.87 = $ 647.74

Journal Entries – Allocated Expenditures, Exhibit F

The following are the journal entries that are necessary to transfer expenditures to the proper finance dimensions. Only the allocated mileage and regular route costs will be transferred. Salaries, contractor's fee, and equipment purchases are directly coded to the proper finance dimensions when they are paid.

Transportation Category	Fund	Org	Prg	Fin	Obj	Debit	Credit
Noon Kindergarten	01	005	760	716	365	$63,905.66	
Disabled	01	005	760	723	365	3,448.69	
Btwn Sch Bldg-Pub	01	005	760	725	365	14,490.84	
Open Enroll-Outside District	01	005	760	713	365	2,548.00	
Ineligible/Nonresident	01	005	760	737	365	985.34	
Nonauthorized	01	005	760	733	365	79,561.30	
Regular	01	005	760	720	365		$164,939.83

The total dollar amounted debited to Object Dimension 365, Transportation Chargebacks, is $80,568.01. This amount equals the total dollar amount credited to Object Dimension 365, Transportation Chargebacks. Remember, whenever a district uses a chargeback code, the dollar amounts debited and credited to a chargeback code must zero out at year-end.

Predetermined Route – Mileage Log

Description/Finance Code Key: Regular 720, Disabled 723, Special 728, Learning Year 711, Open Enrollment/Outside District 713, Interdistrict Desegregation 714, Intradistrict Desegregation 315, Noon Kindergarten 716, Late Activity Public 717, Summer School 721, Between School Buildings/Public 725, Between School Buildings/Nonpublic 726, Student Activity Trip/Field Trip 733, and Ineligible 737.

Route Number	**Description/ Finance Code**	**AM/ PM**	**Miles Traveled**	**No. of Days In School Year**	**Annual Miles**
		AM			
		PM			
		AM			
		PM			
		AM			
		PM			
		AM			
		PM			
		AM			
		PM			
		AM			
		PM			
		AM			
		PM			
		AM			
		PM			
Total					

Route Varies – Mileage Log

Description/Finance Code Key: Regular 720, Disabled 723, Special 728, Learning Year 711, Open Enrollment/Outside District 713, Interdistrict Desegregation 714, Intradistrict Desegregation 315, Noon Kindergarten 716, Late Activity Public 717, Summer School 721, Between School Buildings/Public 725, Between School Buildings/Nonpublic 726, Student Activity Trip/Field Trip 733, and Ineligible 737

Bus Number: **Month/Year:**

Trip Date Leave	Trip Date Return	From	To	Purpose of Trip	Finance Code	Driver's Signature	Start (odo.)	End (odo.)	Miles

Personnel Activity Report

Reporting of time and effort is required for part-time transportation employees. This form must be completed for the August 15-September 15, January 15-February 15 and April 15-May 15 time periods in order to obtain an accurate reflection of employee's yearly transportation activities.

Name	**Title Classification**	**Reporting Period**

Date	Hours per day spent on Transportation Activities	Describe Transportation Activities in detail

I have performed the above duties as described. I certify that to the best of my knowledge, the above-named employee has performed the above duties as described.

Employee Signature – Date ____

Supervisor – Date ____

Determination of Annual Hours Working on Transportation

The total number of hours worked during the three-month study should be divided by three to obtain the average hours per month. That average should be multiplied times 12 (if employee works all year) to obtain the total number of hours that can be expensed to the transportation program.

Reminder: Employees whose primary responsibilities are other than transportation, including central office administration and staff, building administrators and staff, teachers, social workers, school nurses and instructional aides cannot be included in the transportation program.

SECTION 3 – GASB STATEMENT 34

Introduction

GASB Statement 34 makes sweeping changes in the way public school districts report their financial information. School districts will need to capitalize assets, record depreciation, and include a discussion of financial matters. But, where did this come from? What does this mean? What changes must we make? These and other questions were the topics of a yearlong review by a subcommittee of the Accounting Guidelines Committee in the state of Minnesota. The subcommittee was established in the summer of 2000 to review the requirements of GASB Statement 34 and to address implementation issues common to Minnesota school districts.

What is GASB?

The Governmental Accounting Standards Board (GASB) was formed in 1984 to develop and improve financial reporting rules for state and local governments in the United States, including school organizations. GASB rules must be followed by any entity when an audit report of that entity states that it follows generally accepted accounting principles (GAAP). "*GASB Statement 34"* or *"GASB 34"* refers to the issuance of Statement Number 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, on June 30, 1999, a set of standards that was in development for over a decade.

According to the Association of School Business Officials (ASBO):

> "Statement 34 is arguably the most significant change in the history of governmental accounting. It is a dramatic modification to the way that school organizations report and present financial information. The new reporting model affects every school organization that issues financial statements in conformance with generally accepted accounting principles (GAAP)." *Statement 34 Implementation Guide*, ASBO, p.1.
>
> *GASB Statement 34* requires that school organizations…
>
> "begin to prepare financial statements consistent with the new standards in three phases, depending on the total revenues of the entity during its first fiscal year ending after June 15, 1999. Phase One school organizations with revenues of $100 million or more must prepare the new financial statements for all fiscal years beginning after June 15, 2001. Phase Two school entities with revenues between $10 and $100 million must prepare the new financial statements for all fiscal years beginning after June 15, 2002. Phase Three districts with revenues under $10 million must prepare the new financial statements for all fiscal years beginning after June 15, 2003." p.2.

Statement Features

According to the ASBO *Guide*, pages 1 and 2, there are several important features of the GASB 34 financial model including:

- *Government-Wide Financial Reporting*
  Schools will now be required to produce financial reports that provide a clear picture of the organization as a single, unified entity. These new "district-wide" financial statements complement rather than replace traditional fund-based financial statements…

- *Additional Long-Term Focus for School Activities*
  Traditional reporting for tax-supported activities has focused on short-term…balances. The new financial reporting model retains this short-term focus in the governmental fund financial statements while providing a long-term perspective on these same activities…

- *Narrative Overview and Analysis*
  The new… model provides those who use financial reports with a simple narrative introduction, overview, and analysis of the …financial statements in the form of management's discussion and analysis (MD&A).

- *Information on Major Funds*
  There is a general consensus that fund information is most useful when presented for individual funds rather than when funds are combined…the new financial reporting model requires the presentation of individual fund data for each of the major funds in the school entity.

- *Expanded Budgetary Reporting*
  …Under the new …model, information on the original budget must also be presented. In addition, the new model eliminates aggregated budget presentations in favor of comparisons for the general fund and each individual major special revenue fund.

Further, the ASBO *Guide* states that school entities will be required to:

- Provide the most complete information ever available about the cost of delivering services to students; and,

- Include information about the capital and infrastructure assets of the school organization for the first time.

The committee recommended that school personnel use the *GASB Statement 34, Implementation Recommendations for School Districts* that is published by ASBO as a guide. Where deviations from the *ASBO Guide* are recommended, they are either contained in this writing or will be communicated in future bulletins. This guide can be purchased from ASBO Int'l, 11401 North Shore Dr., Reston, VA 20190-4200, (703) 478-0405 www.asbointl.org. The cost is $25/$35 for member/non-member. Another resource is the *Guide to Implementation of GASB Statement 34 on Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This document can be obtained from GASB by writing Governmental Accounting Standards Board, 401 Merritt 7, PO Box 5116, Norwalk, CT. 06856-5116 or calling 1-800-748-0659, ask for product code number GQA34.

Recommendations from the Committee

GASB Statement 34 gives school districts flexibility in preparing their statements. However, the committee believed school districts would achieve greater comparability and uniformity in financial reporting if districts apply the new standards using the same methodology. At the same time, the committee intended to have districts use existing data and accounting systems, not purchase new accounting systems.

A variety of communication tools will be used during the implementation process, including the placement of the recommendations (listed below) in superintendents' mailings, the use of the *School Business Bulletin*, the use of presentations at MDE training programs as well as other regional and state conferences. During implementation, members of the committee will collect samples of spreadsheets, software programs, and print materials for use by district personnel

1. Food Service Fund

GASB Statement 34 requires a school district to distinguish between “Governmental Activities” and “Business-Type Activities.” The most common school district activity that may be classified as a business-type activity is the food service operation. In reviewing the criteria that would require classification of the food service fund as a business-type activity, the committee concluded that the criteria would not be met for most Minnesota school districts. ***Therefore, the committee recommends that the food service fund be reported as a governmental activity in all districts*.**

2. Statement of Activities

There are two areas of recommendations on the Statement of Activities that are drawn from *GASB Statement 34*.

