

**FINANCIAL POLICIES
AND
PROCEDURES HANDBOOK**

2005 EDITION

Budgeting, Accounting, Reporting,
Auditing and Investment
For Colorado Public School Districts

“The *Financial Policies and Procedures Handbook* adopted by the State Board of Education shall be used by every school district in this state in the development of the budget for the district, in the keeping of financial records of the district, and in the periodic presentation of financial information to the Board of Education of the district.” C.R.S. 22-44-204(3)

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PREFACE TO THE HANDBOOK

The 2003 edition of the *Financial Policies and Procedures Handbook* was updated and revised to incorporate changes in required financial policies resulting from: (1) Colorado's push towards increased public accountability for school district budgeting, accounting and reporting; (2) new Colorado statutory mandates enacted since the Public School Finance Act of 1994; and (3) recent requirements of the Governmental Accounting Standards Board.

The *Handbook* is a publication of the Colorado State Board of Education. Members of this Committee, which is advisory to the State Board of Education, are representatives of school districts and organizations such as the State Auditor's Office and the Colorado Association of School Boards. Committee members serve without remuneration and meet monthly, or more often if required, to consider issues and policy regarding school district financial budgeting, accounting and reporting.

INTRODUCTION

I. Purpose of the Handbook

The 2003 edition of the *Financial Policies and Procedures Handbook* is a publication of the State Board of Education. The *Handbook* is designed to achieve three purposes:

- (1) To summarize state and federal general requirements regarding the management and reporting of financial data.
- (2) To ensure that educational financial data are reported in a comprehensive and consistent manner.
- (3) To provide information and guidance to school districts and Boards of Cooperative Educational Services (BOCES) regarding the budgeting, accounting, reporting, auditing, investment and cash management of educational finances.

This *Handbook* has been developed to conform to generally accepted accounting principles (GAAP).

II. Required Use of the Handbook

Colorado statutes require that the *Financial Policies and Procedures Handbook* be used by every school district in the development of the budget, in the keeping of financial records and in the periodic presentation of financial information to the board of education of the district. C.R.S. 22-44-204(3). State law also requires school district auditors to ensure, in their annual financial audit, that school districts are complying with the requirement to use the *Handbook*. C.R.S. 29-1-603(1).

In compliance with state law, the *Handbook* is consistent with the federal *Financial Accounting Handbook II, Revised*. C.R.S. 22-53-108(2)(a). Federal law requires all states to provide data, consistent with federal definitions, on the financing of elementary and secondary education as a condition of receiving federal funding under the *Elementary and Secondary Education Act*. 20 USC 122 1e-1g. Because financial data is used to allocate Chapter 1 funds to states, it is subject to independent audit at both the district and state levels by the Inspector General of the U.S. Department of Education.

III. Federal and State Categorical Program Reporting

The *FPP Handbook* contains only general state and federal financial reporting requirements. In addition to these, state and federal categorical programs, which target funding for specific purposes or groups of students, have very specific financial requirements. **Appendix A** of the *Handbook* contains *Fiscal Guidance for Federal Programs*, a publication of the Colorado Department of Education (CDE) that

summarizes specific requirements of some of the major federal programs. Additional information may be obtained from state and federal laws and regulations and the state plans for the various programs. The units of CDE that administer the programs will provide additional information regarding the requirements of specific programs.

IV. *Handbook Requirements and Advice*

It is the intent of this *Handbook* to summarize the major state and federal requirements regarding financial budgeting, accounting and reporting. However, school district personnel and other users are encouraged to consult state and federal statutes for more information about any of the requirements and to seek legal counsel as necessary for assistance in interpreting and complying with the law.

The revenue and expenditure requirements included in the FPP Chart of Accounts red binder represent a state and federal minimum program budgeting and accounting system. Local districts have the flexibility to designate costs in greater detail for various programs depending on district needs.

V. *Other Critical Sources of Information Regarding Financial Management*

In addition to this *Handbook*, school districts should consider the following to be critical sources of information regarding state and federal requirements governing financial management and accounting.

1. *Colorado Revised Statutes (C.R.S.)*
2. *Colorado Code of Regulations (C.C.R.)*
3. Federal laws as contained in the *United States Code (U.S.C.)*
4. Federal regulations and other guidance as published in the *Federal Register*.
5. *Financial Accounting, Classifications and Standard Terminology for Local and State School Systems, (Handbook II, Revised), 1973.*
6. Governmental Accounting and Financial Reporting Standards, published by the Governmental Accounting Standards Board, May 31, 1990, Codification.

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PROCEDURES

I. Revisions of Financial Policies and Procedures Handbook

This procedure describes the method for revising the *Financial Policies and Procedures Handbook* and for posting changes to individual copies. Changes will be processed as follows:

- A. The originator should submit a draft of the proposed change to the chair of the Financial Policies and Procedures (FPP) committee at the Colorado Department of Education (CDE). The request should contain a statement listing the affected sections and describing the concerns and rationale for the recommended revisions in addition to a copy of the sections as revised and/or added.
- B. Any proposed change will be referred to CDE staff for an analysis of the potential impact before it is acted on.
- C. The impact analysis reviews the following information:
 - 1. Compliance with existing statutes, regulations, or policies.
 - 2. Consistency with Generally Accepted Accounting Principles (GAAP), *Federal Handbook IIR* and federal reporting requirements.
 - 3. Compatibility with existing systems, methods and procedures.
 - 4. Impact on school districts and CDE.
- D. After this analysis, the proposed change will be submitted to the FPP Committee for consideration and recommendation. Based on the recommendation, it will be either returned to the originator with an explanation of denial or, if approved, returned to the School Finance Unit of the Office of Management Services.
- E. The Chair of the FPP Advisory Committee will coordinate with appropriate persons in the CDE the review of the recommended change. The process includes a review by the Commissioner of Education, who forwards it to the State Board of Education for their approval.
- F. Should either the CDE or the FPP Committee not recommend the change, the originator may appeal the decision to the Colorado Board of Education.
- G. Approved changes will be distributed as complete revisions; thus, the Handbook holder will be required only to remove, replace, or add pages. The changes will be authenticated by a cover letter.

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- H. Changes will be mailed to all holders of record of the *Financial Policies and Procedures Handbook* including school districts and Boards of Cooperative Educational Services (BOCES).
- I. Changes considered at one FPP meeting will ordinarily not be acted on until at least the following meeting.

The FPP Committee periodically issues information, called *FPP Alerts*, to school districts concerning important or urgent critical issues.

BUDGET

I. Purpose of a Budget

The purpose of a budget is to provide a plan of financial operation embodying an estimate of proposed expenditures for a given period and purpose and the proposed means of financing that plan. To achieve this basic purpose, a comprehensive budget system must be integrated with the financial accounting system.

Detailed budget planning allows a district to reflect educational values and needs. The structure and format provided by a well designed budget promotes rational decision-making regarding the importance of various school district services. In this way, administrators and boards of education are assisted in educational planning as well as in the prioritization and planning of all district operations through the allocation of resources.

II. Primary Budget Objectives

- A. Provide a framework to assist in the formulation of an integrated plan of operations and in the understanding of how each program's activities contribute to the goals and educational needs.

The school district must submit the major objectives of the educational program with its proposed budget.

1. No later than September 1 of each year, the advisory accountability committee for each school building in the state shall adopt high, but achievable, goals and objectives for the improvement of education in its building, consistent with the State Board's goals and objectives, and shall adopt a plan to improve educational achievement in the school and to implement methods of maximizing graduation rates from the secondary schools of the district.

The district advisory accountability committee shall review each building's goals, objectives and plan before they are submitted to the board of education of the district. Procedures for the implementation of the plan shall be included in the budget submitted to the board of education pursuant to section C.R.S. 22-7-205(1).

2. After consultation with the district advisory accountability committee and review of its recommendations, the board of education shall compile school building goals and objectives and plans and shall submit a district's high, but achievable, goals and objectives for the improvement of education in the district, consistent with the State Board's goals and objectives, and a district plan to improve educational achievement and maximize graduation rates to the State Board of Education no later than October 1 of each year. C.R.S. 22- 7-205(2).

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3. In addition to any other duties and powers, the advisory accountability committee of each school district shall make recommendations to the district board of education relative to the prioritization of expenditures of school district moneys. The board of education shall consider such recommendations in adopting the budget of the school district. C.R.S. 22-7-105.
 4. In addition to any other duties and powers, the advisory accountability committee for each school building shall make recommendations to the school's chief executive officer relative to the prioritization of expenditures of school district moneys by the school. A copy of such recommendations shall be sent to the district advisory accountability committee and the board of education. The chief executive officer shall consider such recommendations in formulating budget requests to be presented to the board of education. C.R.S. 22- 7-207.
- B. Provide a means of communication through the budget process to school district staff and community by stating the objectives of each program and allocating the funds necessary to achieve them.
- C. Provide a means for relating anticipated costs and actual costs to designated programs.
- D. Provide the historical data required for realistic budget preparation and related planning decisions.
- E. Provide budgeting and reporting consistent with federal and state requirements.

III. Budget Process

The budget process is a multi-step process which includes identification of district goals, budget calendar, budget projections, budget content, program budgeting and the utilization and presentation of prescribed forms.

A. Budget Calendar

The following calendar is a list of recommended activities and legal dates as established by C.R.S. All required legal budget dates within this calendar are provided with a statutory reference.

1. **Not less than 100 days prior to the date of the November election:** District notifies county clerk and recorder of expectation to participate in coordinated election and of preference for polling place or mail ballot election. C.R.S. 8 CCR 1-7-116(5)

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2. **August 25:** County assessor certifies to school district the total assessed valuation and the actual value of the taxable property in the district. C.R.S.39-5-128(1).
3. **September 1:** Adoption of goals and objectives for each school building. C.R.S. 22-7-205(1).
4. **At least 60 days prior to the date of the November election:** Last day to enter into an intergovernmental agreement with county clerk concerning the conduct of the coordinated election. C.R.S. 1-7-116(2).
5. **At least 55 days prior to the date of the November election:** Ballot content and order certified to the county clerk. C.R.S. 1-1-110(3); 1-5-203(3).
6. **September 15:** Last date to apply for preschool program approval. C.R.S. 22-28-107.
7. **On the Friday before the 45th day prior to the date of the November election:** Last day for receipt of written comments for TABOR notice. Comments must be signed by an eligible elector. C.R.S. Colorado Constitution Article X-20(3)(b); 1-7 -901.
8. **42 days prior to the date of the November election:** Last day to submit full text of TABOR notice to county clerk. C.R.S. 31-10-501.5; 1-7-904; 1-7-116(3).
9. **October 1:** District board of education submits goals and objectives to State Board of Education. C.R.S. 22-7-205(2).
10. **Nearest school date to October 1:** Perform pupil membership count. C.R.S. 22-54-103(10)(a).
11. **At Least 30 days prior to the date of the November election:** Mail TABOR notice to all registered voters. Colorado Constitution Article X-20(3)(b); 1-7-906;1-5-206.
12. **October 15:** District Board of Education makes final changes, if any, to fiscal year adopted budget. C.R.S. 22-44-110(5).
13. **At least 10 days prior to the date of the November election:** Designated election official or, by agreement, county clerk must publish and post notice of the election. C.R.S. 1-5-205.
14. **First Tuesday after the first Monday in November:**

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- a) In even numbered years, the general election date is the only date on which an election seeking authorization of additional local revenues can be held.
 - b) In odd numbered years, a special school district election can be held on the first Tuesday after the first Monday in November. Colorado Constitution Article X-20(3); C.R.S. 1-1-104(17); 1-7-101.
15. **November 10:** Districts certify pupil membership count to CDE on Form CDE-4. C.R.S. 22-54-112(2).
16. **November 16:** School district provides to CDE a copy of its official November election ballot questions and the number of votes cast for the questions and the number of votes cast against the question.
17. **Fall/Winter:**
- a) Prepare preliminary forecasts including estimates of revenue, expenditures and fund balances.
 - b) Prepare budget development worksheets.
 - c) Review budget development process and budget document format with board of education.
18. **December 1:** School districts entitled to “additional funding”, if any, submits to CDE a certification signed by its auditor of its projected current fiscal year spending limit pursuant to TABOR (unless district previously has held a successful "debrucing" election). C.R.S. 22-54-104.3(2.7)
19. **December 10:** Final date county assessor can notify CDE and school districts of changes in assessed valuation. C.R.S. 39-1-111(5).
20. **December 15:** The board of education of each school district shall certify to the board of county commissioners of the county wherein said school district is located the separate amounts necessary, in the judgment of said board of education, to be raised from levies against the valuation for assessment of all taxable property located within the boundaries of said school district for its General, Bond Redemption, Transportation and Special Building Funds to defray its expenditures during its next ensuing fiscal year; except that any school district conducting an election seeking authorization for additional local revenues pursuant to C.R.S. 22-54-108, for the creation of bonded indebtedness, for an installment purchase agreement or lease agreement pursuant to C.R.S. 22-45-103(1)(c)(II.5), or for the imposition or increase of a levy for the Special Building Fund under subsection (1.5) of this section shall make such certification no later than December 15. C.R.S. 22- 40-102.

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21. **December 15:** Each school district shall inform the county treasurer of each county within the district's boundaries of the General Fund mill levy in the absence of funds estimated to be received pursuant to the Public School Finance Act of 1994 and the estimated funds to be received for the General Fund of the district from the state. C.R.S. 22-40-102(6).
22. **Winter:** Prepare initial draft of revenue and expenditure assumptions.
23. **Spring:**
 - a) Refine preliminary budget assumptions and estimates.
 - b) Review district goals in relationship to budget development process.
 - c) Hold work sessions for the community regarding preliminary budget.
24. **June 1:** Deadline for submission of proposed budget to board of education. C.R.S. 22-44-108(1)
25. **June 10 or within ten days after submission of the proposed budget:**

“The board of education shall cause to be published a notice stating that the proposed budget is on file at the principal administrative offices of the school district; that the proposed budget is available for inspection during reasonable business hours; that any person paying school taxes in the district may file or register an objection thereto at any time prior to its adoption; and that the board of education of the school district will consider adoption of the proposed budget for the ensuing fiscal year on the date, time and place specified in the notice. C.R.S. 22-44-109(1).

 - a) It is suggested that a budget hearing be publicized and held a minimum of two weeks prior to final adoption to allow viable citizen/patron input.
 - b) Be sure to include district major objectives of the educational program in the budget document.
26. **June 30:** Last legal date for final adoption of school district budget and appropriation resolution. C.R.S. 22-44-110(4).

B. Budgetary Accounting

The budget will serve as the basis for information appearing on required reports, as an integral part of the accounting records and as a tool for management control of expenditures during the year.

If a fund's budget is prepared on a basis other than Generally Accepted Accounting Principles (GAAP), a financial statement reconciling non-GAAP revenues and expenses to GAAP revenues and expenses must be disclosed in

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the audited annual financial report at the end of the fiscal year. An example of this situation is the liability for accrued salaries and benefits, if not budgeted.

According to 22-44-105 (1.5) (a), C.R.S., Each district shall annually prepare an itemized reconciliation between the fiscal year end fund balances based on the budgetary basis of accounting used by the school district and the fiscal year end fund balances based on the modified accrual basis of accounting. The reconciliation shall include, but need not be limited to, the liability for accrued salaries and related benefits. The reconciliation shall be included with the final version of the amended budget and the annual audited financial statements.

Note: This section does not apply to school districts that do not use “budgetary basis” of accounting. However, it is the recommendation of the CDE that an annual reconciliation between the “Audited Ending Fund Balance” and the “Budgeted Beginning Fund Balance” be done as soon as the prior year’s audit is complete and make appropriate adjustments to the “Budgeted Beginning Fund Balance” and “Projected Ending Fund Balance” to alleviate any unexpected over expenditures. The fund balance comparison should be incorporated with the budget as an addendum.

A GAAP budget basis includes all expenditures/expenses incurred and revenue earned during the period, regardless of whether received in cash. However, the liability for accrued salaries and benefits is not required to be budgeted. Districts will generally fall in one of four categories when developing budgets with regards to accrual liability funding:

1. Districts which choose to fully fund the accrual liability should not include the accrual funds in the beginning fund balance for budgeting purposes.
2. Districts which intend to fund any portion or all of the accrual liability may include that portion of the liability which is intended to be funded as part of the expenditure budget. In this case, an expenditure budget may be created to protect and, depending on the district's long-range plan for accrual funding, increase the accrual funding level.

If a positive fund balance is available without considering accrual funds, then these funds should not be used to calculate the beginning appropriated fund balance for budgetary purposes. In this case, an expenditure budget should be created annually to increase or maintain the accrual funding level.

3. Districts which are reducing accrual funding levels may include in the beginning fund balance that portion of the funded reserve which is intended to be budgeted to offset other expenditures.
4. District which choose not to fund the accrual liability must consider the liability as deferred when calculating the appropriated fund balance for budgeting purposes.

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C. Budget Projections

To prepare budget projections for the ensuing fiscal year, the district should develop underlying assumptions forecasting sources and uses of funds.

1. Beginning Fund Balance

- a. The district should provide its best estimate of the end-of-year fund balances to be carried forward to the ensuing year as a beginning fund balance(s). This activity requires projection of accounts payable and receivable, expenditures and revenues for the remaining portion of the current budget year.
- b. A budget adopted as of July 1, 2003 shall not provide for expenditures, interfund transfers, or reserves, in excess of available revenues and beginning fund balance.
- c. If any portion of the beginning fund balance is used to cover expenditures, interfund transfers, or reserves, a "specific resolution" must be adopted by the local board of education authorizing the use of that portion of the beginning fund balance in the school district's budget. The resolution shall specify (at a minimum).
 - (1) The amount of the beginning fund balance to be spent under the budget.
 - (2) State the purpose for which the expenditure is needed.
 - (3) State the district's plan to ensure the use of beginning fund balance will not lead to an ongoing deficit.

2. Revenues

- a. Revenues from the Public School Finance Act of 1994 can be estimated based upon five primary factors. The first is the funded pupil enrollment count, the second is the district's assessed valuation, the third is the amount of per pupil funding, the fourth is the allowable mill levy, and the fifth is the applicable portion of actual prior year specific ownership taxes. These five variables are then used to calculate state aid and property taxes receivable. Of the portion of revenues which are property taxes, the district will have to determine what percentage will be collectable based upon historical and current economic trends within the district.
- b. Specific ownership tax revenues should be estimated based upon historical averages and the current state of the local economy. Mobility of registered vehicle owners in and out of the county(ies) in the district will impact the percentage of specific ownership tax collected as well as the relationship of the district's property tax amount to the totals collected in the county(ies).

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- c. For State program support funds, such as English Language Proficiency Act (ELPA), Vocational Education, Transportation, and Special Education (ECEA) anticipated receipts for the budget year need to be projected.
- d. Anticipated receipts from Federal grants (Governmental Designated Purpose Grants such as Vocational Education and Special Education, etc.) need to be projected. These projections should be based upon levels of expenditures and historical portions thereof which have been reimbursed under the specific categorical grant. Caution should be utilized in estimating anticipated revenue from these grants to prevent possible cash flow problems.
- e. Other local sources
 - (1) Interest income should be projected based upon cash flow, the amount of investable funds and the most likely anticipated rate of interest receivable.
 - (2) Tuition funds should be estimated for non-resident pupils receiving educational services within the district. Under certain circumstances, such as summer programs, tuition may be received from resident students.
 - (3) Community use fees assessed by the district for use of school facilities by individuals and organizations for private use need to be projected.
 - (4) Revenue from the sale of property should be recorded in the fund from which the property was originally purchased. However, if real property is sold the proceeds should be deposited in the Capital Reserve Fund or Bond Redemption Fund or both such funds. C.R.S. 22-32-110(e); 22-45-112.
 - (5) Delinquent taxes and interest thereon estimated for the budget year should be based upon current and historical economic trends and the collection efforts made by the county treasurer's office.
 - (6) Anticipated cash donations for an undesignated purpose may be budgeted in the General Fund.
 - (7) Any other cash donations anticipated for a specified purpose must be held and expended by the district in a fiduciary capacity. Any moneys, except non-expenditure donations where interest only may be used, should be handled in the Trust and Agency Fund.
 - (8) Estimated student participation fees and gate receipts from school sponsored activities which meet the criteria established for the Pupil Activity Fund may be budgeted in the Pupil Activity Fund. (See the

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Accounting and Reporting Section under Accounting Principles - Fund Structure.)

- (9) Rental income anticipated from school lands and buildings shall be budgeted in the General Fund or Capital Reserve Fund.
- f. Caution should be utilized in estimating anticipated revenues to prevent possible cash flow problems.

3. Revenue Allocation

Districts must allocate the statutorily defined minimum dollar amount per funded pupil to the Capital Reserve Fund created by C.R.S. 22-45-103(1)(c) and/or to a fund or an account within the general fund for the management of risk related activities as identified in C.R.S. 24-10-115 from total program funding. The statutes define the minimum and maximum amounts to be allocated. The number of pupils is the funded pupil count used to determine total program funding for the year. Beginning with the 1999-2000 budget year, school districts with balances in their capital reserve funds that equal or exceed five times the required allocation, may allocate the minimum, a lesser amount, or none. C.R.S. 22-54-105(2)(c).

4. Expenditures

- a. Salaries, both current and anticipated, for full and part-time employees should be calculated by considering the district's staff and salary schedules, the timing of any salary increases, and any anticipated employee turnover.
- b. Employee benefits should be based upon the estimated number of staff employed (to determine, for example, health insurance premiums), the total salaries budgeted (to determine, for example, employer pension contributions, life insurance premiums, social security and Medicare taxes) and the specified amounts required to fund mandated benefits and district elected benefits.
- c. Purchased services comprise expenditures such as county property tax collection fees, contracted services, tuition, non-staff personnel, travel expenses, etc.
- d. Operations and maintenance costs should be calculated by using historical data or current estimates in conjunction with utilities and desired levels of on-site custodial and maintenance expenditures.
- e. The district must budget a statutorily defined minimum dollar amount per pupil for instructional supplies and materials, instructional capital outlay and other instructional purposes. C.R.S. 22-54-105(II).

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- f. Other expenses not identified above should be projected by the district based upon anticipated expenditure levels.

5. Transfers

- a. A board of education may transfer by resolution any unencumbered moneys from one fund to another, except the Capital Reserve Fund, any fund or account in the General Fund established solely for the management of risk-related activities, the Transportation Fund, the Special Building and Technology Fund, the Bond Redemption Fund, or the Instructional Supplies and Materials Account and the Instructional Capital Outlay Account and the Other Instructional Purposes Account in the General Fund. However, unencumbered moneys may be transferred by resolution of the board between the Capital Reserve Fund and any fund or account in the General Fund established solely for the management of risk-related activities and between the Instructional Supplies and Materials Account and the Instructional established solely for the management of risk-related activities and between the Instructional Supplies and Materials Account and the Instructional Capital Outlay Account in the General Fund. C.R.S. 22-45-103(1)(a)(II); C.R.S. 22-44-112(2)(a).
- b. "If the transfer resolution authorizes expenditures in excess of the amount budgeted and appropriated to a particular function and there is no unencumbered appropriation available in another function to transfer to the function where additional expenditures are needed, the board may issue registered warrants to provide for such excess expenditures. The total amount of warrants which may be issued during anyone fiscal year shall not exceed an amount equal to that which could be raised by a two mill levy on the valuation for the calendar year in which the second half of such fiscal year is included for assessment of the taxable property in the district. Transfers in excess of expenditures shall be deemed to be budgeted and appropriated for the purpose specified in the resolution upon the effective date of the resolution." C.R.S. 22-44-112(3)(c).
- c. Other transfers are operating subsidies to other funds.
- d. Without a waiver from CDE, transfers from the General Fund to the Food Service Fund cannot be a lesser amount than what was transferred the previous year: C.R.S. 22-54-123.

6. Reserves

Each district is to set aside in a reserve 3% or more of its fiscal year spending excluding bonded debt service, plus a reserve for non-voted multi-year obligations. Colorado Constitution Article X-20(5).

D. Required Budgeted Items

1. Instructional Supplies and Materials

The district must budget the statutorily defined minimum dollar amount per pupil for instructional supplies and materials, instructional capital outlay and other instructional purposes. C.R.S. 22-54-105(1)(b)(II).

The state chart of accounts defines instruction as “the activities dealing directly with the teaching of pupils or the interaction between teacher and pupils.” This definition limits the expenditures that can be classified as “instructional” to those that relate to the direct teaching of pupils or the interaction between teacher and pupils.

Co-curricular activities, as defined later in this section, may also apply toward the required dollar amount requirement if expended in the General Fund.

2. At Risk Funding

Districts must expend at least 75% of its school finance act At-Risk funding on direct instruction or staff development, or both, for the educational program of At-Risk pupils. C.R.S. 22-54-105(3).

3. Legal Requirements and Recommended Practices

Minimum requirements for budget reporting include:

- a. Though not required, it is strongly advised to report actual revenues and expenditures in detail for the last completed fiscal year.
- b. Revenues and expenditures, anticipated or budgeted or both, for the current fiscal year (C.R.S. 22-44-105)(1)(b).
- c. Proposed revenues and expenditures for the ensuing fiscal year (C.R.S., 22-44-105).
- d. Beginning fund balances for each fiscal year.
- e. The amounts allocated to the Capital Reserve Fund and to a fund or an account within the General Fund established solely for the management of risk-related activities. C.R.S. 22-54-105(2).
- f. Local major objectives of the educational program. C.R.S. 22-44-108(1)(a).
- g. Every fund must be budgeted on a fiscal year basis. This includes revenue and expenditures for federal and state governmental designated purpose

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grants, whether included in the General Fund or treated as a separate fund(s).

- h. Supporting explanatory schedules or statements, as needed, of sufficient detail to judge the validity thereof of anticipated revenues and proposed expenditures. C.R.S. 22-44-105(2), C.R.S. 22-44-107,108).
- i. A statement which summarizes the aggregate of revenues, appropriations, assets and liabilities of each fund in balanced relations. C.R.S. 22-44-105(2).
- j. A disclosure of planned compliance with section 20 or Article X of the state constitution. C.R.S. 22-44-105(2).

