

State and Federal Requirements



State Requirements for Public School Finance

Missouri statutes are very specific in certain areas of school finance. These laws prescribe the duties of the treasurer and secretary of the board of education, establish four funds which must be used in the accounting process, and place certain limits upon the use of revenue and expenditure transactions allowed in these funds. As a result, the utilization of available money is limited and the accounting process is similarly affected.

Chapter 165, RSMo, provides that all school monies must be accounted for within a framework of four funds:

- Teachers Fund
- Incidental Fund
- Capital Projects Fund
- Debt Service Fund

The Governmental Accounting Standards Board (GASB) statement of principle on fund accounting systems states, "Governmental accounting systems should be organized and operated on a fund basis." A fund is an independent fiscal and accounting entity with its own assets, liabilities and fund balance that are segregated to account for all financial transactions of specific activities of a local education agency's (LEA's) operations in accordance with special regulations, restrictions, or limitations. A fund type or account group may include many subfunds that are restricted in use to a specific phase of the activities. When subfunds are used, the revenue, expenditure and fund balance accounts within the fund type are divided by subfund to provide the separate accountability necessary to comply with the legal requirements of the various subfunds. Effective accounting control of a subfund does not require use of separate bank accounts.

Fund accounting, under Missouri statutes and under Generally Accepted Accounting Principles (GAAP), does not require school districts to maintain separate bank accounts for each fund. However, *Section 165.011, RSMo, requires the Debt Service Fund to be maintained in a separate bank account.* Other funds' accounting records must be constructed to demonstrate the propriety of segregated fund transactions.

In determining the number of funds appropriate for public school operations, the purposes and legal requirements of the various activities must be considered. GAAP recommends the minimum number of funds be consistent with legal requirements. This is due to the necessity of identifying expenditures with revenues for the various activities.

Through GASB, GAAP recognizes three types of funds: Governmental, Proprietary and Fiduciary. Within the Governmental Funds are a General Fund, Special Revenue Fund, Capital Projects Fund, Debt Service Fund and Permanent Funds. In order to comply with GAAP, Missouri statutory funds are incorporated within this structure as follows:

Governmental Fund Types:

- General Fund
 - Incidental Fund
- Special Revenue Fund
 - Teachers Fund
- Capital Projects Fund
- Debt Service Fund

Proprietary Fund Types:

- School Food Service (potentially)

Fiduciary Fund Types:

- Student Activities (potentially)

Fund Descriptions:

The General (Incidental) Fund is used to account for all financial resources except those required to be accounted for in another fund. This fund accounts for transactions involving local taxes; Foundation Program payments such as Basic Formula, Transportation, Early Childhood Special Education, Career Ladder, Educational Screening Entitlement/PAT and Vocational/At-Risk; along with various other transactions associated with federal projects.

The Special Revenue (Teachers) Fund is used to account for revenue sources legally restricted to expenditures for the purpose of teachers' salaries and benefits and tuition payments to other school districts.

The Capital Projects Fund is used to account for all facility acquisition, construction, lease purchase principal and interest payments and other capital outlay expenditures.

Expenditures for ordinary repairs to school property will not be made from the Capital Projects Fund. Capital expenditures are defined as expenses paid or incurred for the acquisition or repair of assets that will remain useful for more than one year. Examples of these expenditures would be the cost of acquisition, construction, or erection of buildings, remodeling or reconstruction of buildings and the furnishing thereof, and similar property having a useful life substantially beyond the current fiscal year. Expenses in this fund shall be capitalized and Internal Revenue Service guidelines will be used to determine the appropriateness of specific expense items in the Capital Projects Fund.

Examples of expenditures not allowed to be paid from the Capital Projects Fund are the costs of mending leaks, painting, plastering, custodian salaries, maintenance supplies and employee benefits.

Revenue placed in the Capital Projects Fund may come from the following sources:

- tax rate set in the Capital Projects Fund
- money received from Basic Formula Classroom Trust Fund
- bond sale proceeds
- net insurance recoupment for a capital loss
- money received from the sale of capital assets including real estate, school houses, other buildings, furniture and equipment
- interfund transfers
- money received from any other source for buildings, equipment, lease purchase obligations, or other capital purposes

The Debt Service Fund is used to account for the resources accumulated for and the payment of long-term debt. Amounts in the Debt Service Fund are generated from the Debt Service Fund tax levy and are used solely to retire bonded debt. While paying agent fees are always a legitimate expense of the Debt Service Fund, other expenses associated with the issuance of bonds are paid from the various funds (depending on whether the bond issue is a new issue or a refunding issue).

The following bond related fees may be paid from either the Capital Projects Fund or the General (Incidental) Fund for a new bond issue. For a refunding general obligation bond issue, these fees may be paid from the General (Incidental) Fund (Bond proceeds may not be placed in the General (Incidental) Fund.) or from the refunding bond proceeds in the Debt Service Fund per Section 108.140, RSMo:

- bonding attorney costs
- costs of bond sales
- registration fees
- bond printing costs
- other costs associated with issuing the bonds

A Fiduciary (Student Activities) Fund is used to account for monies held by the LEA in a trustee capacity for individual student groups. The school board is responsible for all student activity funds in the district. The primary criterion for determining how these funds should be classified should be “Who determines how the money is spent?” Thus, athletic funds would generally be classified as governmental funds, while funds for clubs and class activities generally would be included in fiduciary funds. Any student activity funds classified as governmental funds should be budgeted and controlled in the same manner as other governmental funds.