- **Function/Program**

  The new Statement of Activities requires districts to report expenditures by function. *The committee recommends that districts use the existing programs identified in the Uniform Financial Accounting and Reporting Standards (UFARS) Manual as the functions.* A district can report at a level of detail greater than this recommendation if desired.

- **Revenue Classifications**

  The district-wide statement of activities requires districts to review all revenue accounts and classify them as program revenues or general revenues. Program revenues are further broken down into charges for services, operating grants and contributions, or capital grants and contributions. *The committee created a guide for Minnesota school use. The Revenue Classification Guide is contained as Attachment K.*

3. Budget Comparisons

GASB Statement 34 requires a budgetary comparison for the General Fund and each major special revenue fund. This may be done as a statement included in the basic financial statements or as a schedule included as required supplemental information. The committee recommends presenting the budgetary comparison as a required supplementary information schedule. The comparisons report BOTH original and final amended budgets.

4. Trust Funds

GASB Statement 34 requires dropping the concept of expendable and non-expendable trust funds. Funds previously reported as non-expendable, whose resources are used to support school district operations, are now reported in a new governmental fund type called "permanent funds." Funds previously reported as non-expendable, whose resources are not used to support school district operations, will continue to be reported as a fiduciary fund. Funds previously reported as expendable trust funds, and whose resources are used to support school district operations, are now reported as a special revenue fund. Previous expendable trust funds whose resources are not used for school district operations are reported in a fiduciary fund.

Currently UFARS requires the use of Fund 08 to account for trust funds. *The committee recommends districts establish separate funds, as applicable, to account for the activities as noted above*. These separate funds would then be crosswalked to Fund 08 for UFARS reporting.

5. Reconciliation Schedule

Because the district-wide and fund financial statements use different bases of accounting, a summary reconciliation describing the differences is required. This reconciliation can be provided directly on the fund statements or on an accompanying, separate schedule following each fund statement. *The committee recommends using a separate statement for the reconciliation.*

6. Management Discussion and Analysis

School districts must include a Management's Discussion and Analysis (MD&A), which is required supplementary information (RSI). The MD&A is required to precede the basic financial statements and notes. The committee recommends that district personnel use the ASBO *Guide* for implementing this feature of *GASB Statement 34*.

7. Capital Assets and Depreciation

The committee recommends that district personnel use the *ASBO Guide* for establishing thresholds and depreciation lives. The committee also recommends that personnel meet with their auditor(s) to discuss capital asset and depreciation implementation plans. See *Attachment L* for a partial list of appraisal companies and suggestions for implementation.

Special Thanks to the GASB 34 Committee

Members of the Division of School Finance of the Minnesota Department of Education extend their appreciation to each member of the committee for their many months of work in this endeavor. In particular, Darwin Viker, committee chairperson, is recognized for his many additional hours of work on the project.

The members of the original GASB 34 committee are listed below.

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ARCC- Region II

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Designs for Learning

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Dick Guevremont
Debrah Firkus
Charles Speiker

ATTACHMENT K

Revenue Classification Guide

Source	Description	General Purposes	Charges For Services	Operating Grants	Capital Grants
001	Property Tax Levies	G			
004	From Municipalities	G			
009	Fiscal Disparities	G			
010	Cty Apportionment	G			
014	TAC Homestead Credit	G			
015	IRRRB Grant			P	G
016	TAC Levy Replacement	G			
017	TAC Gen Ed Aid Replace	G			
018	TAC Referendum Paymt	G			
019	Misc Local Taxes	G			
020	Prop Tax Shift Rec	G			
021	From MN District		G		
022	Reimburse Spec Ed Salary		G		
031	From Non MN District		G		
035	From Non MN Non-District		G		
040	Tuition from Patrons		G		
050	Fees from Patrons		G		
060	Student Activity		G		
071	Medicaid fr Dept of Hu. Serv.		G		
072	Medicaid Pmts-Private Insur		G		
092	Interest Earnings	G			
093	Rent		G		
096	Gift/Bequest-Local	G		P	P
099	Misc Local Revenue	G		P	P
201	Endow Fund Apportion	G			
211	Gen Ed Aid	G		P	P
213	Shared Time	G			
227	Abatement Aid	G			
229	Disparity Reduction Aid	G			
234	Homestead/Ag Credit	G			
235	Private Alt Program Aid	G			
258	Other State Credits	G			
296	Property Tax Shift Offset Adj	G			
298	Levy Equity Adjustments	G			
299	State Aid Adjustments	G			
300	State Aids and Grants			G	
301	Non Public Aid			G	
307	Health and Safety Aid				G
308	Interactive TV Aid				G
309	Debt SVC Equal Aid	G			
360	Spec Education Aid			G	
369	Misc State Revenue			G	P
370	Other Aid/MN Child			G	P
400	Federal Aids and Grants			G	P
405	Federal Flow Through-Other			G	P
471	School Lunch-Fed			G	
472	Free/Reduced Lunch			G	
473	Commodity Cash Rebate			G	

Source	Description	General Purposes	Charges For Services	Operating Grants	Capital Grants
474	Commodity Distribution			G	
475	School Milk			G	
476	School Breakfast			G	
477	Cash in Lieu Commod			G	
479	Summer Food SVC Prog			G	
500	Fed Direct Aid&Grant			G	P
506	Impact Aid	G		P	
601	Sale to Pupils		G		
606	Sale to Adults		G		
608	Spec Func Food Sales		G		
614	Contribution to OPEB Trust	G			
615	Contributions for OPEB	G			
616	Retiree Contribution to Trust	G			
619	Cost of Materials (contra)	G			
620	Cost of Materials	G			
621	Sale SVCS/Resale Mat		G		
622	Sale of Materials		G		
623	Real Property Sales		G		
624	Sale of Equipment		G		
625	Insurance Recovery		G		
628	Judgments	G			
629	Health and Safety Revenue	G			
631	Sale of Bonds		Balance Sheet Item	Balance Sheet Item	
635	Certificates of Participation		Balance Sheet Item	Balance Sheet Item	
636	Capital Loans		Balance Sheet Item	Balance Sheet Item	
637	Debt Service Loans		Balance Sheet Item	Balance Sheet Item	
639	Non-State Loans		Balance Sheet Item	Balance Sheet Item	

G = Generally
P = Potentially

Certain transactions that are unusual in nature and infrequent in occurrence may be appropriately reported as extraordinary items. Significant transactions within the control of management that are either unusual in nature or infrequent in occurrence may be reported as special items. Both special items and extraordinary are shown separately from revenues and expenses specifically because they are not representative of the district's usual annual financial transactions.

ATTACHMENT L

Appraisal Companies [1]

Name	Address	City	State	Postal	Phone
Advanced Bar Code Solutions	7308 Aspen Lane Suite 111	Brooklyn Park	MN	55428	(763) 424-4992
American Appraisal Associates	411 East Wisconsin Avenue Suite 1900	Milwaukee	WI	53201	
Industrial Appraisal Company Bob Wentzel	250 Prairie Center Drive Suite 325	Eden Prairie	MN	55344	(952) 942-6734
RCI Technologies, Inc.	10826 Gulfdale	San Antonio	TX	78216	(210) 366-4127
Valuation Advisory Group, Inc.	445 Pharr Road NE	Atlanta	GA	30305	(404) 841-0992
Valuations Northwest Inc.	17 N Orchard Street	Boise	ID	83709	(800) 624-9993
VRM, Inc. Mark T. Small	2817 Anthony Lane South	Minneapolis	MN	55418	(612) 788-2335

[1] This partial list of companies is not endorsed by the committee.

Other suggestions from the committee concerning fixed asset records include:

1. School district personnel should follow the guidance in the *ASBO Implementation Guide* for establishing capitalization thresholds and depreciation lives. The Department of Education will be changing the *UFARS Manual* to be consistent with this guide.

2. Before hiring an appraisal company, district personnel should meet with their auditor(s) to discuss plans for identifying capital assets, establishing thresholds, calculating depreciation lives and other assumptions that need to be clarified. Personnel will also need to identify which program/functions will be used in the financial statements to appropriately sort assets.