The budget shall ensure that the school district holds “unrestricted” TABOR emergency reserves in General Fund or other appropriate funds (not Bond Redemption Fund or any other fund that has restricted Revenue). The statute says “cash” fund, but the Deputy Treasurer clarifies that cash funds is a state accounting term and means the same as all other available funds.

- k. Disclosure of the following lease-purchase agreement information: (1) payments due during the ensuing fiscal year; (2) payments due after the ensuing fiscal year and the period in which they are due, and (3) the funding source for the payments. C.R.S. 29-1-103.

E. Working with the County Treasurer

- 1. **County Public School Fund** - Each County Treasurer will maintain a continuing fund known as the County Public School Fund, into which shall be paid the proceeds of all county school moneys. C.R.S. 22-54-113.
 - a. Each district in the county shall be entitled to receive distribution during a budget year of moneys in the fund in the proportion that funded pupil count in the county is to the aggregate of the funded pupil counts of all districts in the county.
 - b. The Department of Education “shall determine the proportionate part of the county public school fund to be paid during the budget year to each district in the county. These proportions shall be the basis upon which the moneys in the funds shall be distributed during the ensuing budget year.”
 - c. “At the end of each month during such year the county treasurer shall credit or pay over the proper proportions of the moneys in the fund to the General Funds of the districts in the county.” C.R.S. 22-54-113(3).

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2. **Fees.** The county treasurer shall charge a collection fee of one-half of one percent upon moneys collected for or distributed by him to any district located in whole or in part in his county from taxes levied for the General Fund of the district. C.R.S. 22-54-119. Effective January 1, 2000, the county fee has been reduced to one-quarter of one percent. No collection fee shall be charged on other school taxes exempt by law from said collection fees. C.R.S. 30-1-102(1)(a).
 - a. The county treasurer is allowed to collect a fee of one percent for receiving all moneys other than taxes, except moneys received from all federal funds derived from any and all sources.
 - b. No collection fees shall be charged upon any moneys collected and distributed under the provisions of state law pertaining to local and state share of total program funding, C.R.S. 22-54-106, and distributions from state public school fund, C.R.S. 22-54-114.
3. **Statement of Account.** "The county treasurer shall, no later than the 10th day of each month, render a monthly itemized statement of account, on a form prescribed by the State Board of Education, to each school district in his county and to each joint school district if the headquarters are located in his county, when the board of education has elected, pursuant to law, to have school district moneys received by the county treasurer paid over to the treasurer of the district." C.R.S. 22-45-108.
4. **Specific Ownership Tax.** The county treasurer is to calculate the percentages which the dollar amount of ad valorem taxes levied in the county during the preceding calendar year for the various entities were of the aggregate dollar amount of ad valorem taxes levied. C.R.S. 42-3-106(26). This percentage is used to apportion the amount of specific ownership tax revenue due the various governmental entities. Specific ownership tax revenue may be apportioned to any fund with a mill levy.

F. Tax Levies and Revenue

1. **Certification of Assessed Valuation.** No later than August 25 of each year, the assessor shall certify to the secretary of each school district the total valuation for assessment and the actual value of all taxable property and abatements and taxes collected on omitted property located within the territorial limits of the school district. C.R.S. 39-5-128(1).

On or before December 10 of each year, the property tax administrator shall notify the school districts of final changes, if any, to the valuations for assessment of all taxable property within each county and for each district or portion of a joint district in each county. C.R.S. 39-1-111(5), C.R.S. 22-54-112(1).

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2. **Pupil Enrollment.** On or before November 10 of each year, the secretary of the board of education of each district shall certify to the State Board the pupil membership count on form CDE-4 of the district taken in the preceding October. C.R.S. 22-54-112(2).

3. **Certification to County Commissioners.** “The board of education of each school district no later than December 15 shall certify to the board of county commissioners of the county, wherein said school district is located, the separate amounts necessary, in the judgment of the board of education, to be raised from levies against the valuation for assessment of all taxable property located within the boundaries of said school district for its General, Bond Redemption, Transportation and Special Building Fund to defray its expenditures during the next ensuing fiscal year.” C.R.S. 22-40-102(b)(I); and 39-5-128.
 - a. A board of education or board of county commissioners has no power to modify the amount of tax revenue certified to the board of county commissioners. C.R.S. 22-40-103. A board of county commissioners has no discretion to modify or to review the amount certified by the board of education other than to ascertain if the amounts are within the limits set out in law. However, C.R.S. 22-42-118(2) gives the county commissioners the authority to levy taxes for Bond Redemption Fund (Debt Service Fund) revenues if the board of education fails to do so.

 - b. A school district shall add an amount equal to the proportional share of the total amount of abatements and refunds granted to the setting of the mill levy for such school district. C.R.S. 39-10-114(1)(a)(I)(B)

 - c. “A public entity or designated insurer shall pay any compromise, settlement, or final judgment in the manner provided in this section, and an action pursuant to the Colorado rules of civil procedures shall be an appropriate remedy to compel a public entity to perform an act required under this section.” C.R.S. 24-10-113(1)

“If a public entity is unable to pay a judgment during the fiscal year in which it becomes final because of lack of available funds, the public entity shall levy a tax, in a separate item to cover such judgment, sufficient to discharge such judgment in the next fiscal year or in the succeeding fiscal year if the budget of the public entity has been finally adopted for the fiscal year in which the judgment becomes final before such judgment becomes final; but in no event shall such annual levy for one or more judgments exceed a total of ten mills, exclusive of existing mill levies.” C.R.S. 24-10-113(3).

4. **Estimate of State Funding.** No later than thirty days prior to the beginning of the budget year, the Department of Education shall determine the estimated

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requirements to provide each district the amount it is eligible to receive from the state during the next ensuing fiscal year of the state. C.R.S. 22-54-114(2).

5. **Notice of Reduced Mill Levy Attributable to State Funds.** No later than December 15 each school district, with whatever assistance is required from the Department of Education, shall inform the county treasurer of the district's General Fund mill levy in the absence of funds estimated to be received from the state. C.R.S. 22-40-102(6); 22-54-116.
6. **Determination of State Funds.** No later than June 30 of each year, the State Board shall determine the amount of the state's share of the district's total program for the budget year beginning July 1. C.R.S. 22-54-115(1).

G. State Contingency Reserve

1. An amount to be determined by the general assembly shall be appropriated annually to the state public school fund as a contingency reserve. The State Board is authorized and empowered to approve and order payments from such contingency reserve for supplemental assistance to districts determined to be in need thereof as the result of circumstances as listed in statute. C.R.S. 22-54-117(1).
2. If payment for supplemental assistance is made because of financial emergency arising from nonpayment of property taxes pending administrative appeal or litigation, or both, and the school district later receives payment of the taxes, the school district is required to reimburse the Contingency Reserve Fund in full plus interest as set by statute. C.R.S. 22-54-117(5).

H. Elections

A district which desires to raise and expend local property tax revenues in excess of its total program funding may conduct an election to raise and expend additional local revenues not to exceed a specific dollar amount. C.R.S. 22-54-108, et seq.

1. An election seeking additional local revenue may be conducted as a school district election on general election day in even numbered years or at a special school district election on the first Tuesday after the first Monday of November in odd numbered years. Colorado Constitution Article X-20(3).

The maximum dollar amount of the additional local revenues shall not exceed 20 percent or \$200,000, whichever is greater, of the district's total program funding for the budget year in which the election was held. C.R.S. 22-54-108(3)(b).

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2. State statute C.R.S. 22-54-108(2) provides a process for citizens to submit an initiative petition requiring the district to conduct an election to authorize an increase or a decrease to the mill levy election.
3. Other elections may be held as follows:
 - a. A mill levy for excess transportation costs may be held on general election day in even numbered years or at a special school district election on the first Tuesday after the first Monday of November in odd numbered years. C.R.S. 22-40-102(1.7).
 - b. An election to impose a fee for the payment of excess transportation costs may be held on the first Tuesday after the first Monday in February, May, October, November or December. C.R.S. 22-40-102(1.5) and C.R.S. 22-32-113(5)(a).
 - c. An election to impose a mill levy for the Special Building and Technology Fund may be held on the first Tuesday after the first Monday in February, May, October, November or December. C.R.S. 22-40-102(1.5).
 - d. An election for the Bond Redemption Fund may be held on the first Tuesday after the first Monday in November. C.R.S. 22-42-102(2)(c). Colorado Constitution Article X-20(3).
4. Contesting the Result of an Election - The result of any election to determine a ballot issue that includes the approval of the creation of any debt or other financial obligation may be contested if the required notice as explained below is not provided or the notice contains any material misstatement.

A district seeking voter approval of bonded debt or other financial obligation is required to post notice of the following information on the district's web site or, in the absence of a district website, the information must be made available for public review at the Chief Administrative Office no later than 20 days before the election. C.R.S. 1-7-908

- a. The district's ending general fund balance for the last four fiscal years and the projected ending general fund balance for the current fiscal year.
- b. A statement of the total revenues in and expenditures from the district's general fund for the last four fiscal years and the projected total revenues in and expenditures from the general fund for the current year.
- c. The amount of any debt or other financial obligation incurred by the district for each of the last four fiscal years that has a term of not more than one year and the amount of any such financial obligation projected for the current fiscal year.

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- d. A statement indicating whether the district's emergency reserve required by TABOR has been fully funded by cash or investments for the current fiscal year and each of the last four fiscal years and an identification of the funds or accounts in which the reserve is currently held. If the reserve is not fully funded, a statement of explanation is required.
- e. The location(s) where any person may review the districts audited financial statements for the last four fiscal years, any management letters that have been made public and have been provided to the district by its auditors in connection with the preparation of its audits for the last four fiscal years, and the district's budget for the current fiscal year.
- f. If the debt or other financial obligation for which the district is seeking voter approval is to be paid from a revenue source other than the general fund, the information required in 1 and 2 above shall also be made available for that fund.

All of the financial information required shall be based on audited figures. If no audited figures are available, the information shall be based on estimated figures.

IV. Budget Publication and Adoption

The board of education of each school district shall adopt a budget and an appropriation resolution for each fund which presents a complete financial plan for the ensuing fiscal year. In accordance with budget law, the budget shall include revenues and expenditures, anticipated or budgeted or both, for the current fiscal year, and proposed revenues and expenditures for the ensuing fiscal year. C.R.S. 22-44-103 and 105. Check state law for mandatory budget content.

The budget shall present a complete financial plan for the ensuing fiscal year by fund. C.R.S. 22-44-105.

A. Notice of Budget Publication

1. **Proposed Budget/Notice to Public.** The proposed budget shall be submitted to the board of education at least 30 days prior to the beginning of the fiscal year (June 1). C.R.S. 72-44-108. "Within 10 days after the submission of the proposed budget, the board of education shall cause to be published a notice stating that the proposed budget is on file at the principal administrative offices of the school district; that the proposed budget is available for inspection during reasonable business hours; that any person paying school taxes in the district may file or register an objection thereto at any time prior to its adoption; and that the board of education of the school district will consider adoption of the proposed budget for the ensuing fiscal

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year on the date, time and place specified in the notice.” State law provides the format for the public notices. C.R.S. 22-44-109.

2. **Budget Consideration by Public.** State law requires that a public meeting be held at which the proposed budget will be considered. The board of education may consider objections to the proposed budget raised by taxpayers and make adjustments in the budget. After adoption of the budget, the board shall not review or change the budget except as authorized by state law. C.R.S. 22-44-110.

B. Budget Adoption

1. The board of education of each school district shall adopt a budget for each fiscal year prior to the beginning of the fiscal year. C.R.S. 22-44-103(1).
2. After adoption of the budget, the board may make final changes, if any, to the adopted budget by no later than October 15. Subsequent changes shall be authorized under supplemental budget provisions. C.R.S. 22-44-110(5).

C. Appropriation Resolution

1. The board of education shall adopt a budget and an appropriation resolution for each fiscal year prior to the beginning of the fiscal year. C.R.S. 22-44-103(1). “The appropriation resolution shall specify the amount of money appropriated to each fund; except that the operating reserve authorized by ‘statute’ shall not be subject to appropriation for the fiscal year. C.R.S. 22-44-107(1). “The amounts appropriated to a fund shall not exceed the amount thereof as specified in the adopted budget.” C.R.S. 22-44-107(2).
2. A board of education of a school district shall not expend any moneys in excess of the amount appropriated by resolution for a particular fund. C.R.S. 22-44-115(1).

D. Failure to Adopt a Budget

If either the budget or appropriation resolution is not adopted, then 90% of the last duly adopted budget and appropriation resolution shall be deemed to be budgeted and appropriated. C.R.S. 22-44-104.

E. Reserve for Contingencies

Within the budget, each school district shall establish an Emergency Reserve consisting of a minimum of not less than three percent of its fiscal year spending excluding bonded debt service. This reserve is to be used for declared emergencies only, and not made available to address “economic conditions, revenue shortfalls, or district salary or fringe benefit increases”. Any amounts used in the current year must be restored in the ensuing year’s budget. A reserve

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must also be maintained for non-voted multi-year obligations. Colorado Constitution Article X, Section 20(2)(c) and (5).

During the budget year, unidentified operating needs or other emergencies may impact the integrity of the budget if contingencies are not planned for. Districts are advised to set aside funds in the budget for potential revenue shortfalls and unanticipated expenditure needs.

F. Non-Appropriated Operating Reserves

A board of education may provide for an operating reserve (unreserved/undesignated) of up to 15 percent of the amount budgeted to the General Fund. Such operating reserves shall not be appropriated or expended for the current fiscal year, but shall be carried forward as a beginning General Fund balance. C.R.S. 22-44-106(2).

G. Other Reserves

A district, at its option, may create other reserves, such as a reserve to fund the liability for accrued salaries and benefits.

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SAMPLE APPROPRIATION RESOLUTION

Be it resolved by the board of education of School District Number _____ in _____ County that the amounts shown in the following schedule be appropriated to each fund as specified in the "Adopted Budget" for the ensuing fiscal year beginning July 1, _____ and ending June 30, _____.

| FUND | AMOUNT |
|---|-----------------|
| General Fund: | \$ _____ |
| Special Revenue Funds: | |
| Governmental Designated Purpose Grants Funds .. | \$ _____ |
| Capital Reserve Fund | \$ _____ |
| Pupil Activity Funds..... | \$ _____ |
| Insurance Reserve Fund | \$ _____ |
| Transportation Fund | \$ _____ |
| Other Special Revenue Fund(s) | \$ _____ |
| Capital Projects Funds: | |
| Building Fund Capital Reserve Fund | \$ _____ |
| Special Building and Technology Fund..... | \$ _____ |
| Bond Redemption Fund | \$ _____ |
| Enterprise Funds: | |
| Food Service Fund..... | \$ _____ |
| Other Enterprise Funds..... | \$ _____ |
| Internal Service Funds: | |
| Risk Management Fund..... | \$ _____ |
| Other Internal Service Funds | \$ _____ |
| Bond Redemption Fund | \$ _____ |
| Component Unit(s) | \$ _____ |
| Trust and Agency Funds | \$ _____ |
| TOTAL APPROPRIATION | \$ _____ |

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V. Supplemental Budgets

If money for a specific purpose from other than ad valorem taxes (except for paragraph D below) subsequently becomes available to meet a “contingency,” which is defined as: “an act of God or the public enemy, or some event which could not have been reasonably foreseen at the time of the adoption of the budget of a school district,” C.R.S. 22-44-102(3), a supplemental budget for expenditures not to exceed the amount of said money may be adopted and appropriation of said money made. C.R.S. 22-44-110(5).

- A. A Supplemental Budget and the Appropriation Resolution must be adopted before expenditures relative to the supplemental budget are made.
- B. It is not necessary to file a copy of the Supplemental Budget and Appropriation Resolution with the Colorado Department of Education. However, a copy must be provided to the district's independent auditors during the annual school district audit. Sample forms of the Supplemental Budget and Appropriation Resolution are on the following pages.
- C. Supplemental budgets and resolutions must include the name of the fund, receipts with source of money clearly identified and expenditures by function and object. The total expenditures must be equal to or less than the receipts. (Refer to the Supplemental Budget Form in this section of the Handbook.) Presentation of the supplemental budget could be presented with (1) just the change amount or (2) the original amounts plus the change amount to derive the revised amount. The sample format is with just the change amount.
- D. If a school district is authorized to raise and expend additional local property tax revenues by an election, the board of education may adopt a supplemental budget and an appropriation resolution to cover that portion of the fiscal year following such election. C.R.S. 22-44-110(6).

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SUPPLEMENTAL BUDGET EXAMPLE

_____ Fund

SOURCE OF MONEY FOR A SPECIFIC PURPOSE (OTHER THAN AD VALOREM TAXES) AND NATURE OF PROJECT (Brief Summary)

REVENUES

| Sources of Revenue | Account | Amount | Totals |
|------------------------------|---------|--------|--------|
| Local Sources: | 1000 | | |
| | | | |
| <i>Total Local Sources</i> | | | |
| County Sources: | 2000 | | |
| | | | |
| <i>Total County Sources</i> | | | |
| State Sources: | 3000 | | |
| | | | |
| <i>Total State Sources</i> | | | |
| Federal Sources | 4000 | | |
| | | | |
| <i>Total Federal Sources</i> | | | |
| TOTAL REVENUES | | | |

BUDGET

EXPENDITURES

| Description | Account Number | | | | Amount |
|----------------------------|----------------|-----------|---------|-----|--------|
| | Program | Object | Project | Job | |
| Salaries: | | 0100 | | | |
| Benefits: | | 0200 | | | |
| Purchased Services: | | 0300-0500 | | | |
| Supplies/Materials: | | 0600 | | | |
| Capital Outlay: | | 0700 | | | |
| Other: | | 0800 | | | |
| Transfers: | | 0900 | | | |
| TOTAL EXPENDITURES: | | | | | |

APPROPRIATION RESOLUTION

BE IT RESOLVED by the Board of Education of School District Number _____ in _____ County that the Amount of \$ _____, as shown above, be appropriated to the _____ Fund for the program year beginning July 1, _____, 20__ and ending June 30, _____, 20__.

Date of Adoption

Signature of President of the Board

VI. Budget Control

It is important to perform budget monitoring, control and analysis functions to ensure that district budgets are on target and to provide revised estimates of ending balances to forecast the future financial situation. An overview of projections on a periodic basis for revenue and expenditure categories with some suggested analysis techniques is provided below.

A. Monitoring and Analysis

Budget monitoring and analysis need to occur on a periodic basis. Monthly, quarterly and a mid-year analysis of the budget are appropriate tools to track budget versus actual expenditures. These analyses can be timed to coincide with the issuance of financial reports to the board of education. "Continuing balances of the various budgetary accounts shall be maintained on at least a monthly basis. The board of education of each school district shall review the financial condition of said school district **at least quarterly** during the fiscal year. **The board shall** require the secretary, treasurer, or any employee who has duties which relate to the fiscal affairs of said school district to submit a financial report covering **the fiscal actions involving the General Fund, and other funds that the board may request, at least quarterly.** The report should include (at a minimum). C.R.S. 22-45-102 (b)

1. Actual expenditures and revenue as of the date of the report from each of the several funds budgeted by the district for the fiscal year.
 - a. Expressed in dollar amounts
 - b. Expressed in percentages of the annual budget
2. Actual expenditures and revenue for each fund for the same period in the preceding fiscal year.
 - a. Expressed in dollar amounts
 - b. Expressed in percentages of the annual budget
3. Expected year-end balances
 - a. Expressed as dollar amounts
 - b. Expressed in percentages of the annual budget
4. Comparison of the expected year-end fund balances with the amount budgeted for that fiscal year.

B. Revenue Tracking

The revenue accounts to be monitored are, generally speaking, best tracked through an elapsed time-of-year comparison.

1. Prior year history showing receipts can be compared to current year receipts to determine a revised estimate of anticipated revenue. This generally works well for categories such as property taxes, delinquent taxes, specific ownership taxes and miscellaneous income.

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2. Other income categories can be monitored more specifically by using known variables. For example, interest income can be projected based upon estimated cash available for investment and projected interest rates. Specific state sources such as: Finance Act, Vocational Education, Special Education, Transportation and the English Language Proficiency Act can be projected based upon state documents and reports with estimated reimbursement rates. Other income sources such as PL-874 and forest and mineral leases can be monitored compared to estimated receipts based on historical revenue levels.
3. All income categories are subject to major change. Property tax collections can change significantly if a major taxpayer goes out of business.
4. In almost all cases, the more important revenue categories to watch closely are the collection of property tax and the payment of state aid. These revenues provide the largest single sources of district income. A small change in the property tax collection level can result in a major dollar impact on the budget. In addition, a state shortfall can result in a state rescission of funds to school districts. Therefore the state financial situation needs to be observed also. These revenue suggestions are broad parameters for consideration.

C. Methods of Analysis

The actual monitoring of expenditures by account number should be done as expenditures are made on a daily basis. The control of expenditures should occur at that time. If expenditures exceed budget, a decision could be made to determine if the expenditure is critical and funds budgeted in another account might be able to “cover” that expenditure via an intrafund budget transfer.

The monitoring and analysis of expenditures is usually more detailed and involved because of the numerous accounts and various categories of expenditures. There are several methods which can be used to monitor expenditures:

1. The first is a time-of-year comparison. This calculation compares the percentage of the year which has elapsed with the percentage of the budget which has been expended.
2. Another analysis method is the comparison of prior year revenue history to that anticipated for the budget year.
3. A third method is the comparison of budget to actual costs by reviewing documents received after the establishment of the budget to insure budget adequacy.
4. The most important expenditure categories to monitor closely are salaries and benefits because of their large percentage of the budget. Utility costs also

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require a thorough analysis. Supply and material and capital outlay expenditures are more difficult to monitor due to possible fluctuations in spending patterns.

D. Instructional Supplies & Materials

The Public School Finance Act of 1994 as amended requires that the allocation for instructional supplies and materials be closely analyzed.

The allocation of the required dollar amount per pupil for the current budget year will require close monitoring. This is because unspent funds will need to be carried forward to the ensuing fiscal year, unless the required dollar amount or more was expended.

E. Allocation to Capital Reserve and Risk Management

The minimum allocation of the required dollar amount per pupil to the Risk Management and Capital Reserve Funds will also need to be monitored. This allocation need not be made at the beginning of the budget year, but must be made before the end of the budget year.

F. Estimates

The monitoring and control of the budget leads to the analysis of estimated revenue and expenditure figures. These result in a revised ending balance which can be used in projections for the upcoming year. The techniques described are applicable to all funds. The analysis of the budget may be done with specific tools, but it is an art and not a science, it is important to remember that a district's financial situation is constantly in a state of flux.

G. Borrowing from Funds

1. A local board may borrow unencumbered moneys from any fund except the bond redemption fund at any time. All borrowed monies must be repaid when needed by the lending fund to meet obligations and all revenues credited to the borrowing fund shall be used first to repay the loan.
2. All loans shall be repaid no later than 3 months after the beginning of the following budget year.
3. If revenue is not received in the borrowing fund to repay the loan, the General Fund must expend the monies to repay the loan, and the receiving fund shall record the monies as revenue.
4. This provision shall apply to all funds created by law or regulation or by action of a school district.

A board of education may, by resolution, authorize the borrowing of unencumbered money from one fund to another. Money may not be borrowed

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from the Bond Redemption Fund. Such money must be repaid when needed by the lending fund, but, in any event, must be repaid within three months after the beginning of the following budget year. C.R.S. 22-44-113(1).

Investment earnings from funds derived from interfund borrowing may be allocated at the district's discretion.

H. Board of Education Review

The board of education of each school district shall review the financial condition of the school district from time to time during the fiscal year and may require the secretary, treasurer, or any employee who may have duties which relate to the fiscal affairs of said school district to submit a financial report covering the fiscal actions as deemed appropriate by the board. C.R.S. 22-45-102(1).

I. Fiscal Emergency

During any budget year, if a board of education determines that anticipated revenues and the amounts appropriated in the budget exceed actual revenues due to action by the General Assembly or the Governor, the board may declare a fiscal emergency in such budget year. A fiscal emergency may only be declared by a two-thirds vote of the board members at a public meeting following a public hearing within the district.

If a fiscal emergency is declared, the board may implement salary reductions for all district employees on a proportional basis or may alter the work year of such employees. C.R.S. 22- 44-115.5.

J. Maintenance of Records

“All records shall be maintained at the principal administrative offices of the school district. Accounts shall be posted and reconciled at least monthly. Records shall be open for public inspection during reasonable business hours.” C.R.S. 22-45-102(2).

PART 1: ACCOUNTING PRINCIPLES

I. *Introduction to Accounting Principles*

This section sets forth certain accounting principles to be used by local school districts of the state. To make school financial data useful on a statewide basis, local school districts must be uniform and consistent in the application of accounting principles. Lack of consistent application of accounting principles could ultimately distort financial information and impact the operations of the local school district. Generally accepted governmental accounting principles are contained in the *Governmental Accounting Standards Board, Codification of Governmental Accounting and Financial Reporting Standards as of **June 30, 1999*** (GASB Codification). Periodically GASB will issue new pronouncements, which introduce or modify current standards. In the absence of guidance from GASB, pronouncements, the following should be applied, if specifically made applicable to state and local governments: pronouncements by the Financial Accounting Standards Board (FASB) and/or pronouncements by the American Institute of Certified Public Accountants (AICPA). The chief financial officer of the district should be familiar with and have a copy of the GASB Codification.

II. *Generally Accepted Accounting Principles*

Generally accepted accounting principles (GAAP) are uniform minimum standards of and guidelines to financial accounting and reporting. "The board of education of each school district shall cause financial records to be kept in accordance with generally accepted principles of governmental accounting." C.R.S. 22-45-102 Adherence to GAAP assumes that financial reports of all school districts contain the same types of financial statements and disclosures for the same categories and types of funds and account groups based on the same measurement and classification criteria.

An important aspect of GAAP as applied to school districts is the recognition of the variety of legal and contractual considerations (such as budget requirements, federal and state requirements, etc.) typical of the government environment. These considerations underlie and are reflected in the fund structure, basis of accounting, and other principles and methods and are a major factor distinguishing governmental accounting from commercial accounting. Governmental accounting systems designed in conformity with these principles can readily satisfy most management control and accountability information needs with respect to both GAAP and legal compliance reporting.