To generate useful and complete management information for use at the local level, the number of subfunds should be limited where possible. The number of subfunds a school district may use is not restricted to the funds specified. School districts may utilize more funds than the minimum outlined above for local accounting requirements or to comply with GAAP. State reporting will typically consolidate these other funds into the General (Incidental) Fund for year-end reporting purposes. Examples of these subfunds include the School Food Service Fund and Student Activities Fund. School administrators and other personnel assigned duties pertaining to school finance should become familiar with Chapter 165, RSMo.

The multiple-fund type system should be operated as a centralized system even though the financial transactions are recorded in separate funds. Although the identity of the assets making up each subfund is kept separate and distinct, only one system of books is needed to account for all fund types. It is important to remember that a fund is not synonymous with a bank account.

An area of special concern in a multiple-fund system is the interfund transactions that necessarily result in such a system. Five important principles should be observed in relation to interfund transactions:

- Interfund transactions should be limited.
- Interfund payables and receivables should not be built up when there is no intent or ability to settle such interfund obligations.
- Interfund transactions between two or more funds must be recorded by a balanced entry to each fund. Since each subfund is a separate set of balanced accounts, a debit to an account of one subfund cannot be balanced by a credit to an account of another subfund. In cases where two funds owe each other money, the receivable and payable within each fund should not be offset without more entries to both subfunds to remove the full amount of the payables and receivables from the statements.
- Interfund receivables and payables should not be viewed in the same manner as a receivable due from or to a source external to the LEA. The collection of the receivable from or payment of the payable to another subfund will not improve the overall cash position of the LEA.
- Interfund transactions are limited to those set forth in Section 165.011, RSMo, and the Missouri Department of Elementary and Secondary Education administrative policy. The allowed transfers are:
 - Teachers Fund
 - Debt Service Balance
 - Transportation Calculated Cost

- Area Vocational-Technical Schools
- Grant Match
- DNR Energy Conservation Loan
- Food Services
- Student Activities
- \$162,326 or 7% x SAT x WADA
- Capital Projects Fund Interest
- Unspent Bond Proceeds
- Capital Projects Unrestricted Funds
- FY06 Designated Levy or 5% SAT x WADA
- Lease Purchase prior 01/01/1997
- Guaranteed Energy Performance Savings Contract
- Excess Incidental Fund Balance

Other Requirements

Chapter 162, RSMo, pertains to school districts in general but specifically deals with:

- duties of the secretary and the treasurer of a board of education
- bonding requirements for the secretary and the treasurer
- reporting requirements for the treasurer and the secretary
- compensation for the treasurer and the secretary
- requirements for providing special educational services.

Chapter 163, RSMo, pertains to issues relating to the calculation of state aid (definitions, requirements, eligibility, categorical, hold harmless, federal lands, Division of Youth Services) as well as correction of apportionment errors, Proposition C, transportation aid and minimum teachers salary. This chapter has a significant impact upon the fiscal affairs of a school district.

Chapter 164, RSMo, also has a great impact on school finance. Legal limitations of tax levies for operation of educational programs, requirements for voting levies, duties of district personnel concerning bond elections, limitations placed upon districts concerning maximum amount of bonded indebtedness, and various requirements concerning the issuance of revenue bonds, all of which have major implications for the fiscal operations of public schools, are delineated.

Special Projects Funds

This section does not apply to any particular fund for state reporting purposes but is included to explain how reporting can be provided on project-to-date revenues, expenditures and fund balances as required for some federal programs. This requirement occurs when the program or project does not fall entirely within a fiscal year.

Each expenditure account (as defined in Section F, Function Code Descriptions and G, Expenditure Object Code Descriptions) and each revenue account (as defined in Section E, Revenue Object Code Descriptions) has amounts indicating “current year-to-date” and “prior year’s” totals. The “current year-to-date” amounts will be added to the “prior year’s” total at year-end, in effect, making the prior year amounts cumulative. The sum of the “prior year’s” amounts for all individual revenue accounts for a particular program or project is the project’s total revenues-to-date at year-end. Likewise, the sum of all “prior year’s” expenditure amounts is the project-to-date expenditures at year-end.

At fiscal year-end, the prior year’s amounts equal all project-to-date amounts. During the fiscal year, the project-to-date amounts can be manually computed by adding the prior year’s amounts to the current year-to-date figures.

Project-ending balances are simply the project-to-date revenues less the project-to-date expenditures. This allows recordkeeping at the local district to be consistent with federal reporting requirements. When these same "special project funds" are reported for state purposes, the fiscal year activity and balances will be reported within the General (Incidental), Special Revenue (Teachers), or Capital Projects Funds.

Deposits of Public Funds to be Secured

Pursuant to section 110.010 RSMo, the public funds of every school district which are deposited in any banking institution acting as a legal depository of the funds under the statutes of Missouri shall be secured by the deposit of securities of the kind and character prescribed by Section 30.270, RSMo.

All local educational agencies (LEAs) must follow the requirements set forth in Section 110.010, as Section 160.405, RSMo requires them to be financially accountable and use practices consistent with the Missouri Financial Accounting Manual. Section 165.12,1 RSMo further strengthens accountability by establishing audit requirements for all districts and LEAs. The Department's audit rule (5 CSR 30-4.030) sets forth more detailed audit requirements, including requiring audits to contain the schedule of selected statistics as specified annually by the Department. The schedule of selected statistics includes a requirement for auditors to test compliance with the provisions of Section 110.010, RSMo.

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