3. District personnel should meet with software vendors prior to having an appraisal. Items to be discussed include:

   - How are fixed asset records going to be maintained in the future?
   - Will the vendor have a fixed asset module?
   - Will the module calculate depreciation?
   - Will the appraisal company be able to download its data to a particular vendor system?

If people have names of other appraisal companies that should be placed on this list, they should send them to mde.ufars-accounting@state.mn.us. Modifications to the list will be placed on the Financial Management website as well as used in training sessions and special mailings.

SECTION 4 – GASB STATEMENT 45

Introduction

In addition to pensions, many state and local governmental employers provide other post-employment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes post-employment healthcare, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. Statement 45 establishes standards for the measurement, recognition and display of OPEB expense/expenditures and related liabilities (assets), note disclosures and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

What is GASB?

The Governmental Accounting Standards Board (GASB) was formed in 1984 to develop and improve financial reporting rules for state and local governments in the United States, including school organizations. GASB rules must be followed by any entity when an audit report of that entity states that it follows generally accepted accounting principles (GAAP). "*GASB Statement 45"* or *"GASB 45"* refers to the issuance of Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in July 2004.

Statement Features

As noted in the statement, the requirements of *GASB 45* are to improve financial reporting.

> Postemployment benefits (OPEB, as well as pensions) are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service, whereas other benefits, including postemployment healthcare and other OPEB, are taken after the employee's services have ended. Nevertheless, both types of benefits constitute compensation for employee services.
>
> From an accrual accounting perspective, the cost of OPEB, like the cost of pension benefits, should generally be associated with the period in which the exchange occurs, rather than with the periods (often many years later) when benefits are paid or provided. However, in current practice, most OPEB plans are financed on a pay-as-you-go basis, and financial statements generally do not report the financial effects of OPEB until the promised benefits are paid. As a result, current financial reporting generally fails to:
>
> - recognize the cost of benefits in periods when the related services are received by the employer;
> - provide information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and/or
> - provide information useful in assessing potential demands on the employer's future cash flows.
>
> This statement improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement of recognition of OPEB cost (expense) over a period that approximates employees' years of service and by providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

The *Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits* is a good resource available to school personnel. This document can be obtained from GASB by writing Governmental Accounting Standards Board, Order Department, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116 or calling 1-800-748-0659. Ask for Product Code GQA43/45.

Effective Date

The requirements of this statement are effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999.

- Governments that were phase one governments for the purpose of implementation of Statement 34—those with annual revenues of $100 million or more—are required to implement this statement in financial statements for periods beginning after December 15, 2006.
- Governments that were phase two governments for the purpose of implementation of Statement 34—those with total annual revenues of $10 million or more but less than $100 million—are required to implement this statement in financial statements for periods beginning after December 15, 2007.
- Governments that were phase three governments for the purposes of implementation of Statement 34—those with total annual revenues of less than $10 million—are required to implement this statement in financial statements for periods beginning after December 15, 2008.

Earlier application of this Statement is encouraged. All component units should implement the requirements of this Statement no later than the same year as their primary government.

Determine Amount to be Funded for Current Year

Under the requirements of *GASB 45*, all districts have an obligation to recognize and report their annual required contribution (ARC). Regardless of the current funded status of the plan, the district has an ARC that comprises two components: normal costs, which will apply as long as there are covered active employees providing new services to the employer, plus (or minus) a component for amortization of the total unfunded actuarial accrued liabilities (or funding excess). This document does not address specifics relating to the actuarial determination of the district's unfunded liability.

There are several options a school district has when funding its postemployment benefits in any given year.

- Fund the entire unfunded actuarial accrued liability (UAAL) plus normal cost in a single payment, if sufficient resources are available.
- Fund an amount less than the unfunded actuarial accrued liability plus normal cost but in excess of the annual required contribution (ARC).
- Fund the annual required contribution.
- Fund an amount less than the annual required contribution.

The amount of postemployment benefits to be funded in any given year is dependent on various factors. The dollar amount that a district contributes is impacted by all of the following: the size of the district’s liability; requirements for current year payment for postemployment benefits; available resources in the district’s budget; and the amount of fund balance or bonding authority, if any, the district decides to use.

A school district may fund any amount up to its total unfunded liability plus current year normal cost, through pay-as-you-go payments or contributions to an irrevocable trust. Though districts are authorized to have a revocable trust or reserve bond proceeds in the general fund for OPEB, they would not be funding the OPEB liabilities according to GASB 45. These funds would simply be reported in the internal service or general fund of the district because the district would still have ownership or control of the assets.

Requirements for Establishing a Trust

This document provides current requirements concerning establishment of a benefit trust by school districts for postemployment benefits. Financial information in a school district annual report to the Minnesota Department of Education (MDE) must be based on the accounting system prescribed in the Uniform Financial Accounting and Reporting Standards (UFARS) Manual.

These requirements apply to all postemployment benefit plans where the district is providing for such benefits by contributions to a legally established revocable or irrevocable trust. Reference Minnesota Statutes, section 471.6175, Subdivision 7, (Minnesota Laws 2008, Chapter 154, Article 10, Section 18) for the restrictions on the withdrawal of funds and termination of account for revocable and irrevocable trusts.

Unless a school district has established a trust, postemployment benefits are reported as a cost when payment for the benefit is made. This is a pay-as-you-go method, in contrast to recording cost when earned, that is, recording a cost as employees are providing services to the district. If pay-as-you-go payments are made out of the operating funds of the district, those payments are considered contributions in relationship to the ARC. This does not prohibit districts from establishing trusts for select groups of employees, while using pay-as-you-go for other groups.

MDE recognizes that postemployment benefits may represent a significant liability that districts may want to fund. MDE also acknowledges that it is fiscally appropriate to have the cost and funding recognized and provided for such benefits as they are earned.

- UFARS has a separate reserve account, Reserve for OPEB Liabilities Not Held in a Trust (Balance Sheet 452), for reporting bond proceeds set aside and restricted/reserved for postemployment benefits.
- UFARS has a separate internal service fund, Postemployment Benefits Revocable Trust (Fund 25), for reporting resources set aside and held in a revocable trust arrangement for postemployment benefits.
- UFARS has a separate accounting fund, Postemployment Benefits Irrevocable Trust Fund (Fund 45), for reporting resources set aside and held in an irrevocable trust arrangement for postemployment benefits.

The following are conditions and considerations in the use of a revocable or irrevocable Postemployment Benefits Trust Fund:

- The postemployment benefits accounted for in the fund must result from a written or implied contractual agreement as compensation for employee services. The district's obligation to pay for the benefits must accumulate during employment although the actual benefits are provided and payment for the provided benefits does not occur until after employment.
- The school board must agree in a formal, legally constituted trust agreement to establish a trust to hold and disburse resources set aside for the postemployment benefits. Employees eligible for benefits paid through the trust shall be notified that they may obtain a copy of the trust agreement upon request.
- For an irrevocable trust, physical segregation of trust assets must be made; the trust fund may not be merely an accounting shell consisting of a fund on the district's accounting records. Trust fund assets cannot be used for purposes other than those necessary to provide benefits for which the irrevocable trust was established.
- The department, in establishing accounting and reporting requirements for postemployment benefits, is not making a legal determination as to the authority of the school district to provide a particular benefit, nor is it making a limitation on benefits that the district has authority to provide.

- Any trust fund established must be in accordance with Minnesota Statutes.

    a. Minnesota Statutes, section 471.6175, (Minnesota Laws 2008, Chapter 154, Article 10, Section 18, signed into law on March 7, 2008) gives school districts the authority to establish a trust for postemployment benefits (OPEB) under GASB 45.

    b. Minnesota Laws 2008, Chapter 154, Article 10, Section 27, validates trusts created prior to June 6, 2006.

    c. For terms of withdrawals from and termination of the trust account, reference Minnesota Statutes, section 471.6175, Subdivision 7.

- The *Codification of Governmental Accounting and Financial Reporting Standards* (GASB Cod. Sec. P20.504 [GASB 27 ¶ 39, GASB 45 ¶ 40]) issued by the Governmental Accounting Standards Board (GASB) has identified acceptable cost methods to determine the annual required contribution (ARC) necessary to fund government employee benefit plans on an actuarial method.