III. *Basis of Accounting*

The modified accrual or accrual basis of accounting, as appropriate, shall be used in measuring financial position and operating results.

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- A. Governmental fund revenues and expenditures shall be recognized on the *modified accrual basis* (refer to the **Glossary** for definition). Revenues are recognized in the accounting period in which they become available and measurable. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due. GASB 1600
- B. Proprietary fund revenues and expenses shall be recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. GASB 1600
- C. Fiduciary funds (trust and agency funds) are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. Revenues and expenses or expenditures are recognized on the basis consistent with the fund's accounting measurement focus. Nonexpendable trust and pension trust funds are accounted for on the accrual basis; expendable trust funds are accounted for on the modified accrual basis. Agency fund assets and liabilities are accounted for on the modified accrual basis. GASB 1600
- D. Transfers are recognized in the accounting period in which the interfund receivable and payable arise.

"The major differences in applying the accrual concept in governmental fund accounting, as opposed to proprietary fund and commercial accounting, relate to differences in the environment and in the accounting measurement objectives." GASB 1600.105

- E. Revenue Recognition "When a property tax assessment is made, it is to finance the budget of a particular period, and the revenue produced from any property tax assessment should be recognized in the fiscal period for which it was levied, provided the 'available' criteria are met. 'Available' means then due, or past due and receivable within the current period, and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. If, because of unusual circumstances, the facts justify a period greater than 60 days, the governmental unit should disclose the period being used and the facts that justify it." GASB P70 *The district should discuss this issue with its auditor.*

IV. **Compliance with Legal and Generally Accepted Accounting Principles (GAAP)**

Financial statements must comply with both Colorado Revised Statutes and GAAP reporting requirements. C.R.S. 29-1-603(2)

A. **Legal Compliance Reporting Essential**

Where financial statements prepared in conformity with GAAP do not demonstrate finance-related legal and contractual compliance, the local school district shall present such additional schedules and narrative explanations in the annual financial report as may be necessary to report its legal compliance responsibilities and accountabilities. In unusual cases, preparation of a separate legal-basis special report may be necessary. C.R.S. 29-1-603(2)

Legal compliance items which are not required by GAAP are the budget for an enterprise fund (Food Service) or an agency fund (Student Activity).

B. **GAAP Reporting Essential**

The basic financial statements of local school districts shall be prepared in conformity with GAAP. Furthermore, local school districts that want their independent auditors to express unqualified opinions that their financial statements are prepared in conformity with GAAP obviously must prepare statements in accordance with these principles. GAAP-based reporting requires disclosure of material violations of legal and contractual provisions. C.R.S. 29-1-603(2)

C. **Standard Chart of Accounts**

C.R.S. 22-44-105(4) called for the creation of a new chart of accounts. It states that the state board of education, with input from the financial policies and procedures advisory committee, shall establish and implement a statewide financial, student management, and human resource electronic data communications and reporting system that is based on a redesigned standard chart of accounts, a standard information system, and a standard personnel classification system.

Specifically, the financial and human resource reporting system shall be based on a redesigned chart of accounts that makes school-to-school and school district-to-school district comparison more accurate and meaningful. It shall also provide standard definitions for employment positions such that full, accurate disclosure of administrative costs is made within the budgets and the financial statements of every school district. The statute also called for the financial reporting system to make it possible to collect comparable data by program and school site.

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As a result of this legislation, the Financial Policies and Procedures (FPP) Handbook and Chart of Accounts was developed. It standardized the account code structure for all funds. All funds should include three account types—revenues, expenditures and balance sheet accounts. Regardless of the account type, the basic account code structure contains seven dimensions and the same number of digits in each dimension as specified in the FPP Handbook Chart of Accounts.

- ▶ The accounting and reporting guidelines included in this handbook and the FPP Handbook Chart of Accounts apply to charter schools.

V. **Fund Structure**

Governmental units should establish and maintain only those funds required by law and for sound financial administration.

A. **Fund Categories**

Three categories of funds are used in governmental accounting.

1. **Governmental funds** are those through which most governmental functions typically are financed. The acquisition, use and balances of the government's expendable financial resources and the related current liabilities, except those accounted for in proprietary funds, are accounted for through governmental funds (general, special revenue, debt service and capital projects funds).

Governmental funds are, in essence, accounting segregation of financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they are to be paid. The difference between governmental fund assets and liabilities, the fund equity, is referred to as "Fund Balance". The governmental fund measurement focus is on determination of financial position and changes in financial position (sources, uses and balances of financial resources), rather than on net income determination. The statement of revenues, expenditures and changes in fund balance is the primary governmental fund operating statement. It may be supported or supplemented by more detailed schedules of revenues, expenditures, transfers and other changes in fund balance. GASB 1300

2. **Proprietary funds** (sometimes referred to as "income determination", "non-expendable", or "commercial-type" funds) are used to account for a government's ongoing organizations and activities that are similar to those often found in the private sector

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(e.g., enterprise and internal service funds). All assets, liabilities, equities, revenues, expenses and transfers relating to the government's business and quasi-business activities, where net income and capital maintenance are measured, are accounted for through proprietary funds. The generally accepted accounting principles here are those applicable to similar businesses in the private sector; and the measurement focus is on determination of net income, financial position and changes in financial position. GASB 1300

Each school district shall use the full accrual basis of accounting when budgeting and accounting for any enterprise funds included in the district budget.

3. **Fiduciary funds** (trust and agency funds) are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. Each trust fund is classified for accounting measurement purposes like either a governmental fund or a proprietary fund. The most common fiduciary funds include expendable trust funds, non-expendable trust funds, pension trust funds and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Non-expendable trust funds and pension trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. GASB 1300

B. **Fund Types**

Seven major fund types and two account groups are available for use by state and local governments for accounting and reporting purposes. After each fund type, in parentheses, the fund category is listed for general reference. For detailed information regarding specific funds in each category and appropriate fund codes, see the FPP Handbook Chart of Accounts.

1. **The General Fund** (governmental fund) is used to account for all financial resources except those required to be accounted for in another fund. GASB 1300.104
2. **The Special Revenue Fund** (governmental fund) is used to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes. GASB 1300.104

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3. **The Debt Service Fund** (governmental fund) is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. GASB 1300.104
4. **The Capital Projects Fund** (governmental fund) is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). GASB 1300.104
5. **The Enterprise Fund** (proprietary fund) is used to account for operations:
 - a. that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through use charges; or
 - b. where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. GASB 1300.104
6. **The Internal Service Fund** (proprietary fund) is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis. GASB 1300.104
7. **Trust and Agency Funds** (fiduciary fund) are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. GASB 1300.104

VI. **Fund Uses**

For *legal compliance purposes* local school districts may be required to use the following funds depending on the operational attributes and requirements of the local school district.

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A. **General Operations**

The General Fund is used to finance and account for all ordinary operations of a school system. All revenues, except those revenues attributable to the bond redemption fund, the capital reserve fund, the special building and technology fund, a fund created solely for the management of risk-related activities, and any other fund authorized by the State Board of Education, shall be accounted for in the General Fund. C.R.S. 22-45-103(1)(a)(I) this fund is required by law.

1. This fund represents an accounting for the school district's ordinary operations financed primarily from property taxes and state aid. It is the most significant fund in relation to the district's overall operation.
2. The General Fund may account for any lawful expenditure of the school district, including any expenditure of a nature which could be made from any other fund. For example, the General Fund may include expenditures for co-curricular activities. C.R.S. 22-45-103(1)(a)(I)
3. Within the General Fund, the district shall maintain an instructional supplies and materials account, an instructional capital outlay account and the other instructional purposes account. Moneys in these accounts shall be expended only as specified in C.R.S. 22-45-103(1)(a)(II) and C.R.S. 22-54-105.
 - a. Instructional supplies and materials include, but are not limited to supplies, textbooks, library books, periodicals, and other supplies and materials.
 - b. Instructional capital outlay includes those expenditures, which result in the acquisition of fixed assets for instructional purposes, or additions thereto, which the board of education anticipates will have benefits for more than one year.
 - c. Other instructional purposes include expenses incurred in providing transportation for pupils to and from school-sponsored instructional activities which occur outside the classroom and costs incurred for repair and maintenance services for equipment which is directly used for instructional purposes.
 - d. Instructional supplies and materials, instructional capital outlay, and other instructional purposes are limited to programs and objects as prescribed by the State Board of Education. The district may transfer moneys between these

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instructional accounts but not to other accounts in the General Fund or other funds of the district.

- e. Any moneys in such accounts, which are not expended during a budget year, shall be carried forward and budgeted in accordance with statute in the next budget year. This obligation does not apply when the expenditures equal or exceed the statutory minimum.
 - f. Every district shall budget the amount determined in the state statutes (C.R.S. 22-54-105(1)(b) to be allocated at the discretion of the Board of Education. Expenditures for instructional supplies and materials, instructional capital outlay, and other instructional purposes shall not be limited to the amount required to be budgeted in accordance with state statute.
4. Every district shall budget the amount determined under C.R.S. 22-54-105(2) to be allocated to the capital reserve fund, to a fund or an account within the general fund established solely for the management of risk related activities, or among such allowable funds and accounts. Such moneys shall be used only for the purposes set forth in section 22-45-103(1)(c) and (1)(e). Moneys may be transferred among these allowable funds and accounts when deemed necessary by the local Board of Education.
 5. C.R.S. 22-30.5-104(2) states that charter schools shall be a public school within the school district that grants its charter and shall be accountable to the school district's local board of education for purposes of ensuring compliance with applicable laws and charter provisions and the requirement of section 15 of article IX of the state constitution.
 - a. A charter school may operate free from specified school district policies and state regulations. A local board of education may waive locally imposed school district requirements without seeking approval of the state board of education.
 - ▶ b. Transactions of all charter schools must be included in the school district's financial transaction database. In all situations, districts are required to include charter school revenues, expenditures and balance sheet accounts in the electronic data exchange file. Refer to FPP Chart of Accounts. Data must be submitted in a format in accordance with the Chart of Accounts, the FPP Handbook and meets compliance with GASB 34.

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- ▶ c. Financial transactions of the charter school must be provided to the school district in a format that conforms to the Chart of Accounts, the FPP Handbook and meets compliance with GASB 34. Data must be submitted to the district in a timely manner to allow districts to comply with state and statutory reporting requirements.
- d. Funding and services to be provided by the school district to the charter school must be in accordance with state statute C.R.S. 22-30.5-112

B. Capital Reserve/Capital Projects

Construction projects and capital outlay for land, buildings, improvement to land and buildings, and purchase of vehicles, equipment and technology may be accounted for in a Building Fund, a Special Building and Technology Fund or a Capital Reserve Fund depending on the source of related revenue. The Capital Reserve Fund may be a special revenue fund and/or a capital projects fund. The Building Fund and the Special Building and Technology Fund are both capital projects funds.

1. Capital Reserve Fund

Pursuant to provisions of C.R.S. 22-54-105(2), monies shall be allocated from the General Fund to the Capital Reserve Fund. C.R.S. 22-45-103(1)(c) specifies the uses and limitations of the Capital Reserve Fund. Revenues may be supplemented by gifts, donations, tuition receipts and other sources.

- a. Revenues may be supplemented by gifts, donations, tuition receipts and other sources.
- b. Unencumbered moneys in this fund may be transferred to by resolution of the board of education between the Capital Reserve Fund and any fund or account in the General Fund established solely for the management of risk-related activities.
- c. Expenditures from the Capital Reserve Fund are limited by statute to acquisition of land or land improvements, construction of new facilities or additions, alterations and improvements to existing structures, acquisition of school buses, equipment and installment purchase or lease agreements. Minimum dollar amounts for cost of allowable projects are provided in C.R.S. 22-45-103(1)(c)(I)(A-F).
- d. Expenditures from the fund, other than for installment purchase

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agreements with an option to purchase as provided in C.R.S. 22-45-103(1)(c)(II.5), shall be authorized by a resolution adopted by the board of education of the school district. The resolutions shall specifically set forth the purpose of the expenditure, the estimated cost of the project, the location of the structure, a description of any school buses or equipment to be purchased and where such equipment will be installed. C.R.S. 22-45-103(1)(c)(II).

- i. A board of education may enter into an installment purchase or lease agreement with option to purchase for a period exceeding one year and not to exceed twenty years if first approved by a majority of the eligible electors of the district voting on the question at an election. C.R.S. 22-45-103(1)(c)(II.5)
- ii. The board may enter into an installment purchase or lease agreement with option to purchase without a vote of the eligible electors of the district if the district's obligation to make payments is expressly subject to the making of annual appropriations even though the term may be greater than one year.

2. ***Building Fund***

The Building Fund shall be used to account for all resources available for acquiring capital sites, buildings, and equipment as specified by the related bond issue. When bonds are sold for a building project, this fund is required.

- a. Proceeds from the sale of bonds remaining after the completion of the project for which such bonds were authorized may be transferred to the Bond Redemption Fund or, in the event all bonds have been redeemed, to the General Fund.

3. ***Special Building and Technology Fund***

The revenues from a tax levy for the purpose of acquisition or construction of schools or for the purchase and installation of instructional and informational technology shall be recorded in the Special Building and Technology Fund. Expenditures from this fund shall be limited to acquiring land, acquiring or constructing structures, and purchasing and installing instructional and informational technology, including expenditures for software and staff training related to the new technology. C.R.S. 22-45-103(1)(d) If the district levies a tax, this fund is required.

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- a. The special election procedure which must be followed to authorize a mill levy for the Special Building and Technology Fund is as follows: "The board of education at a special election called for the purpose, shall submit to the registered electors of the district the question of whether to impose a mill levy of a stated amount for the Special Building and Technology Fund or to increase the mill levy for the Special Building and Technology Fund by a stated amount which levy shall not exceed ten mills in any year or exceed three years in duration." C.R.S. 22-40-102(1.5).
- b. Any moneys in the fund, which have not been authorized for expenditure within three years after being recorded in the fund, shall revert to the Capital Reserve Fund.
- c. Expenditures from the fund shall be authorized by a resolution adopted by the board of education. The resolution shall specifically set forth the purpose of the expenditure, the estimated total cost of the project and the location of the land to be acquired or the structure to be constructed or acquired, or the nature of the instructional and informational technology to be acquired.

C. *Governmental Designated-Purpose Grants*

Governmental Designated-Purpose Grants are generally accounted for in a "Special Revenue Fund" which may be used to account for certain designated restricted local, state and federal grants. A grant is an award of financial assistance in the form of cash, contribution, or gift of other assets from another government or organization to an eligible grantee to be used for a specific or designated purpose, activity or facility.

1. The Governmental Designated-Purpose Grants Fund may be subsidized by transfers from the General Fund.
2. Generally, the following requirements are inherent in restricted grants or projects:
 - a. Revenues frequently are accompanied by legal or contractual requirements that govern their use and include special accounting and reporting requirements.
 - b. Federal laws providing revenues contain a uniform provision that such revenues will not be commingled with other state and federal funds so as to lose their identity with a particular granting act.

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- c. Revenue from federal sources may not be used to reduce or supplant program effort by the local education agency.
- d. Federally funded programs require separate identification and reporting within the local school district's annual audit report.
- e. Local and state revenues used for matching federal expenditures also require separate identification and accountability.
- f. In order to maintain effective control and accountability for all grant and sub-grant cash, real and personal property, and other assets, recipients must adequately safeguard all such property and must assure that it is used solely for authorized purposes. See Fiscal Guidelines for Federal Programs.
- g. Recipients must maintain comparisons of actual expenditure or outlays with budgeted amounts for each grant or sub-grant.

D. Pupil Activities

Pupil activities may be accounted for in a special revenue fund or an agency fund used to record financial transactions related to school-sponsored pupil intrascholastic and interscholastic athletic and related events. These activities are supported in whole or in part by revenues from pupils, gate receipts and other fund-raising activities. The district may split pupil activities into a special revenue fund and an agency fund.

NOTE: If the district accounts for pupil activity revenues and expenditures in an agency fund type, refer to the Trust and Agency Fund explanation contained within this section.

- 1. When the Pupil Activity Fund is a special revenue fund, it may be subsidized with a transfer from the General Fund.

E. Risk Related Activities

Every district shall budget the amount determined pursuant to C.R.S. 22-54-105(2) to be allocated in the discretion of the board of education to a fund or an account within the General Fund established in accordance with GAAP solely for the management of risk-related activities as identified in C.R.S. 24-10-115 and article 13 of title 29, or among such allowable funds and accounts. Such moneys shall be used for the purposes set forth in C.R.S. 22-45-103(1)(e).

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1. If a district elects to account for risk-related activities in a separate fund, it can use either the Insurance Reserve Special Revenue Fund or a Risk-related Activities Internal Service Fund.
2. Districts may account for risk related activities in accounts within the General Fund using appropriate program and object codes.
3. Districts may use any combination of these funds and accounts to meet local needs.
4. Unencumbered moneys in these funds or accounts may be transferred to the Capital Reserve Fund or to any other fund or account established solely for the management of risk-related activities by resolution of the board of education.
5. Expenditures for risk-related activities include costs related to loss of or damage to property of the school district, payments for loss control, workers' compensation, and legal claims, judgments and insurance premiums.

F. *Transportation*

Under C.R.S. 22-45-103(1)(f), revenues from a tax levied or fee imposed for the purpose of paying excess transportation costs and revenues received from the state shall be deposited in the Transportation Fund, a special revenue fund. If the district exercises this option, this fund is required.

1. Expenditures from the Transportation Fund shall be limited to payment of transportation costs as authorized in the district budget.
2. Any moneys remaining in this fund at the end of the fiscal year shall remain in the fund to reduce the levy or fee for transportation costs in future years.

G. *Debt Service*

The revenues from a tax levy for the purpose of satisfying bonded indebtedness obligations, including principal, interest and related expenditures, shall be recorded in the Bond Redemption Fund. C.R.S. 22-45-103(b) If the district has a tax levy for bonded indebtedness obligations, this fund is required.

1. The Bond Redemption Fund may include more than one subsidiary account for which a separate tax levy is made to satisfy the obligation. Any revenues remaining to the credit of a separate

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subsidiary account after satisfaction of all such obligations of that subsidiary account may be transferred to another subsidiary account in the Bond Redemption Fund.

2. Moneys remaining in the Bond Redemption Fund after all obligations of bond indebtedness have been satisfied shall be transferred to the General Fund. C.R.S. 22-44-112(4).
3. The revenues from a tax levy for installment purchase agreements and/or lease or rental agreements having terms of more than one year that have been approved at an election shall be recorded in the Bond Redemption Fund C.R.S. 22-45-103(b)(II). This shall not be construed to authorize a school district to make any levy for its bond redemption fund, or to use any monies in its bond redemption fund, to make payments with regard to any installment purchase agreement or lease or rental agreement with an option to purchase which has not been approved at an election. C.R.S. 22-45-103(b)(III)
4. Whenever the issuance of refunding bonds or other refunding obligations of the district results in moneys on deposit in the Bond Redemption Fund which are not needed to satisfy the principal and interest obligations of the district as they become due, such moneys shall be used to reduce the levy for the Bond Redemption Fund in future years or to pay any then existing obligations of the district payable from the Bond Redemption Fund at a date earlier than they become due.

H. Nutrition Services

The Food Service Fund is a type of "Enterprise Fund" used to record financial transactions related to nutrition service operations. C.C.R. 301-11-3.04 (1) If the district receives USDA school breakfast/lunch money, this fund is required.

1. The Food Service Fund shall be accounted for consistent with federal and state rules and the FPP Handbook Chart of Accounts.
2. The Food Service Fund may be subsidized by transfers from the General Fund.

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I. **Internal Services**

“The Internal Service Fund may be used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the school district, or to other school districts, on a cost-reimbursement basis.” C.C.R. 301-11-3.05

1. Programs to be reported in an Internal Service Fund are determined by the local Board of Education.
2. The Internal Service Fund may be subsidized by transfers from the General Fund.
3. For Risk-related Activities, see Section VI, subsection E.

J. **Trust and Agency**

Trust and agency funds include expendable trusts, non-expendable trusts, pension trusts and agency (fiduciary) activities.

Trust fund spending is controlled primarily through legal trust agreements and applicable state laws. If a formal trust agreement is not established, the trust fund classification generally should not be used. (GAAFR)

An agency fund may be used to account for money and property held in trust by the school district for individuals or organizations. C.C.R. 301-11-3.06 Examples of accounts that may be included are student body organizations such as Senior Class, Chess Club, Debate Club, etc.

1. An Agency Fund shall be accounted for consistent with the FPP Chart of Accounts.
2. The Agency Fund may, at the option of the local board of education, include budgetary accounting procedures.
3. Financial transactions which meet the following parameters may be recorded in the Agency Funds
 - a. An individual or organization requests the district to hold funds for it in a fiduciary capacity.
 - b. The individual or organization receives no General Fund subsidy. A subsidy from the General Fund would cause such activities to be recorded in the Pupil Activity Fund, a special revenue fund, instead of the Agency Fund.

VII. **Account Groups**

Accountability for and control of the government's general fixed assets and general long-term debt are accomplished through a fourth category of accounting entities, the "account groups."

Account Groups are used to establish accounting control and accountability for the government's general fixed assets and the unmatured principal of its general long-term debt, including special assessment debt for which it is obligated in some manner (General Fixed Assets and General Long-Term Debt Account Groups).

The local school district's general fixed assets, all fixed assets except those accounted for in proprietary funds or trust funds, are not financial resources available for expenditure. The unmatured principal of its general long-term debt not accounted for in proprietary funds or trust funds, does not require an appropriation or expenditure during the current accounting period. Neither is accounted for in the governmental funds, but in self-balancing account groups. These account groups are not funds. They do not reflect available financial resources and related liabilities but are accounting records of the general fixed assets and general long-term debt.

A. **General Fixed Assets Account Group**

General Fixed Assets are those fixed assets of the school district that are not accounted for in proprietary fund(s). To be classified as a fixed asset in this category, a specific piece of property must possess three attributes: (1) tangible nature; (2) a life longer than one year; and (3) a unit cost that equals or exceeds an amount established by the local Board of Education, not to exceed \$5,000, unless otherwise required to be classified as such by the state auditor. (State Fiscal Rule 1-10) Each school district must conduct an annual fixed asset inventory. C.R.S. 29-1-506

It is recommended that an inventory be kept of items that are material in value to mitigate insurance risk and facilitate loss recovery.

B. **General Long-Term Debt Account Group**

General Long-Term Debt is that debt legally secured by general credit and revenue raised by the district. This debt is supported by the full faith and credit of the governmental unit. Assets are accumulated in the Debt Service Fund to repay this obligation. Refunded Bond Issues should not be included in the General Long-Term Debt Account Group, but a footnote disclosure should be in the financial statements.

VIII. ***Fixed Assets and Long-Term Liabilities***

A clear distinction should be made between proprietary fund fixed assets and general fixed assets and proprietary fund long-term liabilities and general long-term debt.

- A. All fixed assets of the local school district must be accounted for in the General Fixed Assets Account Group, except the fixed assets related to the Proprietary Fund.
- B. Fixed assets must be accounted for at cost or, if the cost is not practicably determined, at estimated cost. Donated fixed assets should be recorded at their estimated fair market value at the time received.
- C. Depreciation of general fixed assets must not be recorded in the accounts of governmental funds. Depreciation of general fixed assets may be recorded in cost accounting systems by "Memorandum" type entry. Depreciation of fixed assets accounted for in the Proprietary Fund should be recorded in the accounts of this fund. Depreciation is also recognized in those Trust Funds where expenses, net income and/or capital maintenance are measured. Depreciation is not recognized in Agency Funds.
- D. Long-term liabilities of the Proprietary Fund shall be accounted for through this fund. All other unmatured general long-term liabilities of the governmental unit should be accounted for through the General Long-Term Debt Account Group. Refunded Bond Issues are a contingent liability and should be in the notes to the financial statements, not in the Long-Term Debt Account Group.

IX. ***Budgetary Accounting***

The budget will serve as the basis for information appearing on required reports, as an integral part of the accounting records and as a management control tool of expenditures during the year. See the Budget section for further information.

- A. The board of education of each school district shall adopt a budget and an appropriation resolution for the fiscal year, prior to the beginning of the fiscal year. C.R.S. 22-44-103(1). The board may review and change the budget with respect to both revenues and expenditures at any time prior to October 15 of the fiscal year for which the budget was adopted. C.R.S. 22-44-110(5)
- B. The accounting system must provide the basis for appropriate budgetary control. Consult your FPP Handbook Chart of Accounts for further information.

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1. The financial transactions of the school district shall be recorded in general, appropriation, revenue and expenditure records. Appropriate entries from the adopted budget shall be made in the records for the respective funds. C.R.S. 22-45-102(1)
 2. Separate accounts shall be maintained for each of the several funds as prescribed in law. Continuing balances of the various budgetary accounts shall be maintained on at least a monthly basis. C.R.S. 22-45-102(1)
 3. All funds must be accounted for as described in the Chart of Accounts section of this Handbook C.R.S. 22-44-204(3).
- C. The budget shall be presented in a summary format, which will allow comparisons of revenues and expenditures among school districts by pupil. C.R.S. 22-44-105(1)(b). Budgetary comparisons must be included in the annual financial statements and schedules for all governmental funds.
- D. The budget shall be presented in a format that itemizes expenditures of the district by fund and by pupil. The budget shall:
1. Describe the expenditure
 2. Show the amount budgeted for the current fiscal year
 3. Show the amount estimated to be expended for the current fiscal year
 4. Show the amount budgeted for the ensuing fiscal year
 5. Specify the proposed expenditures and anticipated revenues arising from the contracting of bonded indebtedness by a capital improvement zone located within the school district. C.R.S. 22-44-105(1)(c)
- E. If a fund's budget is prepared on a basis other than GAAP, a footnote disclosure reconciling non-GAAP revenues and expenses to GAAP revenues and expenses must be disclosed in the audit report. GASB 2400.104.
- X. ***Classification and Terminology***
- A. Interfund transfers and proceeds of general long-term debt issues should be classified separately from fund revenues and expenditures or expenses. GASB 1100.110(a)
 - B. Fund revenues must be classified by fund, source and grant/project. Expenditures must be classified by fund, location, program, object, job classification and grant/project. Balance sheet accounts must be classified by fund, equity/liability/asset and grant/project.

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- C. Proprietary Fund revenues and expenses shall be classified in essentially the same manner as those of similar business organizations, functions, or activities. GASB 1100.110(c)
- D. A common terminology and classification shall be used consistently throughout the budget, the accounts and the financial reports of each fund. GASB 1100.111

XI. ***Interim and Annual Financial Reporting***

- A. Appropriate interim financial statements and reports of financial position, operating results and other pertinent information should be prepared to facilitate management control of financial operations, board of education oversight and for external reporting purposes.
- B. A comprehensive annual financial report (CAFR) covering all funds and account groups should include an introductory section, a financial section and a statistical section, (GASB 2200); appropriate combined, combining and individual fund statements; notes to the financial statements; required supplementary information; schedules; narrative explanations; and statistical tables. The reporting entity is the primary government unit and all other component units combined in the report. GASB 2200
- C. General purpose financial statements of the reporting entity may be issued separately from the comprehensive annual financial report. Such statements should include the basic financial statements and notes to the financial statements that are essential to fair presentation of financial position and results of operations (and cash flows for those fund types and discreetly presented component units that use proprietary fund accounting). GASB 2200
- D. The Single Audit Act of 1984, as amended and related OMB Circular A-133 mandate independent financial and compliance audits of federal financial assistance programs. In addition to the required auditor's reports, the schedule of expenditures of federal awards and summary of instances of noncompliance are provided to support the requirements for compliance with OMB Circular A-133. These schedules provide more detailed financial information related to federal grant activity and other federal revenue.

XII. ***Nutrition Services Equipment, Inventory and Current Operating Resources***

A. ***General***

Nonexpendable tangible equipment includes all food service equipment with a useful life of more than one year and a purchase price of \$5,000 or

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more unless a lesser amount is established by the local Board of Education. Expendable equipment that is not required to be capitalized using the above criteria is to be recorded as a supply item or as non-capital equipment (consult the FPP Chart of Accounts).

B. ***Equipment that is Part of a Building***

Items of nonexpendable equipment, which are necessary may be considered as part of the building and may be subject to depreciation. There are a number of items of nonexpendable equipment necessary to the operation of a food service facility that by their nature could be part of the building, i.e., built-in/walk-in refrigeration, ventilation hoods, etc. The cost of such nonexpendable items shall be included as equipment and depreciated accordingly.

C. ***Depreciation***

Depreciation must be computed in accordance with generally accepted accounting principles for all non-expendable equipment. The straight-line method of depreciation will be used. All equipment may be considered to have a useful life of 12 years. Alternatively, this depreciation may be based on the estimated useful life of each asset. Equipment must be in use to be depreciated. Depreciation is required to be recorded at least on an annual basis. The computed depreciation cost is allowable to the schools' breakfast, lunch, special milk and associated nutrition service program(s).

D. ***Disposal, Replacement, Trade-in, Repairs or Betterment of Nonexpendable Equipment***

1. The fixed asset value and the accumulated depreciation for an item to be scrapped must be removed from both the accounting and the depreciation records.
2. If an asset is sold (not used as a trade-in) the cash received may be credited to the school Nutrition Service Fund or may be credited to another fund from which the asset was purchased. The difference between the amount received and the undepreciated cost would be charged or credited, as the case may be, to an account entitled "Gain or Loss on Disposal of Fixed Assets." In the case of a trade-in, the depreciable basis for a new asset must be the cash paid plus the book value of the asset traded. Book value is the cost of the asset less depreciation.
3. Repairs or betterment of a fixed asset that extends the useful life expectancy of that fixed asset must be added to the undepreciated cost of the fixed asset and claimed as depreciation expense over

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the revised useful life of the asset. Such repairs or betterment would not be claimed as a direct cost under "services and repairs."

E. **Current Operating Resources**

Current operating resources for Nutrition Services must be included with financial data transmitted electronically to the Colorado Department of Education each year. Consult the FPP Handbook Chart of Accounts for the appropriate code to be used for this transmission. Current operating resources for this purpose are computed by adding current assets excluding commodities inventory and subtracting current liabilities.

F. **Inventories**

1. **Food and Supplies:** An inventory of all purchased food and expendable non-food supplies must be taken annually at a minimum. This inventory can be a perpetual inventory as long as it is verified by an actual physical inventory taken annually.
2. **Commodities:** U.S.D.A. donated commodities should be inventoried annually and valued at the U.S.D.A. pricing levels. Pursuant with procedures established by the food distribution unit of the Colorado Department of Human Services.
3. **Equipment:** A complete inventory of all food service equipment must be taken in compliance with C.R.S. 29-1-506. Acquisition cost or estimated original cost must be assigned to each item.

XIII. **Salary & Benefit Accruals**

Salaries and benefits of teachers and other contracted personnel are paid over a twelve-month period, typically from September 1 through August 31. These salaries and benefits, however, are earned over a period of approximately nine months. This situation results in an outstanding liability for accrued salaries and benefits at the end of the fiscal year.

An accrued salary and benefit liability may also exist for other non-certificated support services personnel. Although the accrual in this case may only be the equivalent of a few days or weeks of salaries and benefits, these amounts should also be reflected on the year-end financial statements as a liability. All districts having an outstanding liability for accrued salaries and benefits at year-end must reflect the liability in the annual financial statements of the district.

It may be a desirable option but it is not a requirement that districts fund or develop plans to fully fund the liability for accrued salaries and benefits. Districts which have not funded this liability may expense the increase, if any, from year-to-year.

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Districts will generally fall in one of four categories when developing budgets with regards to accrual liability funding.

- A. Districts that choose to fully fund the accrual liability should not include the accrual funds in the beginning fund balance for budgeting purposes.
- B. Districts which intend to fund any portion or all of the accrual liability may include that portion of the liability which is intended to be funded as part of the expenditure budget. In this case, an expenditure budget may be created to protect and, depending on the district's long-range plan for accrual funding, increase the accrual funding level.

If a positive fund balance is available without considering accrual funds, then these funds should not be used to calculate the beginning appropriated fund balance for budgetary purposes. In this case, an expenditure budget should be created annually to increase or maintain the accrual funding level.

- C. Districts that are reducing accrual funding levels may include in the beginning fund balance that portion of the funded reserve which is intended to be budgeted to offset other expenditures.
- D. Districts that choose not to fund the accrual liability must consider the liability as deferred when calculating the appropriated fund balance for budgeting purposes.

PART 2: ACCOUNTING PROCEDURES

The materials in this section are primarily illustrative of the types of accounting documents, journals, ledgers and reports that could comprise the school district accounting process and records. Emphasis is placed on the fact that items contained herein are examples and suggestions, but are neither regulatory nor prescribed. It is possible to achieve compliance with the spirit and intent of this *Handbook* using procedures other than those illustrated on the following pages, especially with the opportunities afforded by the advances in technology. However, such procedures should follow good accounting principles and practices.

I. **Cash Receipts**

As is true with all financial operations, adequate internal controls should be established to protect the employees as well as the public's moneys.

- A. These controls will of necessity be regulated by the number of employees available and may include, but should not necessarily be limited to, the following:
1. Access to cash receipts by as few employees as possible.
 2. Clear establishment of responsibility at each point of transfer.
 3. Adequate bonding of each employee.
 4. Immediate record of all cash receipts.
 5. Physical protection of cash through the use of vaults, locked cash drawers, cashiers cage, etc.
 6. Holding cash on the premises should be kept to a minimum. Ideally, cash should be deposited daily.
 7. Separate handling of cash from cash record keeping.
 8. Lack of authority for any one person to handle a transaction from beginning to end.
 9. Centralized receiving of cash to the extent possible.
 10. Bank reconciliations by persons not responsible for handling cash.
 11. Rotation of personnel in key positions and surprise cash audits.
 12. *Immediate* investigation of all cash complaints or irregularities

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- B. It is important that the processing and recording of cash be conducted with safeguards to ensure proper control and accounting procedures.
1. Mail should be opened promptly on arrival and any receipts should be listed in detail by fund.
 2. Counter receipts should be listed by cash register tape or pre-numbered cash slips.
 3. In reference to 1 and 2 above, one copy should go to the person responsible for recording transactions in the Cash Receipt Journal and one copy to the person who will later compare it to the deposit slip. The receipts should be added, compared to the total on the list and forwarded to the person responsible for preparing the deposit.
 4. If at all possible, deposits should be made daily with a three-part cash deposit slip. The person preparing the deposit should retain one copy with two copies going to the bank. After validation, the bank should retain one copy with the other returned for comparison to the list of mail and counter receipts.

II **Purchasing Cycle:**

- A. **General:** In order to ensure adequate internal control, a series of checks and balances should be built into the purchasing procedure.
1. Adequate Separation of duties should be provided.
 2. All purchases should be initiated on purchase requisitions originated by those having designated authority. The requisition and purchase order could be combined if proper signature/approval control is provided.
 3. Purchase orders should be approved at the appropriate authorization level in accordance with district policy and related rules or regulations.
 4. Purchasing practices should be reviewed periodically to ensure that proper internal controls are preventing: (1) payment of fictitious invoices (2) duplicate payments and (3) alteration of invoices.
 5. Receipt of items should be documented.
 6. Vendor invoices should be mailed directly to the accounting department for verification with both the purchase order (accounting) and the receiving report.

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7. Invoices should not be approved for payment until properly verified and checked.

B. **Purchase Requisitions:** The purchase requisition is a written request for the purchase of supplies, services and equipment. It should be prepared in a standard format so that the information may be easily identified and transferred to a purchase order.

1. The number of copies needed for proper processing may vary by district but a minimum of two is recommended with distribution as follows:

- ◆ Original to the office responsible for approving and preparing purchase orders.
- ◆ Duplicate returned to the originating source

2. The purchase requisition form should contain spaces for the following information:

- ◆ Name and address of recommended source of supply.
- ◆ Date of requisition.
- ◆ Date items or services are required.
- ◆ The address to which items are to be shipped.
- ◆ Complete account code information.
- ◆ Items ordered.
- ◆ Part or catalog number and description of the item, quantity, unit of measure (box, each, etc.), unit price and total dollar value of each line item. (It is suggested that line items be double spaced so corrections can be made as necessary.)
- ◆ Estimated cost of all items requested.
- ◆ Signature of person authorized to submit requisitions.

C. **Purchase Orders:** The purchase order is written evidence of orders placed as a result of receiving a properly approved requisition. Acceptance of the purchase order by a vendor effects a legally binding contract which gives the vendor authority to provide the requested goods and/or services. The purchase order should be on a standard format so that information may be easily identified and processing can proceed accurately using district purchasing procedures (e.g. bids, quotations, etc.).

1. The number of copies needed for proper processing may vary by district, but a minimum of five is recommended with the distribution as follows:

- ◆ Original to vendor.

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- ◆ Part 2 to the accounting department.
- ◆ Part 3 to the receiving unit to be approved for payment and returned to accounting department upon receipt of items ordered.
- ◆ Part 4 to requesting unit for notification that order was placed.
- ◆ Part 5 retained by the purchasing department (alpha or numerical file).

2. The purchase order should provide spaces for the following items:

- ◆ The date of the order and the date items are required.
- ◆ The name and address of the vendor.
- ◆ Name and address where items are to be shipped.
- ◆ Complete account code information.
- ◆ Part or catalog number, description, quantity, unit of measure, unit price and total dollar value of each line item.
- ◆ Total cost of all items ordered.
- ◆ Special conditions (payment terms, etc.).
- ◆ Signature or other evidence of authorization for expenditure of funds from the account code provided above.
- ◆ Signature of person authorized to approve purchase orders for the amount purchased.

D. **Receiving Documentation/Invoices:** Vendor invoices should be sent directly to the accounting department for verification with both the purchase order and the receiving documents. Invoices should not be approved for payment until properly verified and checked for accuracy. Receiving documents are generally the third page of the purchase order and should included the following information:

- ◆ Verification of items received
- ◆ Notation of any damage or shortages
- ◆ Signature of the person receiving the goods or services
- ◆ Packing slips or other documents received with the shipment should be attached to the receiving document when sent to the accounting department

E. **Procurement Cards:** The purpose of a purchasing card (also known as a procurement card) program is to provide an efficient, cost-effective method of purchasing and paying for small-dollar as well as high-volume, repetitive purchases. This type of program is designed as an alternative to the traditional purchasing process and can result in a significant reduction in the volume of purchase orders, invoices and checks processed. Purchasing cards can be used whenever a purchase order, check request, or petty cash would have been processed and with any vendor that accepts credit cards.

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Procurement cards may be issued in a designated individual's name with the government's name clearly indicted on the card as the buyer of goods and services. The procurement card and any transactions made with the card may become a liability of the governmental entity. For this reason it is important that governments be aware of the risks related to the use of procurement cards and develop plans to address those risks.

The Government Finance Officers Association (GFOA) recommends that governments explore the use of procurement cards to improve the efficiency of their purchasing procedures. A competitive process should be used to select the procurement card provider. Purchasing card programs should be designed to be simple and easy to use. However, governments need to maintain appropriate controls to ensure the ongoing success of the purchasing card program. These controls should include:

1. Written agreements with banks, which include fee schedules and processing procedures
2. Written policies and procedures for internal staff
3. Instructions on employee responsibility and written acknowledgments signed by the employee
4. Spending and transaction limits for each cardholder both per transaction and on a monthly basis
5. Written requests for higher spending limits
6. Recordkeeping requirements, including a review and approval process
7. Clear guidelines on the appropriate uses of purchasing cards, including approved and unapproved merchant category codes (MCC)
8. Guidelines for making purchases by telephone and fax or over the Internet
9. Periodic audits for card activity and retention of sales receipts and documentation of purchases
10. Procedures for handling disputes and unauthorized purchases
11. Procedures for card issuance and cancellation, lost or stolen cards, and employee termination
12. Segregation of duties for payments, accounting and reconciliation

III. **Cash Disbursements**

The control of and documentation for cash disbursements are of vital importance. Special care should be made for internal control. Not all procedures will fit each district's needs.

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A. **System of Internal Controls**

An adequate system of internal controls may prevent errors. The disbursement function should be separated completely from the receiving of cash and from the approval for payment. As much separation of responsibility should be provided within the disbursement function as the resources of the district permit. Consider the following:

1. The disbursement function should be limited to specifically authorized persons.
2. A definite assignment of responsibility for disbursements should be made.
3. A record of every disbursement should be made and checks should be entered in a cash disbursement journal.
4. Separation of duties with respect to electronic payments, check preparation, signing and distribution.
5. Large amounts of currency should not be kept on hand.
6. Payment authorization should be clear.
7. Proper controls should be devised for the processing of all payments.
8. Proper controls should be instituted in the signing of checks and comparison made with underlying documents.
9. Controls should be instituted for transmittal of payments to payee.
10. Reconciliation of bank accounts should be done promptly.

B. **Checks**

1. All checks should be serially pre-numbered to permit full accountability.
2. Checks should be written with care to prevent alteration.
3. Checks should be prepared only on the basis of a properly authorized written document such as approved invoices.
4. Checks should be submitted to persons authorized to sign accompanied by the substantiating data.

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5. Those authorized to sign checks should not prepare them.
6. Checks should not be returned, for mailing, to the person who prepared them.
7. Blank checks should not be signed.
8. For ease of locating information related to cash disbursements, the check should have three parts:
 - ◆ Original - to vendor or payee.
 - ◆ Part 2 - attached to the support documents authorizing the payment.
 - ◆ Part 3 - kept for reference purposes. It is filed alphabetically when Part 2 is kept in a numerical file. If Part 2 is kept in an alphabetical file, then Part 3 is filed numerically.

IV. Warehouse or Inventory Supply Requisition

The inventory supply requisition is used to request transfer of goods from the warehouse to the cost center that created the requisition. Approval by the person who authorized the requisition indicates sufficient unencumbered budgetary moneys to cover the cost of the items. The inventory supply requisition should be on a standard format so that information may be easily identified and processing can proceed accurately.

- A. The number of copies needed for proper processing may vary by district, but a minimum of three is recommended with distribution as follows:
 1. Original and Part 2 are both sent to the stockroom. When the order is processed for delivery and all pricing verified, the *original* is forwarded to the accounting department. Part 2 is retained by the stockroom with verification of delivery to the ordering unit.
 2. Part 3 is retained by the ordering unit.
- B. The inventory supply requisition should provide spaces for the following items:
 1. Date of order and date items are required.
 2. Complete account code information.
 3. Inventory control number, quantity, unit of measure, item description, unit price and extended amount.
 4. Signature of person authorized to submit requisition and signature of person authorized to approve purchase.
 5. Delivery date.

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6. Indication that items were received.
7. Total value of all items delivered.

V. **Payroll**

Maintenance of the payroll records is a continuous process. The records must be amended every time there is a change in the status of an individual, a change in related district policy, or a change in governing state or federal laws. A separate payroll record must be maintained for each employee.

A. **Board of Education Payroll Responsibilities.**

Actions taken by the board of education and recorded in the official minutes initially control all payroll operations. Some examples follow:

1. Adopted salary schedules.
2. Rates of pay for substitute and hourly employees.
3. Detail related to policies governing sick, personal, vacation and other types of leave, both with and without pay.
4. Name, date of employment, assignment and rate of pay for each employee.
5. Authorization to employ substitute personnel.
6. Name and date of termination of each employee
7. Full details of employee programs for district-paid benefits.
8. Authorization for the district fiscal officer(s) to provide payroll services such as deductions for credit unions, professional dues, savings bond purchases, annuity programs, etc.
9. Specific details related to when employees will be paid and by what method they will receive payment (mail, hand delivery, direct deposit, etc.).

B. **"Employee" Definition and Requirements**

Compliance with state and federal regulations (IRS) regarding the definition of "employee" and "independent contractor" is required. The difference between an employee and an independent contractor must be clarified by the district. Proper clarification of this issue provides for consistent classification and protection of employees and the district. A major payroll issue is the deduction of required withholdings for the independent contractor and the employee.

1. Definition of an employee:

Current IRS regulations classify an individual as an employee under the following conditions: the employer sets conditions such as working hours, provides work space and tools or equipment and subjects the individual to routine supervision or evaluation.

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Regulations change from time to time and the district should review current regulations if questions arise.

2. Requirements:

The employer is required to comply with federal and state withholding requirements from the payroll of personnel who meet the definition of an employee.

- a. Employees hired after April 1, 1986, are subject to Medicare withholding.
- b. Federal and state income tax must be withheld from employees' wages.
- c. Wages, taxes withheld from employees and certain tax deferred/sheltered compensation must be reported on Form W-2.
- d. Districts must comply with PERA and other qualified pension plan requirements. Generally, retirees and active full time students are not eligible to participate in such plans.
- e. Taxes must be deposited under applicable I.R.S. depository regulations.
- f. Districts must comply with wage and hour regulations as prescribed by the Fair Labor Standards Act.

3. Compensation Based Insurance

- a. Unemployment Compensation Insurance requirements must be met. Districts have two options for payment, either at a flat tax rate or on a reimbursement basis.
- b. Workers Compensation Insurance is required by statute and is fully paid by the district. It provides for medical expenses and loss of earnings benefits to workers who are injured on the job.

C. **"Contractor" Definition and Requirements**

1. Applicable Internal Revenue Service regulations establish the classification of an individual as an independent contractor. There are additional criteria to consider and the district may need further guidance from the district legal counsel. Refer to the *IRS* publication for the criteria in determining an independent contractor.

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2. Requirements:

The employer is required to comply with the following rules concerning state/federal withholdings:

- a. Any fees or payments in excess of \$600 in the calendar year must be reported by the payer on a federal Form 1099-MISC.
- b. A 20% back-up tax must be withheld by the payer, if the independent contractor has not provided a taxpayer identification number on Form W-9 (*Request for Taxpayer Identification Number Verification*) to the payer, for payments in excess of \$600 and submitted to the IRS under the applicable depository regulations.
- c. The independent contractor is responsible for paying and reporting the applicable self-employment tax.

3. Questions concerning the status of a contractor versus employee relationship should be directed to district legal counsel.

D. ***Payroll Record***

Certain record keeping requirements are established by the Federal Wage and Hour Division within the U.S. Department of Labor. Detail must be maintained on each individual's payroll record in accordance with the Fair Labor Standards Act. Districts may keep additional detail at their own discretion. Any action which has an effect on the employee's net pay should be recorded on the individual record for each pay period so affected.

1. The following listing is not meant to be all-inclusive but indicates items to be considered
 - a. Name and address
 - b. Social Security Number.
 - c. Marital status and number of exemptions claimed for income tax purposes.
 - d. Gross contract salary, monthly gross salary, hourly rate, etc.
 - e. Assignment and location
 - f. Appropriation account classification or prorated classification if assignment is divided and fund from which the payment will be made.
 - g. Date of duty and termination date for contracted employees.
 - h. Gross payroll period salary.

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- i. Salary reductions which reduce gross payroll period salary, e.g., deferred compensation plans or annuity plans.
 - j. Gross taxable salary.
 - k. Withholding taxes for federal/state/local governments.
 - l. Deductions regulated by law such as payments into retirement programs.
 - m. Other deductions as authorized by the employee.
 - n. Net salary for the payroll period.
 - o. Totals for the month, quarter and calendar year
2. Certain critical issues require special consideration for payroll record keeping purposes.
 - a. Changes in the rate of pay including dates and details
 - b. Tax sheltered/deferred compensation arrangements
 - c. Compliance with IRS regulations regarding tax shelter annuities and similar arrangements
 3. The district has certain responsibilities relative to monitoring compliance with IRS regulations for tax sheltered arrangements. Questions regarding this issue should be directed to the district's legal counsel and/or auditor. Check with appropriate agencies to ensure compliance with accounting and recording requirements for special programs funded by grants, etc.
 4. Because payroll represents such a large portion of day-to-day expenditures, care must be exercised to ensure accurate recording. There will often be records maintained in other offices, which supply information to the payroll department. For example, the personnel or human resource department may keep sick leave records and request payroll deductions for excess leave on approved forms. Bus driver time cards may be kept in the transportation office, which furnishes a payroll document for action. The district should be sure all such records are retained to provide an accessible and complete audit trail for each item on an individual payroll record.
 5. Some payroll records may need to be retained indefinitely. Districts must retain records in accordance with the Division of State Archives and Public Records' permanent records control schedule authorization.

E. ***Public Employees' Retirement Association (PERA)***

All school district employees are required to become members of PERA. There are exceptions to this requirement. Check with PERA to determine if students or certain retirees are exempted from PERA. Employees of

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Denver Public Schools are also exempted. The retirement board is authorized to determine membership eligibility. Decisions of the retirement board are final and are subject to review only by proper court action. C.R.S. 24-51-203, *et seq.*

1. Both the employee and employer make monthly contributions to the retirement fund.
2. Employer contributions are required of school districts. In addition, contributions are required for overtime and for extra duty pay.
3. Reimbursements for out-of-pocket expenses are excluded from deductible compensation. (See PERA regulations for a complete list.)
4. Check current PERA regulations to determine if payments such as one-time bonuses, early retirement incentives, etc are excluded from deductible compensation.
5. Payments to independent contractors are not classified as compensation for PERA.
6. Contact PERA for any necessary workshops or orientation meetings. Requests for copies of rules, regulations and interpretations related to PERA should be sent to the PERA office in Denver:

Public Employees' Retirement Association
1300 Logan
P.O. Box 5800
Denver, Colorado 80203-5800
(303) 832-9550 or 800-759-PERA (7372)

F. **Withholding Taxes**

Withholding taxes are required and apply to compensation of all employees.

VI. **Sales Tax**

A. **Collections**

Sales tax applies to "sale to the final consumer." Sales are tax-exempt only if the school district is the final consumer. Sales where students, parents, staff and patrons are the final consumer are taxable. Taxes should be collected for sales that benefit individuals and purchases which are not made directly from district funds.

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Caution is advised for sales to pupils and the public. Purchases by the district of tangible personal property for sale to individuals are taxable, such as class rings, yearbooks, magazine and candy sales.

1. When the district makes occasional purchases of tangible personal property to be either sold or given away, such as carnival prizes, the district is not deemed to be the ultimate consumer and therefore must pay the sales tax at the time of purchase.
2. A sales tax license must be secured by the district if there are sales. Sales tax must be collected and remitted to the State and/or City/County Department of Revenue.
3. Tangible personal property purchased by the district for resale is a tax-free purchase. When the property is resold, sales tax is charged on the sale price. For example, items sold for fundraising at an increase over cost are taxed on the sale price, not on the cost to purchase.

B. Exemptions

Items purchased by a school or a school district for the use of the school or school district are exempt, provided such purchases are made on a prescribed purchase order and paid for with a school or district check.

1. The school or school district cannot pass its exemption on to any individual or group, such as a Booster Club, or PTA.
2. C.R.S. 39-26-114 enables a contractor to purchase materials tax-free when this material is to become a part of the structure for a tax-exempt entity. The contractor should apply with the Department of Revenue, Sales Tax Division, for an exemption certificate in order to purchase the material tax-free.
3. Currently, there is no sales tax on Nutrition Service sales.

VII. General Requirements

A. Surety Bond

Each employee who is likely to have in his or her temporary custody at any one time an amount of school district money in excess of fifty dollars is to be bonded in an amount at least sufficient to cover the amount of school district moneys which is likely to be in his or her temporary custody. C.R.S. 22-32-109(1)(h) A blanket form of surety bond may be utilized to cover more than one such employee. Under C.R.S. 22-32-104(4), the

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board secretary, treasurer, their assistants and any board appointed custodian must provide surety bonds as required by the board.