- The United States Office of Management and Budget, in OMB Circular A-87, has established the standards for determining costs eligible to be charged to federally funded financial programs. Districts should reference the OMB Circular A-87 for additional details (see page 19, Attachment B, Section 8(f)-Compensation for personal services, postemployment health benefits).

    a. Postretirement health benefits (PRHB) refers to costs of health insurance or health services, not included in a pension plan, for retirees and their spouses, dependents, and survivors.

    b. PRHB costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the governmental unit.

    c. For PRHB financed on a pay-as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.

    d. PRHB costs calculated using an actuarial cost method recognized by GAAP are allowable if they are funded for that year within six months after the end of that year. Costs funded after the six-month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The cognizant agency may agree to an extension of the six-month period if an appropriate adjustment is made to compensate for the timing of the charges to the federal government and related federal reimbursements and the governmental unit's contributions to the PRHB fund. Adjustments may be made by cash refund, reduction in current year's PRHB costs or other equitable procedures to compensate the federal government for the time value of federal reimbursements in excess of contributions to the PRHB fund.

    e. Amounts funded in excess of the actuarially determined amount for a fiscal year may be used as the government's contribution in a future period.

    f. When a governmental unit converts to an acceptable actuarial cost method and funds PRHB costs in accordance with this method, the initial unfunded liability attributable to prior years shall be allowable if amortized over a period of years in accordance with GAAP or, if no such GAAP period exists, over a period negotiated with the cognizant agency.

    g. To be allowable in the current year, the PRHB costs must be paid either to: an insurer or other benefit provider as current year costs or premiums; or an insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing postretirement benefits to retirees and other beneficiaries.

    h. The federal government shall receive an equitable share of any amounts of previously allowed postretirement benefit costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal or other credit.

- The contributions to the trust fund are to be reported as postemployment benefits up to or equal to the ARC (Object Code 252) and associated with the program code corresponding to the activities of the employee.
- The requirements identified in this section are subject to future revision to be in compliance with state and federal legal requirements and with GASB pronouncements.

Accounting Treatment

Guidelines to assist with the recording of financial transactions relating to other postemployment benefits (OPEB) expenditures are included in the next sections as follows:

- Pay-As-You-Go Funding (No Reserve or Restricted/Reserved in Fund 01 – Balance Sheet 452)
- Revocable Trust Fund Established (Fund 25)
- Irrevocable Trust Fund Established (Fund 45)

The guidelines represent the entries for the governmental funds only and do not include reporting required on the government-wide statements. Any difference between the Annual Required Contribution (ARC) and the amount paid or funded represents an underpayment or overpayment and must be reported on the government-wide statements.

All costs need to be recorded to the appropriate program codes. Do not use Program Code 930 for object codes 191, 252, 290 or 291. See Chapter 13 of the UFARS Manual referencing federal indirect cost rates.

Implicit Rate Subsidy

If your insurance plan covers both active employees and current retirees under the same premium, an implicit rate subsidy may have been calculated in your actuarial determination. The health insurance payment for retirees must be paid based on the value of the premium that was used in the determination rather than the actual cost of the premium. You may be able to determine this value from your actuarial study or you may need to contact your actuary. Since the premiums for active employees are subsidizing the retiree portion of the insurance plan, any variance between the value of the premium and premium actually charged the district goes back to the district and is accounted for by a reduction to the active employee costs for health insurance.

Determine Allocation of Contribution

To meet UFARS guidelines and federal reporting requirements, costs must be allocated equitably across all employees within the class. One method to achieve this may be to establish a contribution rate to apply to current employees eligible for postemployment benefits. Another method to achieve this consistency may be to divide the contribution by the total number of current employees eligible for postemployment benefits. Whatever method is used, the funds must be equitably distributed across all employees within the class that are eligible for postemployment benefits being funded.

Method #1 Based on Eligible Payroll

1a. Determine which postemployment benefits to include in the funding and the employee groups that are eligible for those benefits. You may want to refer to your actuary report for this information. For example, if all employees receive the same postemployment benefit then all employee groups will be included. If only teachers are eligible for the postemployment benefit to be funded, then only teachers would be included.

1b. Determine amount of eligible payroll for the affected employees.

1c. Divide the value of the postemployment benefits for the group by the eligible payroll for the group to get a contribution rate.

1d. Apply the contribution rate through the payroll system.

Example:

In the following example, the amount to be contributed to the trust for other postemployment benefits is $1,031,999. The district's total ARC is $1,250,908, which means the district is funding the trust at a rate of 82.5 percent. The contribution does not exceed the ARC. If it did, the excess would not be eligible for federal aid and would not be allocated using the contribution rate for that year. See OMB Circular A-87, section 8(f), for instructions related to amounts funded in excess of the actuarially determined amount.

OPEB is provided to teachers, administrators, food service workers and secretaries so the wages from all four of these groups are included in the calculation of the OPEB contribution rate. Wages for nurses, custodial/maintenance and paraprofessionals are not included because these employee groups do not participate in the benefits being funded.

Administrator	$1,573,622
Health	
Custodial/Maintenance	N/A
Food Service	251,528
Paraprofessionals	N/A
Secretary	1,758,212
Teacher	16,668,655
Total Wages Basis	**$20,252,017**
Health insurance	$979,994
Dental insurance	50,567
Life insurance	1,438
Amount to be funded	**$1,031,999**
Contribution rate:	
(1,031,999 divided by 20,252,017)	5.10%

Method #2 Based on Number of Employees

2a. Determine which postemployment benefits to include in the funding and the employee groups that are eligible for those benefits. You may want to refer to your actuary report for this information. For example, if all employees receive the same postemployment benefit then all employee groups will be included. If only teachers are eligible for the postemployment benefit to be funded, then only teachers would be included.

2b. Divide the contribution dollar amount for the group by the eligible employees in the group to get a contribution dollar amount.

2c. Apply the dollar amount through the payroll system.

Example

In the following example, the amount to be contributed to the trust for other postemployment benefits is $1,031,999. The district's total ARC is $1,250,908 which means the district is funding the trust at a rate of 82.5 percent. The contribution does not exceed the ARC. If it did, the excess would not be eligible for federal aid and would not be allocated using the contribution amount for that year. See OMB Circular A-87, section 8(f), for instructions related to amounts funded in excess of the actuarially determined amount.

For this example, OPEB is provided to teachers, administrators, food service workers and secretaries so the employees from all four of these groups are included in the calculation of the OPEB contribution amount. Nurses, custodial/maintenance and paraprofessionals are not included because these employee groups do not participate in the benefits being funded.

Example:

Health insurance	$979,994
Dental insurance	50,567
Life insurance	1,438
Amount to be funded	**$1,031,999**
Total employees in groups funded	522
Contribution rate:	
(1,031,999 divided by 522)	$1,977
Object Code	252

Financial Transaction Accounting
Other Postemployment Benefits (OPEB)
Pay-As-You-Go Funding

The following are guidelines to assist with the recording of financial transactions relating to other postemployment benefits (OPEB) expenditures. This section of the document assumes the district is reporting the postemployment benefits as a cost when payment for the benefit is made. This is a "pay-as-you-go" method, in contrast to recording cost "when earned," that is, recording a cost as employees are providing services to the district. These payments are considered as contributions in relationship to the ARC. This does not prohibit districts from establishing trusts for select groups of employees, while using "pay-as-you-go" for other groups.

The following guidelines are presented in the order in which tasks are generally performed.

Transaction	Total Cost	Employees	Retirees
Health insurance	25,000.00	20,000.00	5,000.00
Implicit rate subsidy		(500.00)	500.00
Total Health Insurance and Implicit rate subsidy	**25,000.00**	**19,500.00**	**5,500.00**
Dental insurance	4,000.00	3,000.00	1,000.00
Life insurance	5,000.00	3,500.00	1,500.00
Total Payment	**34,000.00**	**26,000.00**	**8,000.00**
Retiree contribution	(1,000.00)	0.00	(1,000.00)
Net Cost	**33,000.00**	**26,000.00**	**7,000.00**

Step 1 – Record payments for member benefits

For illustration purposes only, the following transactions assume the following total monthly insurance premium for all employees and retirees:

1a. Record payment to provider of health insurance.

DR:	OPEB Costs (Operating Fund, Program, Object Code 291)	5,500	
DR:	Health Insurance (Operating Fund, Program, Object Code 220)	19,500	
CR:	Operating Fund, Cash or Investment Account		25,000

1b. Record payment to provider of dental insurance.