B. ***Facsimile Signature***

If a facsimile signature is to be used to sign checks, orders or warrants, each board of education officer shall give written consent to the board for the use of such facsimile signature and written approval of the employee designated to affix the facsimile signature. Such authorization shall be evidenced by a resolution adopted by the board and shall be recorded in the proceedings of the board. Any employee authorized and approved to affix the facsimile signature of the board officer(s) shall be bonded. C.R.S. 22-32-121

C. ***Public Records***

As a public entity, a school district is required by statute and regulations not only to maintain and preserve certain records in a prescribed manner, but also to dispose of any records in a prescribed manner.

1. "All records shall be maintained at the principal administrative offices of the school district. Accounts shall be posted and recorded with fund resources at least monthly." C.R.S. 22-45-102
2. "The secretary of the board shall cause minutes of each meeting of the board to be kept and preserved." (Attached to and made part of the appropriate minutes shall be copies of the officially adopted budgets, audits and financial reports.) C.R.S. 22-32-106(1)
3. "The board of education shall cause to be kept the stubs of, or a register of, all warrants or orders drawn upon school district moneys in the various funds, showing the number of each warrant or order, the date issued, the object or purpose for which drawn, the amount and to whom payable, or in lieu thereof, similar records as normally provided in accounting procedures through the use of automatic processing." C.R.S. 22-32-109(1)(j)
4. The board of education shall cause such reports as relate to the affairs or business of the district to be preserved and disposed of only in the manner provided by law. C.R.S. 22-32-109(1)(m)
5. The Division of State Archives and Public Records is the state agency that coordinates and jointly approves the preservation and destruction of public records for local government. No public officer of a state agency or any county, municipality or school district shall destroy any record without having first secured from the state archivist and the attorney general authorization to do so in

accordance with the provisions of an act relating to public records.
C.R.S. 24-80-105

PART 3: REPORTING REQUIREMENTS

I. *Introduction to Reporting Requirements*

Each school district in Colorado must prepare and have audited, a general purpose financial statement that includes all funds and activities of the district, including the general fixed asset account group. The requirement for annual financial statements in conformity with generally accepted accounting principles is set forth in the Colorado Local Government Audit Law, C.R.S. 29-1-601, *et seq.* The annual financial statements must be prepared in accordance with GAAP. C.R.S. 29-1-603(2) *They must set forth the financial position and results of operation of each fund and include a comparison of budgeted amounts to actual for all funds and activities.* The combining and individual fund schedules must be prepared in accordance with the formats prescribed by the Colorado Department of Education.

II. *Schedule of Revenues and Expenditures*

"The supplemental schedules of receipts and expenditures for each fund shall be in the format prescribed by the State Board of Education and shall be in agreement with the audited financial statements of the school district." C.R.S. 29-1-603(1)

The Colorado Department of Education shall prepare and disseminate the prescribed format to be utilized by school districts. C.R.S. 29-1-603. This form is the Schedule of Revenues and Expenditures (CDE-3). The CDE-3 shall be incorporated in the audit for each fiscal period. The current form and a template are available from CDE.

School districts are required to electronically submit annual financial data to CDE. This process will produce an auditor's electronic financial data integrity check figures report. This report must match the audited annual financial statements, not only in the amounts presented but also the types of funds. For example, each type of fund presented in the audited financial statements must be transmitted to CDE electronically. No funds are exempt from electronic reporting. Except for small allowances made for rounding, the amounts on the auditor's integrity check figures report must match those presented in the audited annual financial statements. Many auditors treat the statutory per pupil allocation to Capital and/or Insurance Reserve as a transfer between funds instead of as an allocation of revenue. For electronic data transmission purposes, these transactions must be treated as an allocation. (See the FPP Handbook Chart of Accounts.

III. Compliance With the Financial Policies and Procedures Handbook

The independent auditor is required to disclose whether or not the district is in compliance with the *Financial Policies and Procedures Handbook*. "As part of the audit of a school district, the auditor shall ensure that the school district is complying with the provisions of section 22-44-204(3), C.R.S., concerning the use of the *Financial Policies and Procedures Handbook* adopted by the State Board of Education." C.R.S. 29-1-603

IV. Colorado Department of Education Reporting Requirements

Complete bound annual financial statements covering all funds and activities, including appropriate combined, combining and individual fund statements, must be prepared, audited and submitted to the State Auditor and the Department of Education no later than January 31 of each year. The audit report for each school district shall include a calculation of the school district's fiscal year spending under Section 20 of Article X of the State Constitution and the auditor's electronic data integrity check figures report **and bolded balance sheet report** identified as the "Final" report. Without these reports, CDE and the State Auditors Office will consider the financial statements incomplete and unacceptable. **DO NOT REMOVE, ERASE OR OTHERWISE ALTER ANY OF THE INFORMATION ON THE AUDITOR'S INTEGRITY CHECK FIGURES REPORT OR BOLDED BALANCE SHEET REPORT.** Audited annual financial statements will be returned if they do not agree with the electronically transmitted data.

Bound audited financial statements must be submitted within thirty (30) days after the district receives the audit report or within five (5) months after the close of the fiscal year, whichever is earlier. If this deadline cannot be met, the district must file an extension with the State Auditors Office. **Extensions will be granted on an "as needed" basis, in 15-day increments, not to exceed 60 days.**

AUDIT

I. **Introduction to Annual Independent Audits**

This section of the *FPP Handbook* provides information regarding statutes and regulations as well as a sample request for proposal which districts can use to solicit independent audit bids. Both state and federal law require annual independent audits of each school district's financial reports and accounting practices. In addition, the independent audit can and should serve as a means for each district to evaluate and improve its business management system.

Independent audits serve as tools for administrators and board of education members to confirm the financial condition of the district and to publicize this information to the public. At the same time, the auditor has an opportunity to advise the school district of changes in required accounting and reporting practices.

The following is an index to Colorado Revised Statutes (C.R.S.), which governs the auditing requirements for Public School Districts.

C.R.S. 29-1 Section 600 - Local Government Audit Law
Audits Required – Section 603
Exemptions – Section 604
Contents of Report – Section 605
Submission of Reports – Section 606
Duties of State Auditor – Section 607
Violations and Penalties – Section 608

C.R.S. 24-75-601.3 -Investments in Conformance with Statute

C.R.S. 22-44-204.3 -Required Use of FPP Manual

Other Sources include:

- State Auditor's Office
- Governmental Accounting Standards Board
- State of Colorado Financial Management Manual (can be found on the Office of Management and Budget Web Site) – www.state.co.us/gov_dir/audit.html
- American Institute of CPA's Web Site –www.AICPA.Org
- Colorado Department of Education Web Site – www.cde.state.co.us
- GFOA Web Page (Government Financial Officer's Association) – www.gfoa.org
- GAO – Government Auditing Standards Book (Yellow Book)
- GAAFR (Blue Book) – Governmental Accounting, Auditing, and Financial Reporting
- Colorado Society of CPAs –www.CSCPA.org
- Government Accounting Standards Board – www.gasb.org

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- Governmental Accounting Office – www.gao.gov
- Office of Management and Budget – www.whitehouse.gov
- OMB Circular A-133 (is on the Office of Management and Budget Web Site)
- ASBO International (Association of School Business Officials International)

(SEE CONTACTS SECTION)

Reporting

Helpful Hints:

- ~Obtain access to the above listed publications
- ~Review current independent auditor report
- ~Contact your certified public accountant to obtain a listing of required work papers (reconciliation's and documentation prepared by the district for the audit), schedules and documentation
- ~Selection of a certified public accountant (sample of a "Request for Proposal") for auditing services is included for your reference
- ~TABOR Calculation is referenced in C.R.S. 29-1-603(5)
- ~Refer to GASB Codification 2300 for additional information

II. *Audit Requirements*

The Local Government Audit Law (C.R.S. 29-1-601 et seq) requires Colorado local governments to have an annual audit of their financial statements. The law states that the audit must be performed by an independent Certified Public Accountant (CPA) and be in accordance with generally accepted auditing standards.

Single Audit Requirements:

The Single Audit Act establishes standards for obtaining consistency and uniformity for audits of states, local governments, and nonprofit organizations expending federal funds. Governments are required to complete a Single Audit in accordance with the Single Audit Act if they have expenditures of federal financial assistance in excess of \$300,000.

Guidance on Single Audit compliance requirements can be found in the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. The OMB has also issued the 1998 Compliance Supplement to assist auditors in performing the required audit in accordance with Circular A-133. This Supplement is effective for audits with fiscal years beginning after June 30, 1997.

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In addition to the above guidance issued by the OMB, the American Institute of Certified Public Accountants (AICPA) has issued a new Statement of Position (SOP) 98-3. This SOP provides guidance to auditors conducting an audit in accordance with the Single Audit Act.

These resources can be obtained by contacting the OMB and AICPA. Contact information for these entities can be found in the Contacts Section of this manual.

III. *Selection of Certified Public Accountant*

Auditor's Role - The auditor's role is to conduct an independent audit and render to outside parties and unbiased opinion on the fair presentation of the financial statements. The auditor must conduct the audit in accordance with generally accepted auditing standards (GAAS).

The selection of an auditor is an important part of obtaining a quality audit. When selecting an auditor, the district should consider the auditor's governmental auditing experience, availability, and knowledge of current governmental accounting and auditing standards. A request for proposal (RFP) should be issued by the government to solicit proposals from audit firms who wish to be considered in the audit selection process. In the RFP, the district can request specific information be included in the auditor's proposal and define the services and qualifications required.

The following sample form lists questions that should be utilized by a district in the process of selecting an auditor. This list is not all-inclusive and districts may add questions according to their own needs.

Request for Proposal

DATE: _____

_____ COUNTY SCHOOL DISTRICT NUMBER _____
_____, COLORADO

1. Name of Firm: _____

2. Address of Home Office:

3. List the personnel of your local organization who are likely to be assigned to the _____ School District Audit. Indicate whether Partner, Principal, Senior Accountant, etc.

| Name | Position | Hours |
|-------|----------|-------|
| _____ | _____ | _____ |
| _____ | _____ | _____ |
| _____ | _____ | _____ |

4. Has your local office performed school district audits in Colorado? List names of school districts and dates of audits:

| Name of School District | Audit Date |
|-------------------------|------------|
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |

5. Has your local office performed audits for any types of Colorado governmental units?

| Name of Governmental Unit | Audit Date |
|---------------------------|------------|
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |

6. Has the firm completed a peer review under the AICPA division of firms program?
Yes _____ No _____

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If a peer review has been completed, please enclose a copy of the latest report.

NOTE: Accounting firms which are members of the AICPA and/or audit federal funds are required to participate in a peer review process.

7. What is the firm's standard for continuing professional education, for certified staff and non-certified staff? How many hours of continuing professional education (CPE) are required in governmental accounting and auditing?
8. What percentage of the external auditors who would be assigned to the audit have at least six months experience in governmental accounting? Please give details.
9. Please quote a not to exceed audit fee for the next three years.
10. Please explain your firm's experience and expertise in providing other consulting services to governmental entities.
11. Is your firm licensed to practice public accounting in the State of Colorado? Please attach a copy of your current license.

Feel free to add additional comments, background information, data, etc., which are pertinent to the selection process. This proposal should be submitted by (date) to:

(Contact Person)
(Company Name)
(Address)
(City, State)

Note: For additional sample of an RFP consult the Audit Section of the State of Colorado Financial Management Manual produced by the State Auditor's Office.

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IV. *Audit Process*

The district should prepare in advance for the audit. This will not only simplify the auditor's work, but will save the district money. Since the auditor is paid according to the scope of the job, work done by the district should result in savings to the district. Before an estimated price for the audit is determined, there should be an understanding of what work is to be done by the district and what is to be done by the auditors. Among tasks to be completed are:

A. *Pre-Audit and End of Year Activities*

1. Cash on hand should be deposited in the bank as of the year end.
2. Entries in the books should be up-to-date.
3. The books should be in balance and the control accounts reconciled to the subsidiary records.
4. An official set of signed Board Minutes should be available.
5. As a minimum, the following records should be made available to the auditor:
 - (1) A copy of each budget, including any supplemental budget, as adopted
 - (2) Copies of prepared financial statements
 - (3) A copy of the minutes of each board meeting
 - (4) County treasurer's summary of school district revenues on hand
 - (5) A district organization chart so she/he knows lines of responsibility
 - (6) A copy of the district's document flow chart. The auditor will want to know the complete history of a transaction from its beginning to its final disposition
 - (7) The monthly reconciliation and statements for each account in each financial institution
 - (8) A listing of investments, by fund, including all detail for the year, the auditor will wish to examine any investment documents
 - (9) A list of district depositories and their addresses, including bank account numbers and names in each depository. This should include trust and agency funds and an explanation of all funds managed.
 - (10) A list of outstanding payables and receivables

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- (11) A supplementary schedule and appropriate payroll information to back up the accrued salaries payable computation
- (13) Copies of insurance policies in force and schedule of prepaid insurance
- (14) Identification of related party transactions
- (15) Copies of legal documents-including debt issues
- (16) Year end inventory listings-including food service inventories
- (17) A listing of contingent liabilities
- (18) Copies of audits performed by federal or state agencies

B. *Electronic Data Transmission:*

Electronic Financial Reporting: CDE requires annual financial reporting at the completion of the audit, in compliance with the State Chart of Accounts. Finalized electronic transmission is to occur by November 30. After successfully submitting this data, an Auditor's Integrity Report **and Bolded Balance Sheet Report** will be produced. These reports will need to be approved by your auditor. They will be included with the auditor's report.

Helpful Hint: ~See the CDE web site or detailed instructions concerning preparation and submission of Electronic Financial Reporting to the CDE. Please note that this process is time consuming, it is helpful to start this process as early as possible (August – September is recommended).

C. *Submission of Audit Reports:*

Per Statute, Independent Audit Reports, after Board of Education approval, are to be sent to the Director of Local Government Audit at the Colorado State Auditor's Office. According to Section 29-1-606, C.R.S., audit reports for school districts must be submitted by the auditor to the school district within five months after the close of the fiscal year of the school district. A copy of the audit report shall be forwarded to the state auditor within thirty days after the auditor submits it to the school district. The address of CDE and Colorado State Auditor's Office are listed below.

AUDIT

Colorado Dept. of Education
School Finance
201 East Colfax Avenue
Denver, CO 80203

Colorado State Auditor
Director of Local Government Audits
Legislative Services Building
200 East 14th Avenue
Denver, CO 80203

If necessary because of Single Audit Act as amended in 1996 requirements:

Single Audit Clearinghouse
1201 E 10th Street
Jeffersonville, IN 47132

In addition, due to continuing disclosure requirements which became effective in 1995 (Security and Exchange Commission), many districts are required to submit information to Nationally Recognized Municipal Securities Information Repositories (NRMSIRs). This information serves to keep bondholders informed of the district's financial position. Districts may refer to their Official Statements to determine what information is required and where the information is to be sent.

Hint: Send Audits "receipt requested" to document both date sent and receipt.

V. Comprehensive Annual Financial Reports (CAFRs) and Audit Awards

Many larger districts include additional narrative and statistical information in addition to the required audit to form a document commonly known as a CAFR. Although not a legal requirement, this additional data provides in depth information to community members and those interested in the financial condition of the district. Governmental entities may apply for reporting awards given by ASBO (Association of School Business Officials International -Certificate of Excellence in Financial Reporting Program) and GFOA (Government Finance Officer's Association- Certificate of Achievement for Excellence in Financial Reporting). For additional information please contact these organizations (listed in the CONTACTS SECTION).

INVESTMENT AND CASH MANAGEMENT

I. *Introduction to Investment/Cash Management*

Local Government officials hold a special place of trust in our society. It is imperative that public officials be accountable for decisions that bear on their communities. Investment of school district funds is an area which provides an opportunity for officials to show prudent and well-planned efforts in order to protect public money, to assure continued operation of school services and, within these constraints, to maximize return on investments.

II. *Goals*

Boards of Education should develop investment practices and policies consistent with four major goals. The goals of *legal investments safety of funds liquidity of funds* and *yield* should be utilized in determining school district investment and cash management policies and procedures.

III. *Legal Investments*

The first objective of school district investment and cash management policy is to ensure that all funds are deposited and invested in accordance with state statutes and resolutions enacted by the local school board.

A. *Eligible Public Depositories*

1. All state and national banks with an office in the State of Colorado which are insured by the FDIC and which are approved as eligible public fund depositories by the State of Colorado Banking Board. C.R.S. 11-10.5-103(6).
2. All state and federally chartered savings and loan associations with an office in the State of Colorado which are insured by the FDIC and which are approved as eligible public fund depositories by the State of Colorado Division of Financial Services (11-47-103(6)).

B. *Eligible Securities Broker/Dealers and Banks*

Procedures for selection of eligible securities brokers and banks should be established by district policy. The following are classifications of securities brokers:

1. Securities dealers and banks which are designated as reporting dealers by the Federal Reserve Bank of New York (primary dealers).
2. National and state banks, state and federally chartered savings and loan which have been approved by the Colorado Banking Board and/or the Division of Financial Services as an eligible public

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depository in the State of Colorado and which may be approved by the local board of education.

3. Securities dealers which are not designated reporting dealers by the Federal Reserve Bank of New York and are approved by the board of education.

C. **Eligible Investment Instruments**

The Public Deposit Protection Act (PDPA) requires school districts to deposit public funds only in approved institutions (see Eligible Public Deposits under Legal Investments). All investments must be for five years maturity or less unless the governing body of the public entity authorizes investment for such a period in excess of five years. C.R.S. 24-75-601.1

Public funds shall not be invested in a security on which the coupon rate is not fixed from settlement until maturity, other than shares in qualified money market mutual funds, unless the coupon rate is established by references to specified rate indexes, such as the US Dollar London Interbank Offer Rate, or on a US Treasury maturity with a maturity of one year or less, the rate must be expressed as a positive value of the referenced index plus or minus a fixed number of basis points.

The following are securities eligible for investment by school districts in the State of Colorado. C.R.S. 24-75-601, *et seq.* (Refer to State of Colorado, Division of Local Government, Financial Management Manual.)

1. U.S. Treasury Bills/Notes/Bonds
Federal Farm Credit Bank
Federal Land Bank
Federal Home Loan Bank
Federal Home Loan Mortgage Company
Federal National Mortgage Association
Export-Import Bank
Government National Mortgage Association
2. Obligations of any other U.S. agency if control of the agency by the U.S. is at least as extensive as those investments mentioned above.

Caution: While these government securities are eligible investments, care should be taken to determine that pool investments and actual government securities are not based on derivatives.

3. Obligations of the World Bank, Inter-American Development Bank, African Development Bank.

INVESTMENT AND CASH MANAGEMENT

Limitations: The security must have one of the two highest rating categories of at least one nationally recognized rating agency at the time of purchase.

4. General Obligation (G.O.) Bonds of any state, District of Columbia, U.S. Territory, or any of their subdivisions.

Limitations: The security must have one of the three highest rating categories of at least one nationally recognized rating agency at the time of purchase.

5. Revenue bonds of any state, District of Columbia, U.S. Territory or any of their subdivisions.

Limitations: The security must have one of the two highest rating categories of at least one nationally recognized rating agency at the time of purchase.

6. Banker's acceptance issued by state or national bank.

Limitations: The bank must have combined capital and surplus of at least \$250,000,000. Deposits must be FDIC insured. The bank's long term debt must have one of the three highest ratings of at least one nationally recognized rating agency at the time of purchase.

7. Commercial paper.

Limitations: The security must have the highest rating from at least one nationally recognized rating agency at the time of purchase.

8. Any obligation, certificate of participation or lease/purchase of the investing public entity.

9. Investment Pools
Any interest in any local government investment pool pursuant to Section 24-75-701, et seq., C.R.S.

The securities commissioner maintains a list of active local government investment pool trust funds, located at the division of securities, 1580 Lincoln Street, Denver Co 80203. Phone: 303-894-3320.

10. Repurchase agreements in securities listed in 1 or 2 above.

INVESTMENT AND CASH MANAGEMENT

Limitations: The securities must be marketable. Market value must be equal to the funds invested at all times. Title or perfected security investment must be transferred to the public entity or its custodian. Securities must be delivered to the public entity or the third party custodian or trustee for safekeeping.

11. Money market funds.

Limitations: The fund must be registered as an investment company. Investment policies of the fund must include an attempt to maintain a constant share price. No sales/load fee can be added to the purchase or redemption price. The fund invests only in securities that have a remaining maximum maturity as specified in rule 2a-7 of the federal "Investment Company Act of 1940 as amended", as long as such rule or amendment to it does not increase the maximum remaining maturity to a period greater than three years. The fund has assets of one billion dollars or more, or has the highest credit rating from one or more nationally recognized rating agency.

The Investments must consist only of the following:

- a. The securities listed in 1 through 10 above or
- b. Perfected reverse repurchase agreements which mature within 30 days and which provide for the simultaneous sale and repurchase by the fund, at a future date of securities listed in 1 through 10 above, or
- c. Securities not listed in 1 through 10 above that are tax exempt and do not exceed 15 percent of investments of the fund, and
- d. The dollar-weighted average portfolio maturity of the fund meets the requirements of rule 2a-7, or amendments to it, so long as such rule or amendment to it does not increase the dollar-weighted average portfolio maturity to a period greater than 180 days.

12. Guaranteed investment contract.

Limitations: The contract must be issued by an insurance company with a Colorado certificate. The security must be rated in the highest rating category by at least one nationally recognized rating agency at the time of purchase. The contract must be purchased with the proceeds of the sale of securities or the proceeds of a certificate of participation or a lease-purchase agreement. No refunding bond escrow may be invested.

INVESTMENT AND CASH MANAGEMENT

13. U.S. dollar-denominated corporate or bank debt.

Limitations: Issued by a corporation or bank organized and operated within the United States with a net worth in excess of \$250,000,000; the notes must mature within three years and must carry at least two credit ratings not below "AA- or Aa3" from any nationally recognized credit rating agency; the book value of investment in this type of debt shall at no time exceed 30 percent of the book value of the government's investment portfolio, or 5 percent of the book value of the entity's investment portfolio if the notes are issued by a single corporation or bank.

IV. *Safety of Funds*

The second objective of school district investment and cash management policy is to ensure the safety of the district's financial assets. **The district should not enter into investment transactions which will expose it to undue credit risk of an issuer or broker/dealer.**

- A. **The district should investigate the condition of financial institutions before committing district funds.** In most publications, banks and savings institutions are evaluated by comparing them to other similar institutions in a number of areas. These areas include size and growth, loan exposure, capital adequacy, asset quality, earnings and liquidity. **References available at the end of this section.**
- B. **When depositing public funds in banks and savings and loan associations, the PDPA requires the institution be designated as an "eligible public depository" institution, pursuant to Sections 11-10.5-101 and 11-47-101.** The PDPA Act of 1989 requires banks to apply or reapply for designation as an eligible public depository, C.R.S. 11-10.5-106. In addition, every public entity must apply to the State of Colorado Bank Board for a public depository account number. This number must be given to any bank with which the district does business, C.R.S. 22-40-105 and C.R.S. 22-32-107. **Districts should seek legal advice if they are contemplating any investment or deposit outside of the state.**

When the board of education of a school district has elected to have all moneys belonging to the district paid over to the treasurer of said board, the treasurer, or such other custodian appointed by the board, shall deposit or cause to be deposited, all such moneys in such depositories as shall be designated by such board. C.R.S. 22-40-105, 22-32-107 and 24-75-601 (Funds - Legal Investments) *et seq.*

"Eligible Public Depository" means the depository has met the required criteria, including the deposits are insured by federal deposit insurance;

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that the bank meets capitalization standards set by the Banking Board; and that the bank agrees to abide by all PDPA requirements (see the State Auditor's Handbook, C.R.S. citations 11-10.5-101 and 11-47-103(6)). Note, eligible Public Depositories are limited to depositories operating within the state.

- C. When a school district deposits funds in a state approved bank or savings and loan institution, the FDIC will insure these deposits up to a maximum amount. The FDIC may extend federal insurance to funds segregated in a separate Bond Redemption Fund. Amounts deposited in excess of the maximum amount are not insured by FDIC but are covered by the collateral provisions of the PDPA.
- D. With the Bond Redemption Fund excluded, the amount of the total deposit is defined as the total of all school district deposits even if different funds and accounts are involved. Separation of deposits by funds, account or designated custodian usually will not extend the total amount insured by the FDIC.
- E. "As an ongoing requirement of designation as an eligible public depository, any such depository shall pledge collateral having a market value in excess of one hundred two percent of the aggregate uninsured public deposits." C.R.S. 11-10.5-107(5).

The PDPA requires that the uninsured portion of a school district's deposits be protected through collateralization by the bank or savings and loan institution. The bank or savings and loan is required to certify sufficient collateral to cover uninsured public funds to state agencies on a regular basis. This certification of collateral is made to the state banking commissioner or savings and loan commissioner.

- F. School districts may wish to follow a general rule regarding diversification or "spreading around" of investments because of possible delays in the recovery of money in the event of institutional failure. If an institution fails, it is recommended that a school district be prepared to meet two months of regular operating obligations. School districts may wish to seek legal counsel, advice from their independent auditor and inform the Colorado Department of Education.

V. *Liquidity of Funds*

The third objective of school district investment and cash management policy is to ensure that adequate funds are available to pay the district's financial obligations when due.

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- A. Investment transactions will be completed taking into account the cash needs of the district. This means that some investments need to be planned so that no principal or interest loss is likely if early liquidation or "cashing in" is necessary. Other, longer term investments may be handled differently and may include securities which have to be held to full term in order to realize full yield and/or protection of principal.
- B. Cash management means that money on hand, while not presently needed for disbursement, will be needed at a future date. In the meantime, this money should be generating a reasonable rate of return. The goal is simply to maximize income on the district's cash through safe, short-term investments. In order that availability of the money be guaranteed at some future date, any investment should have essentially no principal risk associated with it. This general rule is consistent with the purpose and language of the PDPA.
- C. Many school districts have only a small percentage of time to devote to cash management and may not have the experience required to actively manage an investment portfolio. With these constraints in mind, many school districts will follow a course of "passive" investment management rather than a more active approach. The passive management approach involves buy-and-hold purchases which involve a minimum of day-to-day management and little risk. Bank or savings and loan certificates of deposit are often used. Active management, on the other hand, is characterized by purchasing and selling of securities to respond to cash flow requirements. Whether a school district investment manager takes a passive or active approach is determined by the three factors of time, experience and policy.

VI. *Yield*

The fourth objective of school district investment and cash management policy is to earn a market rate of interest on available funds throughout the budget cycle. In meeting this objective, investment management personnel will take into account the district's investment risk constraints and cash flow needs.

VII. *Other Items*

In addition to the four primary guiding goals recommended for use in investment/cash management, the district must also be aware of other important items.

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A. *Safekeeping of Securities*

If the district buys or sells securities it should establish a safekeeping account with a bank to serve as custodian for any marketable securities owned by the district. Institutions issuing certificates of deposit will keep the certificates of deposit and send the district a safekeeping receipt.

1. By law, districts must hold title to any securities purchased. These securities may actually be physically held by the district (this is almost never done) or may be held in third party safekeeping, which is the usual method.
2. For repurchase agreements (repos), it is imperative that the district or the third party custodian take delivery of the repurchase agreement collateral. This ensures a perfected security interest in the collateral security. Repurchase agreements will be collateralized at a minimum of 100 percent of the market value of the repurchase agreement. At all times, market value must be at least 100 percent of the funds invested. For that reason, it is recommended that repurchase agreements be collateralized at 103 percent.
3. There is a cost associated with the safekeeping of securities by a third party custodian. The district may desire to work with its local bank(s) to arrange reasonably priced safekeeping services.

B. *Competitive Participation*

The district should seek competitive quotes on its investments.

C. *Documentation*

All purchases and sales of investments should be authorized or confirmed in writing with the issuer. This confirmation can be in the form of electronic transmission such as E-mail or facsimile. Internal controls (for example, separation of duties) should be established to ensure the integrity of the investment process.

Many investment transactions are conducted electronically and their requirement for written authorization may be inappropriate. In this case confirmation in the form of annotated documentation or any monthly investment reports issued should be retained.

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D. *Reporting*

The board of education should receive a periodic (monthly, quarterly) report listing all of the investments of the district. The report should include a summary of investment earnings during the calendar year. The report should be presented so as to show the level of investments in securities and various investment institutions. An annual report should be provided which will give the rate of return for the year for pooled funds or separately invested funds.

This policy can be written to promote a reporting format which will allow a board of education to examine investment practices for compliance with policy and to evaluate the success of the program in terms of its stated objectives.

The district should conduct regular and/or unscheduled reviews of all of the investment transactions. Problems or concerns found in these reviews should be reported to the appropriate district personnel.

This may be accomplished through the regular annual independent audit or by the independent auditor on a more frequent basis. In small districts, an annual audit may serve as the required review and a policy written for such a district would reflect this provision

VIII. *Investment Characteristics of Specific School District Funds*

The cash management approach, while generally using short-term investments, is guided by the type of fund having cash to invest. The following schedule lists the various school district funds and probable investment strategies. Consolidating cash into a pooled investment account will provide an effective method of maximizing interest returns.

A. *General Fund Investment Characteristics*

Little or no permanent reserve may be available for long-term investment. Revenue and disbursements are subject to prediction with reasonable accuracy. The investment period usually ranges from one day to several months, although some extended investments may be possible. Likely investments include all deposits and securities, which meet the cash flow needs of the district.

B. *Bond Redemption Fund Investment Characteristics*

Definite knowledge of cash requirement dates is necessary for investments from this fund. The revenue flow for this fund is predictable, with investment periods being based on the required dates of debt service

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payments usually one to several months. Likely investments may include certificates of deposit and other permitted investments.

C. *Building Fund (Capital Projects Fund) Characteristics*

Cash is usually available prior to a project's start and cash needs are subject to reasonable prediction. Major variables do exist. Investments can be for longer periods with staggered maturities to meet expected construction draws. Long-term investments with flexibility in draw schedule may be appropriate. Investments may include certificates of deposit which do allow for flexible withdrawal after some minimum period, long-term repurchase agreements and treasury and agency obligations. Federal arbitrage laws may apply to investment earnings.

D. *Capital Reserve/Insurance Reserve Fund Characteristics*

Revenue flow is predictable. Disbursement flow, for the most part, can be controlled. Investment periods vary from one to several months and may be longer than a year, depending on the expenditure plan. Investments are planned based on revenue timing and expected cash needs. Investments might include certificates of deposit and treasury agency securities, which mature to meet cash flow needs.

E. *Food Service and Pupil Activity Funds Characteristics*

These are unique funds in terms of fluctuation and variability of amounts available for investment. Usually, long-term investments are not possible. Investment periods range from one day to one month or longer. Depending on the amounts involved, investments might include savings deposits, investment pools and repurchase agreements.

F. *Federal Deposits*

See *Fiscal Guidance for Federal Programs* in **Appendix A**. Policies governing interest earnings from federal funds are discussed in Appendix A.

IX. *Development of Board Policy and Procedures for Investments/Cash Management*

The importance of a formal investment policy cannot be over emphasized. A formal document does the following:

- A. Places the burden of responsibility with the governing body. Policy development requires that a board of education recognizes the importance of the investment of district monies and oversee this part of the district's

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financial program. An individual in the district should be formally appointed to fulfill this function.

- B. Provides guidelines and standards of performance for the person in the district who is responsible for the day-to-day cash management function.
- C. Lets the public know that the district recognizes the need for prudent, profitable investment of public money and that appropriate guidelines and procedures are in place.

X. *Borrowing and Creation of Debt*

A. *Short Term Loans*

A board of education is authorized to borrow money for the General Fund on a short-term basis. Limits on the amount to be borrowed and interest rates are defined by statute. Such loans must be repaid within six months of the close of the fiscal year from money subsequently credited to the General Fund. C.R.S. 22-40-107.

B. *Creating Debt*

1. *Voter Approval of Debt*

The Colorado Constitution, Article XI, Section 6, provides that a political subdivision of the state, which includes a school district, cannot contract a general obligation debt by loan in any form unless the debt is approved by the voters. Generally, no debt is created by an obligation that can be met out of current revenues and which does not obligate payments out of future revenues. As interpreted by the courts, discretionary or contingent obligations do not constitute debt.

2. *Bonded Indebtedness*

All bonded indebtedness obligations of a school district must fall within one or more of the purposes set out in statute and be approved at an election. C.R.S. 22-42-101 *et seq.*

- a. In general terms, bonded indebtedness may be incurred for acquiring or purchasing buildings or grounds, for remodeling or adding to any school building, for constructing school buildings, for equipping or furnishing buildings and improving school grounds.
- b. Each school district shall have a bonded indebtedness limit of 20 percent of the latest assessed valuation unless the

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district meets the requirements as a growth district or 6 percent of the most recent determination of actual value of the taxable property as certified by the county assessor. C.R.S. 22-42-104. The limit on bonded indebtedness of high growth districts as defined by statute shall be 25 percent of assessed valuation C.R.S 22-42-104(1.3).

- c. When a district has issued bonds in accordance with the statute, it shall certify to the county commissioner the amount needed for its Bond Redemption Fund to pay all installments of principal and interest of bonds, and all other related expenditures which shall become due and payable during the next fiscal year. This is in addition to the requirement of certifying to the board of county commissioners a statement showing the amount necessary to raise from the taxable property of the district for the General Fund. C.R.S. 22-42-117(1).

The board has authority to include in each amount certified for the Bond Redemption Fund, an amount to create a reserve for redemption purposes, within certain statutory limitations. The reserve is limited to a total of not more than one mill on the current valuation for assessment at any one time to be available for prior redemption purposes. C.R.S. 22-42-117(2).

- d. The county treasurer shall not collect any fee for moneys received by virtue of a tax levied for the Bond Redemption Fund. C.R.S. 22-42-118(4). The treasurer may collect a fee for services rendered if his office is designated as a place of payment for bonds, but only when the treasurer has a financial institution perform this service.
- e. Proceeds from the sale of bonds remaining after the completion of the project for which the bonds were issued may be transferred to the Bond Redemption Fund. Money remaining in the Bond Redemption Fund in a particular account after all obligations of that particular account have been paid shall be transferred to another account in the Bond Redemption Fund. Money remaining in the Bond Redemption Fund after all obligations of bonded indebtedness have been paid--including refunded issues--shall be transferred to the General Fund. C.R.S. 22-44-112(4) and 22-45-103(1)(b)(IV).

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- f. Bonds paid, redeemed and returned to the school district shall be preserved by the school district treasurer for a period of one year. C.R.S. 22-42-119(5).
- g. In case of default, the state treasurer shall withhold the amount due to the paying agent from the state's share of equalization program funding to the district. C.R.S. 22-41-110(3).

3. Refunding Bonds

School districts may issue bonds for the purpose of refunding any of the bonded indebtedness of the district. C.R.S. 22-43-101 *et seq.*, stipulates that both the net interest costs and the principal amounts of the refunding bonds must not exceed those of the bonds refunded without a favorable vote of the electorate. For the purpose of calculating the limitation on the aggregate amount of bonded indebtedness only, refunded bonds shall not be deemed outstanding indebtedness from and after the date on which sufficient moneys are placed with the paying agent of such bonds. C.R.S. 22-43-107(5). The issuance of refunding bonds does not have to be approved at an election, unless the net interest cost or net effective interest rate exceeds those of the outstanding bonds to be refunded. C.R.S. 22-43-103(2).

Refunding bonds are issued to refinance outstanding bonds that are available for redemption. The purpose of refinancing is to reduce the rate of interest, to reduce the total cost of an outstanding bond issue and, in some cases, to reduce the payment schedule. Refunding involves the sale of a new issue of bonds. The revenue derived from the new issue is used to refinance the original outstanding bonds. After being refinanced, the original outstanding bonds are called refunded bonds.

- a. The current refunding process involves the following steps:
 - (1) Refunding bonds are sold.
 - (2) A notice of refunding is published or mailed, informing bondholders of the refunding and requesting all involved bondholders to surrender old bonds for payment.
 - (3) The original outstanding bonds are retired through the use of the proceeds obtained from the refunding process. Depending on the call date of the refunded bonds, the proceeds obtained by refunding will either

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be used immediately to retire the original outstanding bonds or be held for up to 90 days by a bank with trust powers in an escrow account. Moneys placed in escrow must be applied to the payment of the original outstanding bonds upon their redemption.

4. Advance Refunding

An "advance refunding occurs when the refunded bonds are retired more than 90 days after issuing the refunding bonds." An advance refunding also involves the sale of a new issue of bonds. The proceeds derived from the sale of the refunding bonds are invested in U.S. Government Securities which are held in an escrow account until moneys are needed to pay interest and the principal of the refunded bonds when due upon maturity or early redemption.

- a. The advance refunding process involves these steps:
 - (1) Advance refunding bonds are sold.
 - (2) Notice of refunding is published or mailed informing bondholders of the refunding and providing instructions for the payment of their bonds.
 - (3) Proceeds from the issue of advance refunding bonds are invested in U.S. Government Securities which will mature in time to pay interest on and the principal of all of the outstanding refunded bonds when due and any premium due if such bonds are called for early redemption.
 - (4) The principal and interest payments of the bonds to be refunded are paid from the escrow account until these bonds mature or are available for redemption, depending on the program deemed most advantageous for the school district.
 - (5) The U.S. Government Securities previously invested in are used to call outstanding bonds available for redemption and pay any call premium.
- b. These refunding processes and statutes are very complex and should be attempted only after careful consideration with a reputable investment banker and a bond attorney with experience in this field. C.R.S. 22-43-101 *et seq.*

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C. **Tax Anticipation Notes**

1. A school district may issue tax anticipation notes without an election if the board of education determines that taxes to be received by the district will not be received in time to pay the district's projected budgeted expenses. C.R.S. 29-15-101 *et seq.*
 - a. Tax anticipation notes shall be both issued and made payable within the fiscal year for which such taxes are levied.
 - b. The notes may be paid from the proceeds of *ad valorem* taxes on real and personal property, investment proceeds on the property taxes or proceeds from the tax anticipation notes.
 - c. The notes shall not exceed fifty percent of all taxes estimated to be received by the district in its current fiscal year, as shown by its current budget. C.R.S. 29-15-106.

D. **Installment Purchase**

The constitutional limitation on debt is reflected in the statutes pertaining to installment purchase agreements and leases with an option to purchase.

1. The district is required to submit any installment purchase or lease agreement to a vote of the people when the terms of the agreement extend beyond one year because the obligation to make payments constitutes an indebtedness of the district. C.R.S. 22-32-127. This same restriction is placed on expenditures from the Capital Reserve Fund for installment purchase or lease agreement with an option to purchase for a period exceeding one year and not to exceed twenty years. C.R.S. 22-45-103(c)(II.5).
2. The election requirement does not apply to these agreements, even though the terms thereof may be greater than one year, if the district's obligation to make payments under the agreement is expressly subject to the making of annual appropriations. C.R.S. 22-45-103(c)(II.5); 22-32-127(6).

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E. *Loans to Alleviate Cash Flow Problems*

"Beginning July 1, 1992," upon approval of application by a district, the State Treasurer shall provide sufficient funds in the form of an interest-free loan from the State General Fund in order to assure that the district, together with any payment of the state's share of equalization program funding and any property tax revenues, receives in each month of the budget year, one-twelfth of the amount of equalization program funding to which it is entitled for the fiscal year." C.R.S. 22-54-110.

"A loan may not be made under this section to provide assistance for matters eligible for payment from the contingency reserve pursuant to section 22-53-124 or to cover a foreseeable level of uncollectible property taxes, nor may a loan be used by a district for the simultaneous purchase and sale of the same security or an equivalent security in order to profit from price disparity." C.R.S. 22-54-110(1b).

XI. *References*

The following are recommended reference materials for your district's finance library:

1. *Investing Public Funds*, Gerard Miller, Government Finance Offices Association (GFOA), 180 N. Michigan Ave., Chicago, IL 60601.
2. *Manual on Cash Management and Investments*, State of Colorado, Division of Local Government. (Explains Investment Statute of 1989 and Public Deposit Protection Act of 1989.)
3. *Rating Agency of Financial Institutions:*
Veribanc, Inc.
P.O. Box 461
Wakefield, MA 01880
(617) 245-8370
4. Sheshunoff Quarterly Bank Report
5. *State of Colorado Financial Management Manual, A Guide for Colorado Local Governments*, Revised 9/98.

GLOSSARY

Abatements - A complete or partial cancellation of a levy imposed by a government. Abatements usually apply to tax levies, special assessments and service charges.

Account - A record used to summarize all increases and decreases in a particular asset or any other type of asset, liability, fund equity, revenue, or expenditure.

Accountability Committee - The State Accountability Committee consists of 18 members who assist the State Board of Education in performing its duties by studying the effectiveness of the public school districts and recommending improvement strategies to the State Board of Education. Local Accountability Committee members are appointed by the local board of education. The advisory accountability committee consists of at least one parent, one teacher, one school administrator, and a taxpayer from the district. This committee makes recommendations to the local board relative to the accountability program.

Accounting Period - A designated number of days that separate accounting transactions into definite and distinct segments.

Accounts Receivable - Amounts which a district expects to collect for services rendered to the public.

Accounts Payable - Amounts which the district owes to its creditors for goods and services.

Accrual Basis - A basis of accounting which calls for recording revenue in the period in which it is earned and recording expenses in the period in which they are incurred. (See also *Modified Accrual Basis*).

Accrual for Salaries and Benefits - Salaries and benefits of teachers and other contracted personnel are paid over a 12-month period, typically from September 1 through August 31. These salaries and benefits, however, are earned over a period of approximately nine months. This situation results in an outstanding liability for accrued salaries and benefits at the end of the fiscal year.

Accrue - To record revenues when earned or when levies are made, and to record expenditures as soon as they result in liabilities, regardless of when the revenue is actually received or the payment is actually made. Sometimes the term is used in a restricted sense to denote the recording of revenues earned but not yet due, such as accrued interest on investments and the recording of expenditures which result in liabilities that are payable in another accounting period, such as accrued interest on bonds.

Ad Valorem Taxes - Taxes levied on the assessed valuation of real and personal property located within the boundaries of the district which is the final authority in determining the amount to be raised for education purposes.

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Advance Refunding Bonds - Bonds issued to refinance an outstanding bond issue before the date the outstanding bonds become due or callable. Proceeds of the advance refunding bonds are deposited in escrow with a fiduciary, invested in U.S. Treasury Bonds or other authorized securities and used to redeem the underlying bonds at their maturity or call date, to pay interest on the bonds being refunded, or to pay interest on the advance refunding bonds.

ADAP - See *Annual Data Acquisition Plan*.

Agencies - Federal Agency securities.

Agency Fund - A fund used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and /or other funds.

Aggregate Uninsured Public Deposits - The total amount of cash, checks, or drafts on deposit at the close of a business day for credit to the official custodian accounts in an eligible public depository, and which are either not insured by or are in excess of the insurable limits of federal deposit insurance.

AICPA - See *American Institute of Certified Public Accountants*.

American Institute of Certified Public Accountants - The national professional association of certified public accountants (CPAs). The organization carries on extensive research and is influential in improving accounting standards and practices.

Amortization - (1) The portion of the cost of a limited-life or intangible asset charged as an expense during a particular period. (2) The reduction of debt by regular payments of principal and interest sufficient to retire the debt by maturity.

Amortization Schedule - A schedule of debt service payments separating the portions of payments attributable to principal and interest.

Annual Data Acquisition Plan (ADAP) - The Annual Data Acquisition Plan is a catalog of report forms which all or most school districts must complete and submit to the Colorado Department of Education during the school year.

Appropriation - The setting aside by resolution of a specified amount of money for a fund with an authorization to make expenditures and incur obligations for specific purposes.

Appropriation Resolution - A formal resolution by a board of education to set aside a specified amount of money for a fund with an authorization to make expenditures and incur obligations for specific purposes.

GLOSSARY

Arbitrage - The investment of the proceeds from the sale of bonds in a taxable instrument that yields a higher rate, resulting in interest revenue in excess of interest costs.

Assessed Valuation (AV) - A valuation set upon real estate or other property by a government as a basis for levying taxes.

Asset - A probable future economic benefit obtained or controlled by a particular entity as a result of past transactions or events.

Assurance - A statement in the audit that can be either positive or negative. A positive assurance consists of a statement by the auditors that the tested items were in compliance with applicable laws and regulations. Negative assurance is a statement that nothing came to the auditors' attention as a result of specified procedures that caused them to believe the untested items are not in compliance with applicable laws and regulations.

Audit Finding - In the context of a financial audit, a weakness in internal controls or an instance of noncompliance with applicable laws and regulations that is presented in the audit report in conformity with Generally Accepted Government Auditing Standards (GAGAS). A typical audit finding is composed of a statement of the condition and the criterion or criteria used to define it, an explanation of the cause of the condition, a discussion of its results and recommendations for improvement. Findings ordinarily are presented together with a response from management, which states management's concurrence or non-concurrence with each finding and its plan for corrective action.

Auditing - The principal activity of a certified public accountant (CPA). It consists of an independent examination of the accounting records, the internal control system, and other evidence relating to the district to support the expression of an impartial expert opinion about the reliability of the financial statements.

Auditor's Opinion - A statement in the Comprehensive Annual Financial Report signed by an independent auditor in which the auditor announces the financial statements have been examined in accordance with generally accepted auditing standards, with any noted exceptions. The auditor expresses an opinion on the financial position and the results of operations of some or all of the constituent funds and balanced account groups of the government.

AV - See *Assessed Valuation*.

Average Daily Membership - For budget years prior to 1989, the average daily membership for a given school is the aggregate day membership of the school divided by the number of days school was actually in session. Only days on which pupils were under the guidance and direction of teachers in the teaching process were considered days in session. The average daily membership for

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groups of schools having varying lengths of terms was the sum of the average daily memberships obtained from the individual schools.

BA - See *Bankers' Acceptance*.

BAN - See *Bond Anticipation Note*.

Balance Sheet - A financial statement which shows the financial position of a school district by summarizing the assets, liabilities, and fund equity at a specific date.

Bank - Any bank organized or chartered under Articles 1 to 11 of C.R.S. 11-10.5-101, Protection of Deposits of Public Moneys, or any bank organized or chartered under Chapter 2 of Title 12 of the United States Code.

Bankers' Acceptance (BA) - A draft of bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Banking Board - The banking board established by C.R.S. 11-2-102.

Basis of Accounting - A term used to refer to when revenues, expenditures, expenses, and transfers - and the related assets and liabilities - are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the nature of the measurement, on either the cash or the accrual method.

Bid - The price offered for securities.

Board of Education (BOE) - The Board of Education for a school district. Each school district is to be governed by a board of education consisting of the number of school directors prescribed by law. The board possesses all powers delegated to a board of education or to a school district by law, and performs all duties required by law.

Board of Cooperative Educational Services (BOCES) - A regional educational service unit designed to provide supporting, instructional, administrative, facility, community or any other services contracted by participating members.

BOCES - See *Board of Cooperative Educational Services*.

BOE - See *Board of Education*.

Bond Anticipation Note (BAN) - Short term interest-bearing note issued to finance the early stages of a construction project to be financed by bonds.

Bonded Indebtedness - The amount of principal and interest remaining to be paid from a bond issue.

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Borrowing - A board may, by resolution, authorize the borrowing of unencumbered money from one fund to another (except the Bond Redemption Fund). Such money must be repaid when needed by the lending fund, but in any event must be repaid within three months after the beginning of the following budget year.

Broker - A broker brings buyer and sellers together for a commission paid by the initiator of the transaction or by both sides; he/she does not position. In the money market, brokers are active in markets in which banks buy and sell money and interdealer markets.

Budget - A summary statement of plans expressed in quantitative terms; a forecast of future events including anticipated revenue and expenditures, and the financial position of the district at some future point in time.

Building Fund - (Also known as Capital Projects Fund.) Used to account for all resources used for acquiring capital sites, buildings, and equipment as specified by the related bond issue. Capital projects funds are designated to account for requisition or construction of capital outlay assets which are not acquired directly by the General Fund, Special Revenue Funds, or Enterprise Funds. Capital Projects have been developed to account for the proceeds of a specified bond issue and revenue from other possible sources which is designated for capital outlay.

C.C.R. - See *Colorado Code of Regulations*.

C.R.S. - See *Colorado Revised Statutes*.

CAFR - See *Comprehensive Annual Financial Report*.

Capital Outlay - An expenditure which results in the acquisition of fixed assets or additions to fixed assets which are presumed to have benefits for more than one year. It is an expenditure for land or existing buildings, improvements of grounds, construction of buildings, additions to buildings, remodeling of buildings, or initial, additional, and replacement of equipment.

Capital Reserve Fund - A type of "special revenue fund" whose uses and limitations are specified by legal authority in C.R.S. 22-45-103(1)(c).

Career Education - The effort of public education and the community aimed at helping all individuals to become familiar with the values and techniques of a work-oriented society, to integrate these values in their personal value systems, and to make practical application of these values in their lives.

Cash Receipt - A document generated to record and enter the receipt of money.

GLOSSARY

Catalog of Federal Domestic Assistance (CFDA) - The Catalog of Federal Domestic Assistance is a government-wide compendium of Federal programs, projects, services, and activities which provide assistance or benefits to the American public. It contains financial and nonfinancial assistance programs administered by departments and establishments of the Federal government.

Categorical Buyout Program - For districts where the mill levy is less than the standard levy, and the property tax has not increased to the allowed maximum, an increase in levy occurs to buy out categorical funding. The district receives the funding in the form of property tax revenues instead of categorical state aid. No district levy increases by an amount which causes the levy to exceed the standard mill levy or the property tax amount to increase more than the allowed maximum.

Categoricals - Reimbursement programs (either state or federal) limited to a specific purpose. State categoricals include Increased Enrollment, Transportation, English Language Proficiency Act (ELPA), Exceptional Children's Educational Act (ECEA), and Vocational Education.

CDE - See *Colorado Department of Education*.

CDE-18 - The report of a school district's or a BOCES adopted budget. The form is required to be sent to CDE 30 days after the beginning of the budget year.

CDE-3 - The Schedule of Revenues and Expenditures for school districts and BOCES. The form is required to be sent to CDE seven months after the last day of the fiscal year. This form must be a part of the CAFR.

Central Support Services - Activities, other than general administration, which support each of the other instructional and supporting services programs. These activities include planning, research, development, evaluation, information, staff, statistical and data processing services.

Certificate of Achievement for Excellence in Financial Reporting Program - A voluntary program administered by the Government Finance Officers Association to encourage governments to publish efficiently organized and easily readable CAFR's and to provide technical assistance and peer recognition to the finance officers preparing them.

Certificate of Participation - School districts frequently enter into installment purchase agreements and leases with an option to purchase in lieu of issuing general obligation bonds. C.R.S. 22-32-127 requires that such agreements be submitted to a vote of the people if they represent long-term indebtedness. Lease-purchase arrangements with "subject to annual appropriation" clauses with the title residing with the building authority, contractor or financial institution, do not require a vote of the people. A common financing vehicle used for any of these arrangements is certificates of participation whereby the building authority or financial institution

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representing the lessor sells fractional interests or shares in the lease-purchase agreement to investors.

Certificate of Deposit (CD) - A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

Certified Public Accountant - An accountant to which a state has granted a certificate showing that he or she has met prescribed educational, experience, and examination requirements designed to ensure competence in the practice of public accounting.

CFDA - See *Catalog of Federal Domestic Assistance*.

Chart of Accounts - A list of accounts systematically arranged, applicable to a specific concern, giving account names and numbers, if any. A chart of accounts, accompanied by descriptions of their use and of the general operation of the books of account, becomes a classification or manual of accounts - a leading feature of a "system of accounts."

Check - A bill of exchange drawn on a bank payable on demand; a written order on a bank to pay on demand a specified sum of money to a named person, to his order, or to bearer out of money on deposit to the credit of the maker.

Cocurricular Activities - A group of school-sponsored activities (experiences), under the guidance or supervision of qualified adults, designed to provide opportunities for pupils to participate in such experiences on an individual basis, in small groups, or in large groups - at school events, public events or a combination of these - for such purposes as motivation, enjoyment, and improvement of skills. In practice, participation usually is not required and credit usually is not given. When participation is required or credit is given the activity generally is considered to be a course.