DR:	OPEB Costs (Operating Fund, Program, Object Code 291)	1,000	
DR:	Dental Insurance (Operating Fund, Program, Object Code 235)	3,000	
CR:	Operating Fund, Cash or Investment Account		4,000

1c. Record payment to provider of life insurance.

DR:	OPEB Costs (Operating Fund, Program, Object Code 291)	1,500	
DR:	Life Insurance (Operating Fund, Program, Object Code 230	3,500	
CR:	Operating Fund, Cash or Investment Account		5,000

1d. If applicable, recognize retiree share of benefit costs.

DR:	Operating Fund, Cash or Investment Account	1,000	
CR:	Health insurance (Operating Fund, Program, Object Code 291)		1,000

Note: If payment is made with bond proceeds held in the Restricted/Reserved for OPEB Liabilities Not Held in a Trust (Balance Sheet 452) instead of unassigned operating funds, then the Finance Code 793 should be included with the Object Code 291 entries 1a, 1b, 1c, and 1d. Refer to the Bonding for OPEB Liabilities section below for more details.

Step 2 – Set up additional amount earmarked by school board

For illustration purposes only, the following transaction assumes the school board approved an increase of $100,000 to the designation for OPEB. No designation is recorded in UFARS. However, districts may want to use a unique code at the local level to identify designated funds.

DR:	Unassigned Fund Balance	100,000	
CR:	Designated for future OPEB contributions (Committed Fund Balance)		100,000

Financial Transaction Accounting
Other Postemployment Benefits (OPEB)
Revocable Trust Fund Established (Fund 25)

The following are guidelines to assist with the recording of financial transactions relating to other postemployment benefits (OPEB). This document assumes the district has met all requirements for the establishment of a revocable trust for other postemployment benefits (OPEB). For this information, please refer to *Requirements for Establishing a Trust* earlier in this section.

The following guidelines are presented in the order in which tasks are generally performed.

Step 1 – Contribution to the revocable trust to fund the Annual Required Contribution (ARC)

For illustration purposes, the following transactions assume a monthly cost allocation for postemployment benefits to one individual with wages of $25,000 and using allocation Method 1, as shown below.

Health Insurance	$1,200	($25,000 x	4.80%)
Dental Insurance	$50	($25,000 x	.20%)
Life Insurance	$25	($25,000 x	.10%)
	$1,275		5.10%

1a. Record OPEB expenditures through the payroll system. Amount based on contribution rate.

DR:	Operating Fund, Program, Object 252	1,275	
CR:	Payroll Liability Account (Liability 215)		1,275

1b. Record contribution from district to Employee Benefit Trust Fund.

DR:	Payroll Liability Account (Liability 215)	1,275	
CR:	Operating Fund, Cash or Investment Account		1,275

1c. Record contribution in Employee Benefit Trust Fund (Fund 25) received from district.

DR:	Fund 25, Cash or Investment Account	1,275	
CR:	Fund 25, contributions to Employee Benefit Trust (Source Code 614)		1,275

Step 2 – Additional contribution to the revocable trust in excess of the Annual Required Contribution (ARC)

For illustrative purposes, the district makes a current year contribution of $200,000 in excess of the ARC.

2a. Record contribution from district to revocable Employee Benefit Trust Fund.

DR:	Operating Fund, Program, Object Code 290	200,000	
CR:	Operating Fund, Cash or Investment Account		200,000

2b. Record contribution in revocable Employee Benefit Trust Fund (Fund 25) received from district.

DR:	Fund 25, Cash or Investment Account	200,000	
CR:	Fund 25, contributions to revocable Employee Benefit Trust (Source Code 614)		200,000

Step 3 – Record payments from trust fund for member benefits

The following illustrates transactions that occur in the employee benefit trust fund and how they are accounted for. For illustration purposes only, the following transactions assume a monthly insurance premium for one current retiree.

Health Insurance	$1,500 (actual premium)
Health Insurance	$1,800 (value of premium)
Health Insurance	$300 (implicit rate subsidy)
Dental Insurance	$400
Life Insurance	$100

3a. If applicable, to recognize retiree share of benefit costs (2% of health insurance premium).

DR:	Fund 25, Cash or Investment Account	30	
CR:	Fund 25, plan member contributions (Source Code 616)		30

3b. Record direct payment for retiree, from trust fund, to provider of health insurance.

DR:	Fund 25, trust fund disbursements (Program Code 935, Object Code 220)	1,500	
CR:	Fund 25, Cash or Investment Account		1,500

3c. Record payment to district operating funds to cover implicit rate subsidy.

DR:	Fund 25, Trust Fund disbursements (Program Code 935, Object Code 220)	300	
CR:	Fund 25, Cash or Investment Account		300

DR:	Operating Fund, Cash or Investment Account	300	
CR:	Operating Fund, Program, Object Code 220		300

3d. Record direct payment for retiree, from trust fund, to provider of dental insurance.

DR:	Fund 25, Trust Fund disbursements (Program Code 935, Object Code 235)	400	
CR:	Fund 25, Cash or Investment Account		400

3e. Record direct payment for retiree, from trust fund, to provider of life insurance.

DR:	Fund 25, Trust Fund disbursements (Program Code 935, Object Code 230)	100	
CR:	Fund 25, Cash or Investment Account		100

3f. If your district pays the premiums on retirees in combination with active employees, the payment would be accounted for as follows. Keep in mind that the benefit may not be paid from the trust until it has been incurred. Withdrawing money from the trust prior to payment of the benefit may be in violation of the trust agreement as well as IRS regulations.

Record payment from trust fund to district.

DR:	Fund 25, Trust Fund disbursements (Program Code 935, Object Code 220)	1,800	
CR:	Fund 25, Cash or Investment Account		1,800

DR:	Fund 01, Cash or Investment Account	1,800	
CR:	Fund 01, Payroll Liability Account (Liability 215)		1,800

Record payment by district to provider:

DR:	Fund 01, Payroll Liability Account (Liability 215)	1,500	
CR:	Fund 01, Cash or Investment Account		1,500

DR:	Fund 01, Payroll Liability Account (Liability 215)	300	
CR:	Operating Fund, Program, Object Code 220		300

Financial Transaction Accounting Other Postemployment Benefits (OPEB) Irrevocable Trust Fund Established (Fund 45)

The following are guidelines to assist with the recording of financial transactions relating to other postemployment benefits (OPEB). This document assumes the district has met all requirements for the establishment of an irrevocable trust for other post-employment benefits (OPEB). For this information, please refer to *Requirements for Establishing a Trust* earlier in this section.

The following guidelines are presented in the order in which tasks are generally performed.

Step 1 – Contribution to the irrevocable trust to fund the Annual Required Contribution (ARC)

For illustration purposes, the following transactions assume a monthly cost allocation for postemployment benefits to one individual with wages of $25,000 and using allocation Method 1, as shown below.

Health insurance	$1,200	($25,000 x	4.80%)
Dental insurance	$50	($25,000 x	.20%)
Life insurance	$25	($25,000 x	.10%)
	$1,275		5.10%

1a. Record OPEB expenditures through the payroll system. This amount is for funding the ARC only and is based on the contribution rate.

DR:	Operating Fund, Program, Object Code 252	1,275	
CR:	Payroll Liability Account (Liability 215)		1,275

1b. Record contribution from district to irrevocable Employee Benefit Trust Fund.

DR:	Payroll Liability Account (Liability 215)	1,275	
CR:	Operating Fund-Cash or Investment Account		1,275

1c. Record contribution in irrevocable Employee Benefit Trust Fund (Fund 45) received from district.

DR:	Fund 45, Cash or Investment Account	1,275	
CR:	Fund 45, Contributions to Irrevocable Employee Benefit Trust (Source Code 614)		1,275

Step 2 – Additional contribution to the irrevocable trust in excess of the Annual Required Contribution (ARC)

For illustrative purposes, the district makes a current year contribution of $200,000 in excess of the ARC.

2a. Record contribution from district to irrevocable Employee Benefit Trust Fund.

DR:	Operating Fund, Program, Object Code 290	200,000	
CR:	Operating Fund, Cash or Investment Account		200,000

2b. Record contribution in irrevocable Employee Benefit Trust Fund (Fund 45) received from district.

DR:	Fund 45, Cash or Investment Account	200,000	
CR:	Fund 45, Contributions to Irrevocable Employee Benefit Trust (Source 614)		200,000

Step 3 – Record payments from trust fund for member benefits

The following illustrates transactions that occur in the employee benefit trust fund and how they are accounted for. For illustration purposes only, the following transactions assume a monthly insurance premium for one current retiree:

Health insurance	$1,500 (actual premium)
Health insurance	$1,800 (value of premium)
Health insurance	$300 (implicit rate subsidy)
Dental insurance	$400
Life insurance	$100

3a. If applicable, to recognize retiree share of benefit costs (2% of health insurance premium):

DR:	Fund 45, Cash or Investment Account	30	
CR:	Fund 45, plan member contributions (Source Code 616)		30

3b. Record direct payment for retiree, from trust fund, to provider of health insurance.

DR:	Fund 45, Trust Fund disbursements (Program Code 935, Object Code 220)	1,500	
CR:	Fund 45, Cash or Investment Account		1,500

3c. Record payment to district operating funds to cover implicit rate subsidy.

DR:	Fund 45, Trust Fund disbursements (Program Code 935, Object Code 220)	300	
CR:	Fund 45, Cash or Investment Account		300
DR:	Operating Fund, Cash or Investment Account	300	
CR:	Operating Fund, Program, Object Code 220		300

3d. Record direct payment for retiree, from trust fund, to provider of dental insurance.

DR:	Fund 45, Trust Fund disbursements (Program Code 935, Object Code 235)	400	
CR:	Fund 45, Cash or Investment Account		400

3e. Record direct payment for retiree, from trust fund, to provider of life insurance.

DR:	Fund 45, Trust Fund disbursements (Program Code 935, Object Code 230)	100	
CR:	Fund 45, Cash or Investment Account		100

3f. If your district pays the premiums on retirees in combination with active employees, the payment would be accounted for as follows. Keep in mind that the benefit may not be paid from the trust until it has been incurred. Withdrawing money from the trust prior to payment of the benefit may be in violation of the trust agreement as well as IRS regulations.

Record payment from trust fund to district:

DR:	Fund 45,Trust Fund disbursements (Program Code 935, Object Code 220)	1,800	
CR:	Fund 45, Cash or Investment Account		1,800
DR:	Fund 01, Cash or Investment Account	1,800	
CR:	Fund 01, Payroll Liability Account (Liability 215)		1,800

Record payment by district to provider:

DR:	Fund 01, Payroll Liability Account (Liability 215)	1,500	
CR:	Fund 01, Cash or Investment Account		1,500
DR:	Fund 01, Payroll Liability Account (Liability 215)	300	
CR:	Operating Fund, Program, Object Code 220		300

Bonding for OPEB Liabilities

The Omnibus Tax Bill (2008 Minn. Laws, Chapter 154, Article 10) contains a provision that provides authority for school district boards to issue bonds without voter approval for funding actuarial liabilities to pay other postemployment benefits (OPEB), as defined by the Governmental Accounting Standards Board (GASB) Statement No. 45. A district may annually make a debt service levy in the newly created OPEB Debt Service Fund (Fund 47) to service the payment of principal and interest on those bonds.

The Minnesota Department of Education has worked with the Office of the State Auditor (OSA), the Advisory Committee on Financial Management, Accounting and Reporting, the GASB 45 Committee, and other individuals to determine the extent of the authority provided by the law and to develop accounting procedures for districts whose school boards choose to issue these taxable bonds.

Based on the legislation and consultation, it has been determined that districts issuing bonds should record the bond proceeds into the Operating Funds (Funds 01, 02, and/or 04) and transfer the funds to the appropriate account, if necessary. The bond proceeds may be held in a separate account within the Operating Funds if no trust account is established (Balance Sheet Account 452), a Revocable Trust Internal Service Fund (Fund 25), or an Irrevocable Trust Fund (Fund 45). A summary of accounting entries are identified as follows:

ACCOUNTING FOR	Operating	Operating	Operating	Internal	Internal	Fund
OTHER POST-EMPLOYMENT	Funds	Funds	Funds	Service (20)	Service (25)	45
BENEFITS	Unassigned - 422	Unassigned - 422	Restricted/Reserved - 452	Unassigned-422	Revocable Trust	Irrevocable Trust
	Pay-As You-Go	No Bonds or Trust	Bond Proceeds - No Trust	No Bonds or Trust	May Have Bond Proceeds	May Have Bond Proceeds
Bond Proceeds						
Debit - Net Proceeds	n/a	n/a	FD 1-2-4, GL 101	n/a	FD 1-2-4, GL 101	FD 1-2-4, GL 101
Debit - Advisors/Counsels/Agencies	n/a	n/a	FD 1-2-4, ORG 005, PRO 910, FIN 000, OBJ 305	n/a	FD 1-2-4, ORG 005, PRO 910, FIN 000, OBJ 305	FD 1-2-4, ORG 005, PRO 910, FIN 000, OBJ 305
Credit - PAR, Underwriters Discount	n/a	n/a	FD 1-2-4, ORG 005, PRO 910, FIN 793, SRC 631	n/a	FD 1-2-4, ORG 005, PRO 910, FIN 000, SRC 631	FD 1-2-4, ORG 005, PRO 910, FIN 000, SRC 631
Debit - Unused Discount	n/a	n/a	FD 1-2-4, ORG 005, PRO 910, FIN 000, OBJ 910	n/a	FD 1-2-4, ORG 005, PRO 910, FIN 000, OBJ 910	FD 1-2-4, ORG 005, PRO 910, FIN 000, OBJ 910
Debit - Unused Discount	n/a	n/a	FD 47, GL 101	n/a	FD 47, GL 101	FD 47, GL 101
Credit - Unused Discount	n/a	n/a	FD 47, ORG 005, PRO 910, FIN 000, SRC 649	n/a	FD 47, ORG 005, PRG 910, FIN 000, SRC 649	FD 47, ORG 005, PRG 910, FIN 000, SRC 649
Credit - Unused Discount	n/a	n/a	FD 1-2-4, GL 101	n/a	FD 1-2-4, GL 101	FD 1-2-4, GL 101
Debit - Amt of Bond Issue	n/a	n/a	FD 99, GL 151	n/a	FD 99, GL 151	FD 99, GL 151
Credit - Amt of Bond Issue	n/a	n/a	FD 99, GL 250	n/a	FD 99, GL 250	FD 99, GL 250
Transfer to Trust Fund (25 or 45)						
Debit - Net Proceeds	n/a	n/a	n/a	n/a	FD 1-2-4, ORG 005, PRO*, NOT FIN 793, OBJ 252/290	FD 1-2-4, ORG 005, PRO*, NOT FIN 793, OBJ 252/290
Credit - Net Proceeds	n/a	n/a	n/a	n/a	FD 1-2-4, GL 101	FD 1-2-4, GL 101
Debit - Net Proceeds	n/a	n/a	n/a	n/a	FD 25, GL 101	FD 45, GL 101
Credit - Net Proceeds	n/a	n/a	n/a	n/a	FD 25, ORG 005, PRO 935, FIN 000, SRC 614	FD45, ORG 005, PRO 935, FIN 000, SRC 614
Transfer to Internal Service Fund -No Trust (20)						
Debit-Transfer Amt	n/a	n/a	n/a	FD 1-2-4, ORG 005, PRO*, NOT FIN 793, OBJ 289	n/a	n/a
Credit-Transfer Amt	n/a	n/a	n/a	FD 1-2-4, GL 101	n/a	n/a
Debit-Transfer Amt	n/a	n/a	n/a	FD 20, GL 101	n/a	n/a
Credit-Transfer Amt	n/a	n/a	n/a	FD 20, ORG 005, PRO 935, FIN 000, SRC 615	n/a	n/a
District Payments for OPEB						
Debit - Amt Paid	FD 1-2-4, ORG 005, PRO*, FIN 797, OBJ 291	FD 1-2-4, ORG 005, PRO*, NOT FIN 793, OBJ 291	FD 1-2-4, ORG 005, PRO*, FIN 793, OBJ 291	FD 20, ORG 005, PRG 935, FIN 000, OBJ 220/230/235/251	FD 25, ORG 005, PRG 935, FIN 000, OBJ 220/230/235/251	FD 45, ORG 005, PRG 935, FIN 000, OBJ 220/230/235/251
Credit - Amt Paid	FD 1-2-4, GL 101	FD 1-2-4, GL 101	FD 1-2-4, GL 101	FD 20, GL 101	FD 25, GL 101	FD 45, GL 101
Retiree Contributions for OPEB						
Debit - Amt Received	FD 1-2-4, GL 101	FD 1-2-4, GL 101	FD 1-2-4, GL 101	FD 20, GL 101	FD 25, GL 101	FD 45, GL 101
Credit - Amt Received	FD 1-2-4, ORG 005, PRO*, FIN 797, OBJ 291	FD 1-2-4, ORG 005, PRO*, NOT FIN 793, OBJ 291	FD 1-2-4, ORG 005, PRO*, FIN 793, OBJ 291	FD 20, ORG 005, PRO 935, FIN 000, SRC 616	FD 25, ORG 005, PRO 935, FIN 000, SRC 616	FD 45, ORG 005, PRO 935, FIN 000, SRC 616
Levy Proceeds						
Debit - Amt Received	FD 1 & 4, GL 101	n/a	FD 47, GL 101	n/a	FD 47, GL 101	FD 47, GL 101
Credit - Amt Received	FD 1-2-4, ORG 005, PRO*, FIN 797, SRC 001 (Fund 1 & 4)	n/a	FD 47, ORG 005, PRO 910, FIN 000, SRC 001	n/a	FD 47, ORG 005, PRO 910, FIN 000, SRC 001	FD 47, ORG 005, PRO 910, FIN 000, SRC 001
Bond Payments						
Debit - Principal	n/a	n/a	FD 47, ORG 005, PRO 910, FIN 000, OBJ 710	n/a	FD 47, ORG 005, PRO 910, FIN 000, OBJ 710	FD 47, ORG 005, PRO 910, FIN 000, OBJ 710
Debit - Interest	n/a	n/a	FD 47, ORG 005, PRO 910, FIN 000, OBJ 720	n/a	FD 47, ORG 005, PRO 910, FIN 000, OBJ 720	FD 47, ORG 005, PRO 910, FIN 000, OBJ 720
Credit - Payment	n/a	n/a	FD 47, GL 101	n/a	FD 47, GL 101	FD 47, GL 101
Debit - Amt of Bond Paid	n/a	n/a	FD 99, GL 250	n/a	FD 99, GL 250	FD 99, GL 250
Credit - Amt of Bond Paid	n/a	n/a	FD 99, GL 151	n/a	FD 99, GL 151	FD 99, GL 151