Collateral - Securities, evidence of deposit or other property which a borrower pledged to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public moneys.

Colorado Department of Education (CDE) - C.R.S. 24-1-115 created the Department of Education which consists of the State Board of Education, the Commissioner of Education, Assistant Commissioners of Education, and other officers and employees of the department and the state library.

Colorado Revised Statute (C.R.S.) - The official laws of the State of Colorado.

Colorado Code of Regulations (C.C.R.) - The Rules and Regulations adopted by the State Board of Education.

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Commercial Paper - Short-term negotiable instruments arising out of commercial transactions.

Commodities - Foods donated by the United States Department of Agriculture for use in Child Nutrition Programs. Commodities are distributed by the Donated Foods Unit of the Colorado Department of Social Services.

Community Services - Services, other than public school and adult education functions, provided by the school for purposes relating to the community as a whole or some segment of the community. These include such services as community recreation programs, civic activities, public libraries, programs of custody and care of children, community welfare activities, and services for nonpublic school pupils provided by the public schools on a continuing basis.

Compensation for Loss of Assets - Compensation or insurance recoveries for loss of school property.

Component Unit - A separate governmental unit, agency, or nonprofit corporation that is combined with other component units to constitute the reporting entity. Examples include a building authority or a library unit.

Comprehensive Annual Financial Report (CAFR) - The Comprehensive Annual Financial Report of a school district should include an Introductory Section, a Financial Section, and Combining and Individual Fund and Account Group Statements and Schedules. It should also include narrative explanations, statistical tables, and appropriate schedules. It should be prepared and published seven months after the close of the fiscal year and should contain the report of the independent auditor together with a letter(s) of transmittal and such other information as management deems appropriate.

Consultant - A person who gives professional or technical advice and assistance. A consultant may perform his services under contract (purchased services) or he may be an employee on the payroll of a state agency.

Contingency Reserve - C.R.S. 22-45-103 requires a school district to establish a contingency reserve of a minimum amount of not less than two percent by FY1994-95. Moneys in the Contingency Reserve shall be available for use by the school district for emergencies and other contingencies.

Contracted Services - Services rendered by personnel who are not on the payroll of the district, including all related expenses covered by the contract.

COP - See *Certificate of Participation*.

County Public School Fund - C.R.S. 22-53-120 established a continuing fund known as the county public school fund, into which shall be paid the proceeds of all county school moneys. Each district in the county shall be entitled to receive

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distribution during the budget year of moneys in the fund in the proportion that funded pupil count in the county is to the aggregate of funded pupil counts of all districts in the county. The State Board of Education determines the proportionate part of the fund to be paid during the budget year. At the end of each month the county treasurer shall credit or pay over the proper proportions of the moneys in the fund to the General Funds of the districts in the county.

Coupon - (1) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (2) A certificate attached to a bond evidencing interest due on a payment date.

CPA - See *Certified Public Accountant*.

DARU - See *Data Acquisition, Reporting and Utilization Advisory Committee*.

Data Acquisition, Reporting, and Utilization Advisory Committee - A committee formed to represent the interests of school districts and to assist the Department of Education in the acquisition, reporting, and utilization of district data.

Dealer - A dealer, as opposed to a broker, acts as a principal in all transactions, buying, and selling for his own account.

Debenture - A bond secured only by the general credit of the issuer.

Debt Service - Expenditures for the retirement of debt and expenditures for interest on debt, except principal and interest of current loans.

Deductions - Specific amounts which are taken from a paycheck each month to pay taxes, insurance premiums, dues, annuities, etc. Mandatory deductions are those deductions required by law. Voluntary deductions are deductions which an employee requests to be taken from a paycheck.

Defaulting Depository - Any eligible public depository to which an event of default has occurred.

Deferred Revenue - Deferred revenue accounts are used for revenue that has been recognized as a receivable, but is not "available" to finance current operations.

Delivery Vs. Payment - There are two methods of delivery of securities: delivery vs. payment and delivery vs. receipt (also called free). Delivery vs. payment is the delivery of a security with an exchange of money for the security. Delivery vs. receipt is delivery of a security with an exchange of a signed receipt for the security.

Depreciation - The systematic allocation of the cost of an asset to expense over the accounting periods making up its useful life.

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Diversification - Dividing investment funds among a variety of securities offering independent returns.

Discount - The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

Discount Securities - Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value; e.g. U.S. Treasury Bills.

District Advisory Accountability Committee - A committee appointed by the district board of education consisting of at least 1 parent, 1 teacher, 1 administrator, and a taxpayer from the district. The areas of study by this committee shall be cooperatively determined at least annually by the committee and the board of education. It specifically studies the adequacy and efficiency of educational programs offered by the district.

Documentation - The provision of documents used to substantiate expenses or to claim reimbursements. Such documents may include receipts, copies of signed forms, ticket stubs, etc.

ECEA - See *Exceptional Children's Educational Act*.

EEOC - See *Equal Employment Opportunity Commission*.

Eligible Public Depository - Any bank which has been designated as an eligible public depository by the banking board.

Eligible Collateral - With respect to the securing of uninsured public funds, those instruments or obligations approved to be used for such purposes by the banking board pursuant to the provisions of C.R.S. 11-10.5-107.

ELPA - See *English Language Proficiency Act*.

Employee Benefits - Compensation, in addition to regular salary, provided to an employee. This may include such benefits as health insurance, life insurance, annual leave, sick leave, retirement, and social security.

Encumbrances - Purchase order, contracts, and/or other commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved. They cease to be encumbrances when paid, when liability is established, or when cancelled.

English Language Proficiency Act (ELPA) - An English language proficiency program established by C.R.S. 22-24-101 for students in kindergarten and grades 1 through 12 whose dominant language is not English.

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Enterprise Fund - A fund to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Equal Employment Opportunity Commission (EEOC) - A department which administers and oversees all rules, regulations, laws and governing practices regarding hiring and employment standards in the United States.

Equalization Program Funding Per Pupil - The total equalization program funding of a district divided by the district's funded pupil count.

Equalization Program Funding - The financial base of support for public education for school districts as calculated by the Public School Finance Act of 1988, as amended.

Event of Default - The issuance of an order by a supervisory authority or a receiver which restrains an eligible public depository from paying its deposit liabilities.

Exceptional Children's Educational Act (ECEA) - This act provides a means for educating those children who are exceptional. It establishes a continuum of services which recognize the capabilities of all state agencies, including special classes in public schools and special schools, programs for handicapped children who are confined to their homes or hospitals, and instruction in institutions of the state for exceptional children. It is the intent of C.R.S. 22-20-101 to assure that there is a coordination of all services available to handicapped children and to promote the entering into agreements or contracts between school districts and other public agencies and nonprofit organizations and residential child care facilities for the provision of appropriate services for handicapped children.

EXIM - See *Export-Import Bank*.

Expenditures - charges incurred, whether paid or unpaid which are presumed to benefit the current fiscal year.

Expenses - The cost of the goods and services used up in the process of obtaining revenue.

Expendable Trust - A fiduciary fund used to account for assets held by a governmental unit in a trustee capacity for individuals, private organizations, other governmental units, and/or other funds.

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Export-Import Bank (EXIM) - The Export-Import Bank supports American exports through loan guarantees and insurance. The Governmental National Mortgage Association (GNMA) guarantees principal and interest payments on securities issued to help finance residential housing. The Small Business Association (SBA) guarantees private loans to certain eligible enterprises.

Face Value - As applied to securities, this term designates the amount of the liability stated in the security document.

Facsimile Signature - An exact copy of an authority's signature used to sign checks, orders or warrants. Each board of education officer shall give written consent to the board for the use of such facsimile signature and written approval of the employee designated to affix the facsimile signature. Any employee authorized and approved to affix the facsimile signature of the board officer(s) shall be bonded.

Fair Labor Standards Act (FLSA) - Passed by Congress in 1938 to establish minimum wage, overtime, recordkeeping, and other regulations that affected employers and labor. In 1966 and 1974, the FLSA was amended to include both state and local governments. In February of 1985 the U.S. Supreme Court mandated the application of the FLSA to all state and local government employees. The FLSA is enforced by the U.S. Department of Labor, Wage and Hour Division.

Fannie Mae - See *Federal National Mortgage Association*.

FASB - See *Financial Accounting Standards Board*.

FDIC - See *Federal Deposit Insurance Corporation*.

Federal Deposit Insurance Corporation (FDIC) - A federal agency that insures bank deposits, currently up to \$100,000 per deposit.

Federal Deposit Insurance - Deposit insurance or guarantees provided by the Federal Deposit Insurance Corporation or any successor agency thereto.

Federal Farm Credit Bank (FFCB) - The Federal Farm Credit Bank system supports agricultural loans. It has consolidated the financing programs of several related farm credit agencies and corporations.

Federal Land Bank - Organized in 1917 pursuant to the Federal Loan Act, the Federal Land Banks make loans secured by first mortgages on rural real estate for various agricultural purposes. Each borrower is required to purchase stock in the association in an amount equal to 5% of the loan. This stock is then pledged with the association as collateral security for loan repayment. About \$25 billion in bonds issued by the Federal Land Banks are outstanding; they are no longer issued.

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Federal Funds Rate - The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

Federal Open Market Committee (FOMC) - Consists of 7 members of the Federal Reserve Board and 5 of the 12 Federal Reserve Bank Presidents. The president of the New York Federal Reserve Bank is a permanent member, while other presidents serve on a rotating basis. The committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

Federal Reserve Bank - A commercial bank that is a member of the Federal Reserve System.

Federal Reserve System - The central bank of the United States created by Congress and consisting of a 7 member Board of Governors in Washington, D.C., 12 regional banks, and about 5,700 commercial banks that are members of the system.

Federal Credit Agencies - Agencies of the federal government set up to supply credit to various classes of institutions and individuals such as savings and loans, small business firms, students, farmers, farm cooperatives, and exporters.

Federal National Mortgage Association (FNMA or Fannie Mae) - FNMA, like GNMA, was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Home Loan Mortgage Association (FHLMA) - The Federal Home Loan Mortgage Association purchases residential mortgages from members of the Home Loan Bank system and issues pass-through securities.

Federal Home Loan Bank (FHLB) - The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

Federal Register - a monthly publication by the U.S. Government Printing Office of changes made to the Code of Federal Regulations.

FFCB - See *Federal Farm Credit Bank*.

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FHLB - See *Federal Home Loan Bank*.

FHLMA - See *Federal Home Loan Mortgage Association*.

Fiduciary Funds - These are trust and agency funds used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

Financial Policies and Procedures Committee - In 1974 C.R.S. 22-44-204 required the State Board of Education to designate no less than five volunteer school districts which were representative as to pupil size and population to cooperate in finalizing the Financial Policies and Procedures Handbook. This committee has continued as an advisory group to the Department of Education and is currently composed of 37 members.

Financial Policies and Procedures Handbook (FPP Handbook) - C.R.S. 22-44-203 requires the State Board of Education to adopt a Financial Policies and Procedures Handbook that will meet the needs of the existing statutes and of such other rules and regulations. The adopted handbook shall be compatible with the provisions of the "Educational Accountability Act of 1971", but shall be limited primarily to the relating of budgeted and actual costs to designated programs. The handbook shall be used by every school district in the state in the development of the budget for the district, in the keeping of financial records of the district, and in the periodic presentation of financial information to the board of education of the district.

Financial Accounting Standards Board (FASB) - An independent group which conducts research in accounting and issues authoritative statements as to proper reporting of financial information.

Fiscal Year (FY) - A 12-month accounting period beginning July 1 and ending June 30 of the following year.

Fixed Assets - Land, buildings, machinery, furniture, and other equipment which the district intends to hold or continue in use over a long period of time. "Fixed" denotes probability or intent to continue use of possession, and does not indicate immobility of an asset.

FLB - See *Federal Loan Bank*.

FLSA - See *Fair Labor Standards Act*.

FNMA - See *Federal National Mortgage Association*.

FOMC - See *Federal Open Market Committee*.

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Food Service Fund - A type of enterprise fund used to record financial transactions related to food service operations.

Food Services - Activities involved with the food services program of the school district. This includes the preparation and serving of regular and incidental meals, lunches, or snacks in connection with school activities, and the delivery of food.

FPC - See *Funded Pupil Count*.

FPP Handbook - See *Financial Policies and Procedures Handbook*.

Freddie Mac - See *Federal Home Loan Mortgage Association*.

Function - The action a person takes or the purpose for which a thing exists or is used. Function includes the activities or actions which are performed to accomplish the objectives of an enterprise. The activities of a school district are classified into five broad areas or functions; Instruction, Supporting Services, Community Services, Nonprogrammed Charges and Debt Services.

Fund Categories - There are three categories of funds used in governmental accounting. They are governmental funds, proprietary funds, and fiduciary funds.

Fund Types - There are seven major fund types. Governmental funds include the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service Funds. Proprietary Funds include Enterprise Funds and Internal Service Funds. Fiduciary funds include Trust and Agency Funds.

Fund Equity - The difference between governmental fund assets and liabilities.

Fund Balance - See *Fund Equity*.

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

Funded Pupil Count - A district's pupil enrollment for the ensuing budget year or the average of the district's pupil enrollment for the ensuing budget year and the district's pupil enrollment for the budget year immediately preceding said ensuing budget year, whichever is greater.

FY - See *Fiscal Year*.

GAAFR - See *Governmental Accounting, Auditing and Financial Reporting*.

GAAP - See *Generally Accepted Accounting Principles*.

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GAGAS - See *Generally Accepted Government Auditing Standards*.

GASB - See *Governmental Accounting Standards Board*.

GASB Codification - A publication of the Governmental Accounting Standards Board which is an integration of currently effective accounting and reporting standards for state and local governments.

General Long-Term Debt Account Group - The unmatured principal of bonds, warrants, notes, special assessment debt for which the government is obligated in some manner, or other forms of noncurrent or long-term general obligation debt that is not a specific liability of any proprietary fund or trust fund. General long-term debt is not limited to liabilities arising from debt issuances per se, but may also include noncurrent liabilities on capital leases, compensated absences, claims and judgments, pensions, special termination benefits, and other commitments that are not current liabilities properly recorded in governmental funds.

General Obligation Bonds (G.O. Bonds) - Bonds backed by the full faith and credit of the government.

General Administration - Consists of those activities involved in the overall general administrative responsibility of the school district.

General Fixed Assets Account Group (GFAAG) - The government's general fixed assets - all fixed assets except those accounted for in proprietary funds or trust funds - are not financial resources available for expenditure. The GFAAG is a self-balancing account group. This account group is not a fund - it does not reflect available financial resources and related liabilities - but it contains accounting records of the general fixed assets and certain associated information.

General Fund - A fund to account for all financial resources except those required to be accounted for in another fund. C.R.S. 22-45-103 states that all revenues, except those revenues attributable to the Bond Redemption Fund, the Capital Reserve Fund, the Special Building Fund, the Insurance Reserve Fund, and any other fund authorized by the State Board of Education shall be accounted for in the General Fund. Any lawful expenditure of the school district, including any expenditure of a nature which could be made from any fund, may be made from the General Fund.

General Purpose Financial Statements (GPFS) - In addition to the Comprehensive Annual Financial Report (CAFR), governmental units may issue the financial statements by fund type and account group in the Combined Statements - Overview section of the CAFR as general purpose financial statements (GPFS). The GPFS are designed to be "liftable" for this purpose. Such statements may be

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issued for inclusion in official statements for securities offerings and for widespread distribution of users requiring less detailed information about the governmental unit's finances than is contained in the CAFR. The GPFS are designed to present fairly the financial position of the fund type and account groups, the results of operations by fund type, and cash flows of the proprietary funds in conformity with GAAP.

Generally Accepted Accounting Principles (GAAP) - Uniform minimum standards of and guidelines to financial accounting and reporting. Adherence to GAAP assures that financial reports of all state and local governments - regardless of jurisdictional legal provisions and customs - contain the same types of financial statements and disclosures, for the same categories and types of funds and account groups, based on the same measurement and classification criteria. GAAP encompass the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. The primary authoritative body on the application of GAAP to state and local governments is the Governmental Accounting Standards Board (GASB).

Generally Accepted Government Auditing Standards (GAGAS) - A publication of the United States General Accounting Office called Standards for Audit of Governmental Organizations, Programs, Activities and Functions, in 1988, also known as the "Yellow Book."

GFAAG - See *Governmental Fixed Assets Account Group*.

GFOA - See *Governmental Finance Officers Association*.

Gift - Money received from a philanthropic foundation, private individual, or private organization for which no repayment or special service to the contributor is expected.

Ginnie Mae - See *Governmental National Mortgage Association*.

GLTDAG - See *General Long-Term Debt Account Group*.

GNMA - See *Governmental National Mortgage Association*.

Government Finance Officers Association (GFOA) - An organization of governmental finance officers whose mission is to enhance and promote the professional management of governmental financial resources by identifying, developing, and advancing fiscal strategies, policies, and practices for the public benefit.

Governmental Accounting Standards Board (GASB) - The Governmental Accounting Standards Board was established as an arm of the Financial Accounting Foundation in April, 1984 to promulgate standards of financial

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accounting and reporting with respect to activities and transactions of state and local governmental entities. The GASB is the successor organization to the National Council on Governmental Accounting (NCGA).

Governmental Designated Purpose Grants (GDPG) - Grants received from the federal, state or local governments to be used for a specific purpose. Examples are Chapter I, Exceptional Children's Educational Act (ECEA), Vocational Education, etc.

Governmental Fund - Those funds in which most governmental functions typically are financed. The acquisition, use and balances of the government's expendable financial resources and the related current liabilities - except those accounted for in proprietary funds - are accounted for through governmental funds (General, Special Revenue, Capital Projects, and Debt Service Funds).

Governmental Accounting, Auditing and Financial Reporting (GAAFR) - The Government Finance Officers Association's monthly newsletter on governmental accounting, auditing, and financial reporting.

Governmental National Mortgage Association (GNMA or Ginnie Mae) - Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. The security holder is protected by the full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the Federal Housing Administration (FHA), the Veteran's Administration (VA), or FMHM mortgages. The term pass-throughs is often used to describe Ginnie Maes.

GPFS - See *General Purpose Financial Statements*.

Handbook II Revised - A handbook compiled and edited in the U.S. Office of Education, National Center for Education Statistics. The purpose of the handbook is to serve as a vehicle or mechanism for program cost accounting at the local and intermediate levels and when programs are identified and benefits can be measured, a full program, budgeting, and evaluating system can be operated. The handbook makes it possible to organize data in a manner to permit the interrelating and combining of data elements that results in wide ranges of information. The goal of comparability is strengthened and achieved in the process. The use of Handbook II Revised (1973) is required in C.R.S. 22-53-108(2)(a).

Handicapped Education - Education for those children who are unable to receive reasonable benefit from ordinary education in the public schools because of specific handicapping conditions.

HBII R - See *Handbook II Revised*.

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Hold-Harmless District - Any district whose 1988 total program cost exceeded the 1989 total program cost as defined in the Public School Finance Act of 1988 was considered a hold-harmless district. Hold-harmless districts receive more funding than the formula allows.

Hourly Employee - An employee who is paid specifically by the hour for work or services performed.

I-9 Form - A form to be completed by all employees which requires employers to verify employment eligibility of individuals. It is required by the U.S. Department of Justice, Immigration and Naturalization Service.

Income - The excess of revenue earned over the related expenses for a given time period.

Independence - The second general standard for government auditing. In all matters relating to audit work, the audit organization and the individual auditors, whether government or public, should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance.

Indirect Cost Rate - The ratio of indirect costs to direct costs, expressed as a percentage. Indirect costs are those elements of cost necessary in the provision of a service which are of such nature that they cannot be readily or accurately identified with the specific service. Direct costs are those elements of cost which can be easily, obviously, and conveniently identified with specific activities or programs.

Instruction - Instruction includes the activities dealing directly with the teaching of pupils. Teaching may be provided for pupils in a school classroom, in another location such as in a home or hospital, and other learning situations such as those involving co curricular activities; it may also be provided through some other approved medium such as television, radio, telephone, and correspondence.

Instructional Supplies and Materials - Instructional supplies and materials include, but are not limited to, supplies, textbooks, library books, periodicals, warehouse inventory adjustment, and other supplies and materials.

Instructional Capital Outlay - Instructional capital outlay includes those expenditures which result in the acquisition of fixed assets for instructional purposes, or additions thereto, which the board of education anticipates will have benefits for more than one year.

Instructional Staff - Activities associated with assisting the instructional staff with the content and process of providing learning experiences for pupils.

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Insurance Reserve Fund - A special revenue fund used for the payment of loss of or damage to the property of the unit of local government or to service and pay premiums on insurance; or used for the payment of administrative expenses, loss control, worker's compensation and legal claims against the public entity which have been settled or compromised, or judgments rendered against the public entity for injury, or to secure and pay for premiums on insurance.

Interfund Transfer - Money which is taken from one fund under the control of the board of education and added to another fund under the board's control. Interfund transfers are not receipts or expenditures of the district.

Internal Quality Control System - Operating policies and procedures established by the audit organization to provide reasonable assurance that it: (1) has established, and is following, adequate audit policies and procedures and (2) has adopted, and is following, applicable auditing standards.

Internal Revenue Service (IRS) - A branch of the U.S. Treasury Department which is responsible for all aspects of tax collections, primarily the federal income tax.

Intrafund Transfer - Money which is taken from one function or object within a fund and transferred to another function and object within the same fund.

Inventory - A detailed list or record showing quantities, descriptions, values, and frequently, units of measure and unit prices of property on hand at a given time.

Invoice - An itemized statement of merchandise shipped or sent to a purchaser, consignee, etc., with the quantity, value or price, and charges annexed.

IRS - See *Internal Revenue Service*.

Joint District - A public school district organized under the laws of Colorado, the territory of which is located in more than 1 county.

Joint Ventures - Joint ventures are created by governments for special purposes and are responsible to the public, investors, creditors, or management of the government that created them, and the users served by the joint venture. It is a legal entity or other contractual arrangement participated in by a government as a separate and specific activity for the benefit of the public or service recipients in which the government retains an ongoing financial interest.

Journal - The accounting record in which the details of financial transactions are first recorded.

LEA - See *Local Education Agency*.

Legal Investments - Investments which governmental units are permitted to make by law.

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Lease/Purchase Agreement - Contractual agreements that are termed leases, but that in substance are purchase contracts.

LGIP - See *Local Government Investment Pool*.

Liquidity - A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid when the spread between the bid and the asked price is narrow and reasonable size can be done at those quotes.

Local Education Agency - An educational agency at the local level which exists primarily to operate schools or to contract for educational services. Normally, taxes may be levied by such publicly operated agencies for school purposes. This term is used synonymously with the terms "school district," "school system," and "local basic administrative unit."

Local Government Investment Pool (LGIP) - The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer in investment and reinvestment.

Mandatory Deduction - Any deduction from pay which is required by law.

Market Value - The price at which a security is trading and could presumably be purchased or sold.

Master Repurchase Agreement - A written contract covering all future transactions between the parties to repurchase - reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

Materiality - The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances; makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement. Materiality judgments are made in light of surrounding circumstances and necessarily involve both quantitative and qualitative considerations.

Maturity - The date upon which the principal or stated value of an investment becomes due and payable.

Measurable and Available - Revenues and other governmental fund financial resource increments (for example, bond issue proceeds) are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. "Available" means collectible within the current period or soon enough thereafter

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to be used to pay liabilities of the current period. Application of the "susceptibility to accrual" criteria requires judgment, consideration of the materiality of the item in question, and due regard for the practicality of accrual, as well as consistency in application.

Mill - One one-thousandth of a dollar of assessed value.

Mill Levy - The rate of taxation based on dollars per thousand of assessed valuation.

Miscellaneous Expense - Expenditures for all expenses not classified in other accounts. School districts are cautioned to use the account title only after all other attempts to classify have been exhausted.

Modified Accrual Basis - The accrual basis of accounting adapted to the governmental fund-type measurement focus. Under it, revenues and other financial resource increments are recognized when they become susceptible to accrual, which is when they become both "measurable" and "available to finance expenditures of the current period." "Available" means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized when the fund liability is incurred except for inventories of materials and supplies that may be considered expenditures either when purchased or when used and prepaid insurance and similar items that may be considered expenditures either when paid for or when consumed. All governmental funds, expendable trust funds and agency funds are accounted for using the modified accrual basis of accounting.

Money Market - The market in which short-term debt instruments (bill, commercial paper, bankers' acceptances, etc.) are issued and traded.

Municipal Bond - A bond issued by a state or local government unit.

Non-appropriated Operating Reserve - A reserve established by C.R.S. 22-44-106 which says a board of education may provide for an operating reserve in the General Fund, which shall not exceed 15% of the amount budgeted to the General Fund for the current fiscal year. This operating reserve is not to be appropriated nor shall it be expended during the current fiscal year, but it shall be a continuing reserve and be considered as a beginning General Fund balance for the next following fiscal year.

Notes to the Financial Statements - The Summary of Significant Accounting Policies (SSAP) and other disclosures required for a fair presentation of the financial statements of a government in conformity with GAAP and not included on the face of the financial statements themselves. The notes to the financial statements are an integral part of the General Purpose Financial Statements.

Object - A category of goods or services purchased.

GLOSSARY

Office of Management and Budget(OMB) - An office within the Financial Management Division of the federal government having statutory responsibility for issuing policies, procedures, and guidelines to implement the Single Audit Act.

Official Custodian - A designee with plenary authority, including control, over public funds of a public unit which the official custodian is appointed to serve. For purposes of this definition, "public unit" includes any institution, agency, instrumentality, authority, county municipality, city and county, school district, special district, or other political subdivision of the State of Colorado, including any institution of higher education. For purposes of this definition, "control" includes possession of public funds, as well as the authority to establish accounts for such public funds in banks and to make deposits, withdrawals, or disbursements of such public funds. If the exercise of authority over such public funds requires action by or the consent of 2 or more putative official custodians, then such official custodians shall be treated as one official custodian with respect to such public funds.

OMB - See *Office of Management and Budget*.