PRO*=Should be broken down into the program level detail as follows: 020-Superintendent, 030-Instructional Administration, 050-School Administration, 105-General Administration, 107-Other Administrative Support, 110-Business Support Services, 203-Elementary Instruction, 211-Secondary Instruction, 399-Vocational Instruction, 400-Special Education Instruction, 500 Series-Community Education, 600 Series-Instructional Support, 710/712-Counseling/Guidance Services, 720-Health Services, 730-Psychological and Mental Health Services, 740-Social Work Services, 760-Pupil Transportation, 770-Food Service, 790-Other Pupil Support, 810-Operations and Maintenance

Note 1: Receipting to expenditure accounts requires a lot of detail work. It is simpler to use B-0X-215-XXX (Payroll Deductions) for the retiree receipt and payment activity.

FD = Fund; GL = General Ledger; FIN = Finance Code; OBJ -= Object Code; SRC = Source Code

Questions regarding this information should be directed to mde.ufars-accounting@state.mn.us.

Special Thanks to the GASB 45 Committee

Members of the Division of School Finance of the Minnesota Department of Education extend their appreciation to each member of the GASB 45 Committee for their work on this project.

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SECTION 5 – GASB STATEMENT 54

Introduction

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. GASB Statement 54 did not affect the calculation of fund balance but improved financial reporting by enhancing the usefulness of fund balance information and provided fund balance categories and classifications for more understandability. Until 2009, categories used to present fund balance focused on whether resources were available for appropriation (i.e., budgeting). Fund balance described the difference between the assets and liabilities reported in a governmental fund (i.e., general fund). The traditional approach to classify fund balance was the following:

Reserved Fund Balance (not available for appropriation)

a) Portion of net resources that cannot ever be spent because of their form
b) Portion of net resources that cannot yet be spent
c) Portion of net resources that cannot be spent for any and all fund-related purposes because of external limitations

Unreserved Fund Balance (available for appropriation)

- **Designated Unreserved Fund Balance (available for appropriation, with a limitation on use imposed by the government itself)**

  a) Portion of net resources subject to limitations imposed by the governing body
  b) Portion of net resources set aside by management/administration in connection with its tentative plans

- **Undesignated Unreserved Fund Balance** (available for appropriation, with no external or internal limitation)

GASB Statement No. 54 established accounting and financial reporting standards for all governments that report governmental funds. It established criteria for classifying fund balances into specifically defined classifications and clarified definitions for governmental fund types. With the introduction of GASB Statement 54, the fund balance focus changed from the availability of fund resources for budgeting to the extent to which the government (school districts) are bound to honor constraints on the specific purpose for which amounts in the fund can be spent

GASB Statement No. 54 created a hierarchy of fund balance classifications revolving around government's constraints on resources reported in funds. GASB Statement 54 approved five classifications for fund balance reporting:

1) ***Nonspendable Fund Balance***
2) ***Restricted Fund Balance***
3) ***Committed Fund Balance***
4) ***Assigned Fund Balance, and***
5) ***Unassigned Fund Balance***

The following Statement of Position from the State of Minnesota Office of the State Auditor outlines ***"Fund Balances for Local Governments Based on GASB Statement No. 54*"**:**

REBECCA OTTO
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Statement of Position
Fund Balances for Local Governments
Based on GASB Statement No. 54

Background

Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* defines the classifications of fund balance based on the focus of the constraints placed on the use of current fund balance. The Statement also identifies the governmental fund type definitions. This Statement of Position addresses only the fund balance classifications and reporting.

The requirements of GASB 54 are applicable to all local governments. Implementation was required for the first fiscal year ended June 30, 2011. However, most Minnesota local governments report on a calendar year. For those reporting on a calendar year, the first required year for implementation was the year ended December 31, 2011.

In governmental funds,1 local government should identify fund balance separately based on a hierarchy of the constraints placed on the use of the financial resources within governmental funds. A local government will classify its fund balances into one of up to 5 classifications: nonspendable, restricted, committed, assigned, and unassigned. While some of the GASB 54 classifications are similar in nature to the classifications under pre-GASB Statement No. 54, the focus is different, and thus, what is classified into these classifications may be different.

Fund Balance Classifications/Definitions for Governmental Funds

The fund balances of a local government's governmental funds should be reported in the new classifications based on the definitions in the following table:

1 Governmental fund reporting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. The governmental fund category includes the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds. Codification of Governmental Accounting and Financial Reporting Standards § 1300.102.

Fund Balance Reporting

Classification	***Definition***	***Examples***
Nonspendable	"Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact."[2]	• Inventories • Prepaid Items, • Long-term receivables in the general fund, and • Permanent principal of endowment funds.
Restricted	"Fund balance should be reported as restricted when constraints placed on the use of resources are either: a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b. Imposed by law through constitutional provisions or enabling legislations."[3]	• Restricted by state statute, • Unspent bond proceeds, • Grants earned but not spent, • Debt covenants, • Taxes dedicated to a specific purpose, and • Revenues restricted by enabling legislation
Unrestricted Committed	"Used for specific purposed pursuant to constraints Imposed by formal action of the government's highest level of decision-making authority."[4]	• The governing board has decided to set aside $1M for a new city hall. • Property tax levies set for a specific purpose by resolution.
Unrestricted Assigned	"Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed."[5]	• Governing board has set aside $2 million for a county hospital and the county manager may amend this up to $100,000. • Governing body delegates the authority to assign fund balance to the finance officer. • Governing board has appropriated fund balance often to balance next year's budget.[6] • Positive residual balances in governmental funds other than the general fund.
Unassigned	Unassigned fund balance is the residual classification for the General Fund. This is fund balance that has not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other governmental funds would report deficit fund balances as unassigned.[7]	

2 GASB Statement No. 54, ¶ 6.
3 GASB Statement No. 54, ¶ 8.
4 GASB Statement No. 54, ¶ 10.
5 GASB Statement No. 54, ¶ 13.
6 See appropriated fund balance section of this document.
7 GASB Statement No. 54, ¶ 17.

Classifying Fund Balance

A local government should classify its fund balances based on the nature of the particular net resources reported in a governmental fund. The government would first start by identifying nonspendable net resources, followed by restricted, committed, assigned and lastly unassigned. This will classify a fund's net resources from those that have the most constraints placed on their use to the least. A fund's net resources also are affected by the spending policy of that government. A local government should determine the order of use of resources when expenditures are incurred. Are restricted resources used first? Or, if available for use, are unrestricted net resources (committed, assigned, or unassigned) used first? If a local government does not have an accounting policy that identifies the order of use of resources, then the net resources with the most constraints are used first.

Unrestricted Fund Balance

Unrestricted fund balance is the amount of fund balance left after determining both nonspendable and restricted net resources. The unrestricted fund balance is the amount of fund balance that a local government, itself, has placed constraints on its use (committed and assigned) and fund balance that does not have any specific purpose identified for the use of those net resources (unassigned). Unrestricted fund balance, therefore, includes the committed, assigned, and unassigned classifications. Committed and assigned fund balance represent resources set aside by the government to fund specific purposes. The two classifications differ in the formality of the action required to set aside the net resources.

The government's highest level of decision-making authority is required to commit available fund balance to a specific purpose. Once the action has been taken, the committed funds cannot be used for any other purpose unless the commitment is rescinded by the same type of action that previously committed the funds. The action taken to commit the funds must be taken prior to the end of the fiscal year, but the specific amount may be determined in the subsequent period.

The authority to assign may be delegated to an official other than the governing body. Unlike committed fund balance, the action taken to assign fund balance may be made after year end. In governmental funds other than the General Fund, the assignment must follow the government's intent for the specific purpose of the individual funds. Therefore, all remaining positive fund balances in the special revenue, debt service, and capital projects funds are classified as assigned.

Unassigned fund balance represents the remaining unrestricted fund balance in the General Fund after identifying fund balance that has been committed or assigned. Deficits in fund balances of other governmental funds are reported as unassigned. Assignments should never cause a deficit in unassigned fund balance to occur.

Stabilization Arrangements: Restricted/Committed vs. Unassigned

Many local governments currently set aside part of fund balance for emergencies, working capital, cash flows, revenue shortages, or other contingencies. The authority to set aside these amounts usually comes from ordinance or resolution. The GASB calls these types of funds "stabilization arrangements." For a government to be able to set aside these types of funds as restricted or committed, they need to specifically define when these amounts may be used and specify a situation that cannot be expected to occur routinely. For example, identifying funds to be accessed "in an emergency" does not sufficiently detail the circumstance or condition that must be met for the funds to be considered committed. To commit these funds, the government needs to be more specific in defining an emergency. If the arrangement meets these requirements, it would be considered a specific purpose and reported as either restricted or committed, depending on the source of the constraint. Stabilization arrangements that do not meet the requirements should be reported as part of unassigned fund balance in the General Fund.

Appropriated Fund Balance

Usually a local government only classifies fund balances at year end for financial reporting purposes. Thus only current, and not future, net resources are classified. Typically, the subsequent year's budgeted expenditures are expected to be paid from the subsequent year's revenues and not the current reporting year's ending fund balances. On occasion, local governments will "deficit" budget, or in other words, budget more expenditures than anticipated revenues and drawdown the beginning fund balance for the subsequent year. An appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance.[8]

Recommendations

Adoption of Comprehensive Fund Balance Policy

The GASB's Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* identifies fund balance accounting policies that a local government may have or should consider. The Office of the State Auditor recommends that each local government establish/approve a formal comprehensive fund balance policy relating to accounting and financial reporting of governmental fund balances. A local government's fund balance policy could address the following areas:

- Minimum fund balance
- Order of resource use
- Stabilization arrangements
- Committing fund balance
- Assigning fund balance

Minimum Fund Balance

The Office of the State Auditor recommends that local governments determine and establish in their fund balance policy a desired minimum level of unrestricted fund balance to maintain in their General Fund and other significant governmental funds. The local government's governing body should keep revenue streams in mind when determining a minimum level of fund balance for their policy. Often a local government's revenue stream is not evenly distributed throughout the year. A local government will need sufficient beginning fund balances to pay expenditures until these revenues are received. For example, funds that rely heavily on property taxes must maintain sufficient financial resources until the next tax revenue collection cycle. Funds that rely on state appropriations and grants should consider the timing of those payments. Also, local governments need to maintain a prudent level of financial resources to protect against a forced service level reduction or having to raise taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

Other considerations include the predictability of revenues and the volatility of expenditures. A local government may need higher levels of unrestricted fund balance if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile, such as greater expenditures in the early part of the year. The availability of resources in other funds and the potential drain on the General Fund resources from other funds could affect the necessary level of minimum unrestricted fund balance. The availability of resources in other funds may reduce the amount of unrestricted fund balance needed in the general fund, just as deficits in other funds may require that a higher level of unrestricted fund balance be maintained in the General Fund.

After establishing a minimum level of unrestricted fund balance, the policy should provide for both a timeframe and a specific plan for increasing or decreasing the level of unrestricted fund balance. If the actual unrestricted fund balance is not consistent with the policy, a plan should be developed by the governing body that will allow for compliance with the desired minimum level. The fund balance policy should include a provision for a regular review of the sufficiency of the minimum fund balance level.

8 GASB Statement No. 54, ¶ 16.

Order of Resource Use

The Office of the State Auditor recommends that local governments include in their comprehensive fund balance policy the normal order of resource use. The policy should identify which fund balance resources (restricted or unrestricted) are normally used first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, for unrestricted fund balance, the local government should identify the order in which committed, assigned, or unassigned amounts are spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Stabilization Arrangements

The Office of the State Auditor also recommends that local governments consider establishing a stabilization arrangement for emergency situations in their comprehensive fund balance policy. The policy should establish the amount to be set aside, identify the types of non-routine emergencies/situations that would meet the need for use of stabilization funds, and clearly state that the amount set aside may only be used for the identified emergency situations.

Committing Fund Balance

The Office of the State Auditor also recommends that a local government's governing body identify in its comprehensive fund balance policy its process for committing fund balance to a specific purpose. The policy could identify the local government's highest level of decision-making authority, what formal action is required to commit fund balance, and what specific purposes normally will require committing resources.

Assigning Fund Balance

Furthermore, the Office of the State Auditor recommends each local government that decides to delegate the authority to assign fund balance for a specific purpose include in their comprehensive fund balance policy the body or official authorized to assign amounts to a specific purpose and the types of specific purposes that may be assigned by that delegated body or official. The policy should also specify how the amounts for such assignments are arrived at and whether the governing body will set the assignments annually or will set up a process to make the assignment based on the guidelines established by the governing body.

Appropriate Fund Balance Levels

The Office of the State Auditor recommends that, at year-end and/or at other key times of the year, local governments that rely significantly on property taxes maintain an unrestricted fund balance of approximately 35 to 50 percent of fund operating revenues or no less than five months of operating expenditures in their General Fund and special revenue funds. This amount of unrestricted fund balance should provide the local government with adequate funds until the next property tax revenue collection cycle. The adequacy of unrestricted fund balance should be assessed based on an individual local government's own circumstances. If the local government's unrestricted fund balance is less than or greater than the recommended level, the local government should be able to explain the reason for the difference.

> According to MDE, Minnesota school districts, unlike most local governmental units, experience timing of receipts from local property tax levies, state aids, and federal aids that provide a more reliable flow of cash to fund operations. Therefore, a recommended unrestricted fund balance for school districts may be less than the amounts recommended above for other local governmental units. Each school district should determine the appropriate level of unrestricted fund balance based on the school district's circumstances.

Local governments should also consider taking a position on the level of unrestricted fund balance in other funds that have unrestricted revenues. In setting an appropriate level, the local government should consider any long-term forecasting/planning issues to avoid the risk of placing too much emphasis on the level of unrestricted fund balance at any one time.

Special Thanks to the GASB 54 Committee

Members of the Division of School Finance of the Minnesota Department of Education extend their appreciation to each member of the GASB 54 Committee for their work on this project.

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