Open Market Operations - Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserves most important and most flexible monetary policy tool.

Operational Unit - The group and type of education activities for organizational purposes. Each type of unit has discriminating characteristics. The units include individual schools, in most cases, and can be used to designate school costs center. In other words, budgets and expenditures may be made for each school or operational unit. Such units are specific schools, transportation, administration, and warehouses.

Operations and Maintenance - Activities concerned with keeping the physical plant open, comfortable, and safe for use, and keeping the grounds, buildings, and equipment in an effective working condition and state of repair. Activities which maintain safety in buildings, on the grounds, and in the vicinity of schools are included.

Other Business Services - Activities concerned with purchasing, paying transporting exchanging, and maintaining goods and services for the district. Included are the fiscal, acquisition of facilities, operation and maintenance, and internal services for operating all schools.

Other Reserves - An amount set aside for some specified purpose.

GLOSSARY

Other Expenses - Amounts paid for goods and services not otherwise classified under other object codes. This includes expenditures for the payments to a housing authority and the payment of dues and fees.

Overdraft - The amount by which checks, drafts, or other demands for payment on the treasury or on a bank exceed the amount of the credit against which they are drawn. The amount by which requisitions, purchase orders, or audited vouchers exceed the appropriation or other credit to which they are chargeable.

Payment Voucher - A document used to authorize issuance of payment to an individual or company for goods or services rendered to the district.

PDPA - See *Public Deposit Protection Act*.

Peer Review - A program of external quality control review for auditors. Generally Accepted Government Auditing Standards (GAGAS) require each auditor to go through this program at least once every three years, in addition to other requirements to maintain the CPA certificate.

Per Pupil Operating Revenue(PPOR) - The equalization program funding of a district for any budget year determined in accordance with the provisions of the Public School Finance Act of 1988 as amended divided by the funded pupil count of the district for said budget year, minus the minimum amount per pupil required by C.R.S. 22-53-108(3) to be transferred from the General Fund to the Capital Reserve and Insurance Reserve Funds.

PERA - See *Public Employees Retirement Association*.

Perfected Repurchase Agreement - A repurchase agreement in which specific collateral is designated to a specific investment.

Petty Cash - A sum of money set aside for the purpose of paying small obligations for which the issuance of a formal voucher and check and would be too expensive and time-consuming. Also, a sum of money, either in the form of currency or a special bank deposit, set aside for the purpose of making change or immediate payments of comparatively small amount.

PL 874 - See *Public Law 81-874*.

Political Subdivision - Includes any subdivision or any principal department of a public unit, the creation of which subdivision or principal department has been expressly authorized by state statute; to which some functions of government have been delegated by state statute; and to which funds have been allocated by ordinance or state statute for its exclusive use and control. A political subdivision also includes drainage, irrigation, navigation, improvement, levee, sanitary, school, and power districts and bridge and port authorities and any other special district created by state statute or compact between the State of Colorado and one or

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more states. Political subdivision does not include subordinate or nonautonomous divisions, agencies, or boards within principal department of a public unit.

Portfolio - A collection of securities held by an investor.

Posting -The act of transferring to an account in a ledger the detailed or summarized data contained in the cash receipts book, check register, journal voucher, or similar books or documents of original entry.

PPOR - See *Per Pupil Operating Revenue*.

Prepayment - Making payment in advance for any charges to be incurred.

Primary Dealer - A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks, and a few unregulated firms.

Program Budget -A plan of activities and procedures designed to accomplish predetermined objectives.

Property Tax Carryforward - Taxes collected in the first six months of a calendar year are carried forward for expenditures in the new fiscal year beginning July 1.

Proprietary Fund - Sometimes referred to as "income determination", "nonexpendable," or "commercial-type" funds are used to account for a government's ongoing organizations and activities that are similar to those often found in the private sector (enterprise and internal service funds.) All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business and quasi-business activities - where net income and capital maintenance are measured - are accounted for through proprietary funds.

Prudent Investor Rule - An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of the securities selected by the state - the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

PSFA - See *The Public School Finance Act*.

Public Deposit Protection Act (PDPA) - Also know as C.R.S. 11-10.5-101. The purpose of this act is to serve the taxpayers and the citizens of Colorado by establishing standards and procedures to ensure the preservation and protection of all public funds held on deposit by a bank that are either not insured by or are

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in excess of the insured limits of federal deposit insurance, and to ensure the expedited repayment of such funds in the event of default and subsequent liquidation of a bank which holds such deposits. The provisions of the PDPA prevail over any local government ordinance or resolution and over any home rule or territorial charter provision in conflict with it.

Public School Finance Act of 1988 (PSFA) - C.R.S. 22-53-101 et.seq. enacted in 1988 seeks to provide for a thorough and uniform system of public schools throughout the state that requires that all school districts operated under the same finance formula and that equity considerations dictate that all districts be subject to the expenditure and maximum levy provisions of this act. Colorado's 176 school districts are classified into eight groups with similar characteristics for funding purposes.

Public Funds - All funds of a public unit and all funds of any entity referred to in C.R.S. 11-10.5-103(9)(b).

Public Deposits - All public funds on deposit in an eligible public depository in any form, whether time, savings, or demand.

Public Law 81-874 - This program provides financial assistance to school districts either because of a loss of real property due to federal acquisition or because of the financial burdens placed upon a school district educating children whose parents are involved in an activity occurring on federal land.

Public Unit - The State of Colorado, any county, city and county, city, or municipality, including any home rule city or town or territorial charter city, or any political subdivision thereof.

Public Employees Retirement Association - A retirement association created by C.R.S. 24-51-201 which shall be a corporate body with the right to sue and be sued and the right to hold property for its use and purposes. It consists of the state division, the school division, the municipal division and the judicial division. The purpose of PERA is to provide benefits to public employees when they retire or are disabled, or to the family at the employee's death. It serves as a substitute for Social Security and is funded on an actuarial reserve basis. That is, money is set aside for retirement benefits while an employee is earning service credit and before benefit payments begin.

Pupil Enrollment - The average of the number of pupils enrolled on February 1 next preceding such budget year or the school day nearest said date, as evidenced by the actual attendance of such pupils prior to said date; and the number of pupils enrolled on October 1 next preceding such budget year or the school day nearest said date, as evidenced by the actual attendance of such pupils prior to said date.

GLOSSARY

Pupil Services - Those activities which are designed to assess and improve the well-being of pupils and to supplement the teaching process.

Pupil Transportation - Activities concerned with the conveyance of pupils to and from school, as provided by State law. Included are trips between home and school and trips to school activities.

Purchase Order - A document which authorizes the delivery of specified merchandise or the rendering of certain services and the making of a charge for them.

Purchased Services - Amounts paid for personal services rendered by personnel who are not on the payroll of the school district, and other services which the district may purchase. While a product may or may not result from the transaction, the primary reason for the purchase is the service provided.

Rate of Return - The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Receipts - Cash received.

Refunded Bonds - Bonds issued to retire bonds already outstanding. The refunding bonds may be used to provide the resources for redeeming outstanding bonds, or the refunding bonds may be exchanged with the holders of the outstanding bonds.

Reimbursement - Repayment for expenses incurred.

Repo - See *Repurchase Agreement*.

Repurchase Agreement (RP or Repo) - A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Federal Government is said to be doing RP, it is lending money, which is, increasing bank reserves.

Requisition - A written request to a purchasing officer for specified articles or services.

Reserve for Contingencies - According to C.R.S. 22-45-103(1) (III)(A) within the General Fund, each school district shall establish a contingency reserve. Each school district shall be encouraged to increase the amount in the contingency reserve each year so that, by the 1994-95 budget year, the contingency reserve shall consist of a minimum amount of not less than two percent of the General Fund. Moneys in the contingency reserve shall be available for use by the school district for emergencies and other contingencies.

GLOSSARY

Residual Equity Transfer - Nonrecurring or non-routine transfers of equity between funds.

Residual Fund Equity - The financial assets remaining in a fund after all liabilities have been liquidated.

Retained Earnings - An equity account reflecting the accumulated earning of an enterprise or internal service fund.

Revenues - Addition to assets which do not increase any liability, do not represent the recovery of an expenditure, do not represent the cancellation of certain liabilities without a corresponding increase in other liabilities or a decrease in assets, and do not represent contributions of fund capital in Food Service and Pupil Activity Funds.

RP - See *Repurchase Agreement*.

Safekeeping - A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Salaried Employee - An employee who receives a set monthly salary for work or services performed.

Salaries - Amounts paid to employees of the district who are considered to be in positions of a permanent nature or hired temporarily, including personnel substituting for those in permanent positions. This includes gross salary for personal services rendered while on the payroll of the districts.

Sallie Mae - See *Student Loan Marketing Association*.

School Site Funding - The school site funding of a district for any budget year shall be the amount derived by multiplying the number of instructional units of the district for said budget year by the sum of the two school site funding components for the district's setting category. The two components are school administration, and operations and maintenance cost of the school.

School Administration - Activities concerned with overall administrative responsibility for a single school or a group of schools.

SEC - See *Securities and Exchange Commission*.

SEC Rule 15C3-1 - See *Uniform Net Capital Rule*.

Secondary Market - A market made for the purchase and sale of outstanding issues following the initial distribution.

GLOSSARY

Securities & Exchange Commission (SEC) - An agency created by Congress to protect investors in securities transactions by administering securities legislation.

Setting Category - All 176 Colorado school districts are assigned to one of eight setting categories for equalization program funding. The assignment is based on population size and density, geographic size and population sparsity, regional economic relationships, the location of economically important cities or towns within districts, the cost of living factor and the presence of communities of interest. C.R.S. 22-53-105 lists the setting categories of the districts.

Single Audit Act - An act passed by Congress in 1984. The audit is performed in accordance with the Office of Management and Budget Circular A-128, Audits of State and Local Governments. The Single Audit Act allows or requires governments (depending on the amount of federal assistance received) to have one audit performed to meet the needs of all federal grantor agencies.

SLMA - See *Student Loan Marketing Association*.

SOT - See *Specific Ownership Tax*.

Specific Ownership Tax - An annual tax imposed upon each taxable item of certain classified personal property, such as motor vehicles, which tax is computed in accordance with state schedules applicable to each sale of personal property.

SSAP - See *Summary of Significant Accounting Policies*.

Statement of Changes in Financial Position - The financial statement that reconciles the equity balances of an entity at the beginning and end of an accounting period in conformity with GAAP. It explains the relation between the operating statement and the balance sheet.

Student Loan Marketing Association (SLMA or Sallie Mae) - The Student Loan Marketing Association presently issues notes to finance student loans.

Summary of Significant Accounting Policies (SSAP) - A disclosure of accounting policies, required by GAAP that should identify and describe the accounting principles followed by the district and the methods of applying those principles that materially affect the determination of financial position, changes in financial position or results of operations. In general, the disclosure should encompass important judgments as to the appropriateness of principles relating to the recognition of revenue and allocation of asset costs to current and future periods; in particular, it should encompass those accounting principles and methods that involve any of the following: (1) a selection from existing acceptable alternatives, (2) principles and methods peculiar to government and (3) unusual or innovative applications of accounting principles, including those peculiar to government.

GLOSSARY

Supplemental Budget - Where money for a specific purpose from other than ad valorem taxes subsequently (following adoption of the budget) becomes available to meet a contingency, a supplemental budget for expenditures not to exceed the amount of said money may be adopted and appropriation of said money made therefrom.

Supplies and Materials - Amounts paid for material items of an expendable nature that are consumed, worn out, or deteriorated by use; or items that lose their identity through fabrication or incorporation into different or more complex units or substances.

Surety Bond - A written promise to pay damages or to indemnify against losses caused by the party or parties names in the document, through nonperformance or through defalcation (e.g. a surety bond may be required of an independent contractor). Surety bonds also include fidelity bonds covering government officials and employees.

TAN - See *Tan Anticipation Note*.

Taxes - Compulsory charges levied by a government to finance services performed for the common benefit.

Tax Anticipation Note - Notes issued in anticipation of collection of taxes, unusually retirable only from tax collections, and frequently only from the tax collections anticipated with their issuance. The proceeds of these notes are treated as current loans if paid back from the tax collections anticipated with the issuance of the notes.

Total Program - The sum of state equalization and property tax.

Transfers - This object category does not represent a purchase; rather, it is used as an accounting entity to show that funds have been handled without having goods and services rendered in return. Included here are transactions for interchanging money from one fund to the other and for transmitting flow-through funds to the recipient (person or agency).

Treasury Bond - Long-term U.S. Treasury securities having initial maturities of from one to ten years.

Treasury Notes - Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

Treasury Bills -A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or a year.

GLOSSARY

Trial Balance - A list of the balances of the accounts in a ledger kept by double entry, with the debit and credit balances shown in separate columns. If the totals of the debit and credit columns are equal or their net balance agrees with a controlling account, the ledger from which the figures are taken is said to be "in balance."

Trustee - A fiduciary holding property on behalf of another.

Trust Fund - A fund used to account for money and property held in trust by a district for individuals, government entities or nonpublic organizations. A Trust Fund is usually in existence over a longer period of time than an Agency Fund.

Unencumbered Appropriation - That portion of an appropriation not yet expended or encumbered.

Uniform Net Capital Rule - Securities and Exchange Commission requirement that member firms, as well as non-member broker-dealers in securities, maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

United States Department of Agriculture (USDA) - A federal agency responsible for administering the School Lunch Program and U.S. Government Commodities.

Unqualified Opinion - An auditor's opinion stating that the financial statements present fairly the financial position, results of operations and (when applicable) changes in financial position in conformity with GAAP (which include adequate disclosure). This conclusion may be expressed only when the auditor has formed such an opinion on the basis of an examination made in accordance with GAGAS.

USDA - See *United States Department of Agriculture*.

Vendor - An individual or corporation that provides services, supplies, or equipment to the district.

Voluntary Deduction - A deduction from pay which is requested by an employee.

Voucher - A document which authorizes the payment of money and usually indicates the accounts to be charged.

W-2 - The form mandated by the IRS on which total gross income, total federal withholding, and total state withholding are reported for all wages earned during the period from January 1 through December 31 of each year.

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W-4 - The form issued by the IRS to be completed by each employee so that the employer can withhold the correct amount of federal income tax from each employee's pay.

W-9 - *"Request for Taxpayer Identification Number Verification"*

Withholding - The process of deducting from a salary or wage payment an amount, specified by law or regulation, representing the estimated federal or state income tax of the individual that the employer must pay to the taxing authority.

World Bank - A monetary agency administered by the United Nations. There is no expressed liability assumed by the United States Government on any of the instruments issued by the World Bank.

Working Papers - Documents containing the evidence to support the auditor's findings, opinions, conclusions, and judgments. They include the collection of evidence, prepared or obtained by the auditor during the audit.

Yield - The rate of annual income return on an investment, expressed as a percentage. (a) Income yield is obtained by dividing the current dollar income by the current market price for the security. (b) Net yield or yield of maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Financial Policies and Procedures (FPP) Handbook

Appendix A

Fiscal Guidance for Federal Programs

Recommendation for Updated FPP Handbook

History:

Fiscal Guidance for Federal Programs, Appendix A of the FPP Handbook, is a document prepared by CDE in 1991. Essentially it was designed to give districts access to fiscal guidance regarding federal grants.

This document has not been updated since 1991. It may be updated in FY 2000-2001 with the reauthorization of the Improving America's School Act (IASA). Upon reauthorization of IASA, and the anticipated changes with this reauthorization, any updated version could prove to be a very different document than what the FPP Handbook now contains.

Recommendation:

The Fiscal Guidance for Federal Programs should not be included in the FPP Handbook. Rather, a summary of what the Fiscal Guidance for Federal Programs is/was designed to do should be included in the updated FPP Handbook with an explanation of "where" this document is now, and what the future of this document may be. Specifically:

“At one point the FPP Handbook contained an appendix (Appendix A) titled, Fiscal Guidance for Federal Programs. This Fiscal Guidance for Federal Programs was developed to provide a ready reference for local and state agency staff and independent auditors on matters dealing with federal educational program fiscal issues. Its inclusion in the FPP Handbook was designed to give districts access to fiscal guidance regarding federal grants. The version that was included in the last FPP Handbook, has not been updated since 1991. Only certain elements of it remain useful. An updated version of Fiscal Guidance for Federal Programs will most likely occur with the reauthorization of the Improving America School Act (IASA) in FY 2000-2001. Upon updating, it will again be included in the FPP Handbook. Until then, you can obtain a hard copy of Fiscal Guidance for Federal Programs by calling Diana Martinez at the Colorado Department of Education: 303-866-6868”.

When Fiscal Guidance for Federal Programs is updated, it will be posted to the CDE web site as a document downloadable for district use, as well as making a hard copy available through CDE.

**Financial Policies and Procedures (FPP) Handbook
Appendix B
Handbook II, Revised Function and Object Definitions
Recommendation for Updated FPP Handbook**

History:

The Revised Function and Object Definitions was taken from a larger document: Financial Accounting for Local and State School Systems (Handbook II). This was prepared by the National Center for Educational Statistics. The Revised Function and Object Definitions served as a building block/model for the Colorado Department of Education's living, effective and operational Chart of Accounts. It gave a basis for coding structure and a Chart of Accounts development.

Recommendation:

It is no longer necessary to include the Revised Function and Object Definitions as an appendix in the FPP Handbook. A summary of what the Revised Function and Object Definitions is should be included in the updated FPP handbook only because people may wonder what became of it. Specifically:

At one point the FPP Handbook contained an Appendix F titled: Handbook II, Revised Function and Object Definitions. This served as a building block for the Colorado Department of Education's Chart of Accounts. The Colorado Department of Education now has a fully operational Chart of Accounts, and therefore Revised Function and Object Definitions is no longer a necessary appendix in the FPP Handbook.

However, the document from which Revised Function and Object Definitions was taken, *Financial Accounting for Local and State School Systems*, covers a great deal of information and as a whole may be of some use to districts. Financial Accounting for Local and State School Systems was last updated in 1990. It is designed as a national standard for State Departments of Education to use in reporting financial data for school districts to use in preparing their comprehensive annual financial reports (CAFRS) that are submitted to their respective State Departments of Education. The purpose of the Handbook is to ensure that education fiscal data can be reported in a comprehensive and uniform manner. A copy of Financial Accounting for Local and State School Systems can be obtained through the National Center for Educational Statistics web site at: <http://nces.ed.gov/>

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Conclusion:

Based on the responses at the April FPP meeting in Denver, and having had no further responses, I believe a cover letter, to be mailed with the revised FPP Handbooks will suffice in giving the history and summary of the removed Appendix items A and F. The cover letter can contain the exact wording I have given for both Appendix items in my recommendations.

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Appendix C

Sample Investment Policy

The Board of Education recognizes the importance of prudent and profitable investment of district monies and its responsibility in overseeing this part of the district's financial program. This policy shall apply to the revenue from investment of all financial assets and all funds of the district over which it exercises financial control.

A. Legal Investments

All district funds allocated to a specific use but temporarily not needed shall be deposited and invested in accordance with state law. The treasurer, assistant treasurer or other administrator appointed by the Board shall comply with state statute CRS 24-75-601.

B. Safety of Funds

The district shall not enter into investment transactions which may expose the district to undue credit risk. The district shall investigate the condition of financial institutions before committing district funds. If the district is contemplating any investment or deposit outside of the state, the Board shall be notified. The Board shall seek legal advice prior to any such investment or deposit.

C. Liquidity of Funds

Adequate funds shall be kept available to pay the district's financial obligations when due. Before entering into any investment transaction, the cash needs of the district shall be determined and taken into account.

D. Yield

Investments shall occur in a manner that enables the invested funds to earn a market rate of interest throughout the budget cycle

E. Reporting

The Board shall be kept informed of all investment and yields through regular reports. These reports shall be formatted in a manner that allows the Board to evaluate the success of its investment practices in light of its stated objectives.

(Adoption date)

LEGAL REFS: C.R.S. 11-10.5-101 et seq.
C.R.S. 11-47-101 et seq.
C.R.S. 24-75-601 et seq.

CROSS REF: DG, Banking Service

Appendix D

Guidelines for GASB 34

What you should know.

In June, 1999 the Governmental Accounting Standards Board (GASB) unanimously adopted Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. GASB is a private sector organization formed in 1984 to establish financial accounting and reporting standards for state and local governments. The reporting model established by Statement No. 34 includes many time-tested aspects of conventional governmental financial reporting and several new features (including government-wide financial statements and management's discussion and analysis) to enhance the usefulness of governmental financial reports. This statement was developed to make financial reports easier to understand and more useful for oversight bodies, investors and citizens. GASB 34 will significantly change annual financial reporting. The most significant changes and additional information requirements include:

Management discussion and analysis (MD&A)

MD&A will be an introductory narrative analysis of the financial statements and an analytical review of financial activities. The MD&A's goal is to give readers an objective and easily readable overview of the government's financial performance. Although it is required supplemental information (RSI), governments are required to present MD&A before the basic financial statements.

Government-wide and fund financial statements

Government-wide financial statements will consist of a statement of net assets and a statement of activities. Prepared using the economic resources measurement focus and the accrual basis of accounting, these statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Each statement should distinguish between the governmental and business-type activities of the primary government and between the total primary government and its discretely presented component units by reporting each in separate columns. Fiduciary activities, whose resources are not available to finance the government's programs, should be excluded from the government-wide statements. In addition, GASB has decided to continue requiring fund basis accounting. This means fund financial statements and new government-wide statements will be prepared as well as a reconciliation between the two statement types. The focus of the fund financial statements will change from fund types (general, enterprise, special revenue, etc.) to major individual funds. Non-major funds will be grouped together.

GASB feels these reporting changes will help users assess:

Whether citizens paid for the services they received in the current year, or if the costs of services were shifted to future-years;

Whether a government's financial position has improved or deteriorated as a result of the year's operations.

Budgetary reporting

Governments are required to include a comparison of original budget (July 1) to final budget (June 30) to actual as part of the basic financial statements. The intent is to provide analytical information for assessing the organization's ability to estimate and manage its resources. Currently, governments prepare this comparison by fund type. The standard requires budget to actual comparisons on fund

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statements for the general fund and individual major special revenue funds. CDE requires fund statements for all funds that have bolded codes in the chart of accounts.

State requires that each school district shall annually prepare an itemized reconciliation between the fiscal year end fund balances based on the budgetary basis of accounting used by the school district and the fiscal year end fund balances based on the modified accrual basis of accounting. The reconciliation shall include, but need not be limited to, the liability for accrued salaries and related benefits. The reconciliation shall be included with the final version of the amended budget and the annual audited financial statements.

Infrastructure and depreciation reporting

Governments will now need to report all capital and infrastructure assets, the latter of which include roads, bridges, storm sewers, etc., in the government-wide financial statements. In most instances, these assets are required to be depreciated; however, an alternative is to employ an asset management system and document that infrastructure assets are being preserved at a specified level.

Capital assets are those assets that have a useful life extending beyond a single reporting period. Capital assets should be recorded at their original cost (historical cost). Some examples of capital assets are:

- Land and easements
- Buildings
- Equipment
- Machinery
- Vehicles
- Infrastructure (roads, bridges, sewers, dams, lighting systems, sidewalk systems and tunnels).

Infrastructure assets that are part of a network or subsystem of a network are not required to be depreciated as long as the government manages those assets using an asset management system that has certain characteristics and the government can document that the assets are being preserved.

In order to comply with the reporting requirement for capital assets, you will need complete fixed asset records that include the acquisition date and cost, asset lives and depreciation method for all capital asset classifications. You'll also need to depreciate capital assets and produce detailed fixed asset reports that help you complete the Statement of Activities required by GASB Statement 34.

Link to free depreciation calculator software: <http://www.PublicPropertySoftware.com/download.html>

Summary

Governmental Accounting Standards Board Statement No. 34 establishes financial reporting standards for state and local governments, including states, cities, towns, villages, and special-purpose governments such as school districts and public utilities. It establishes that the basic financial statements and required supplementary information (RSI) for general purpose governments should consist of:

Management's discussion and analysis (MD&A). MD&A should introduce the basic financial statements and provide an analytical overview of the government's financial activities. Although it is RSI, governments are required to present MD&A before the basic financial statements.

Basic financial statements. The basic financial statements should include:

Government-wide financial statements, which consist of a statement of net assets and a statement of activities. Prepared using the economic resources measurement focus and the accrual basis of

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accounting, these statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Each statement should distinguish between the governmental and business-type activities of the primary government and between the total primary government and its discretely presented component units by reporting each in separate columns. Fiduciary activities, whose resources are not available to finance the government's programs, should be excluded from the government-wide statements.

Fund financial statements which consist of a series of statements that focus on information about the government's major governmental and enterprise funds, including its blended component units. Fund financial statements also should report information about a government's fiduciary funds and component units that are fiduciary in nature. Governmental fund financial statements (including financial data for the general fund and special revenue, capital projects, debt service, and permanent funds) should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements (including financial data for enterprise and internal service funds) and fiduciary fund financial statements (including financial data for fiduciary funds and similar component units) should be prepared using the economic resources measurement focus and the accrual basis of accounting.

Notes to the financial statements which consist of notes that provide information that is essential to a user's understanding of the basic financial statements.

Required supplementary information (RSI). In addition to MD&A, this Statement requires budgetary comparison schedules to be presented as RSI along with other types of data as required by previous GASB pronouncements. This Statement also requires RSI for governments that use the modified approach for reporting infrastructure assets.

Special-purpose governments that are engaged in only governmental activities (such as some library districts) or that are engaged in both governmental and business-type activities (such as some school districts) generally should be reported in the same manner as general purpose governments. Special-purpose governments engaged only in business-type activities (such as utilities) should present the financial statements required for enterprise funds, including MD&A and other RSI.

Important Aspects of MD&A

MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. MD&A should include comparisons of the current year to the prior year based on the government-wide information. It should provide an analysis of the government's overall financial position and results of operations to assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities. In addition, it should provide an analysis of significant changes that occur in funds and significant budget variances. It should also describe capital asset and long-term debt activity during the year. MD&A should conclude with a description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

Important Aspects of the Government-wide Financial Statements

Governments should report all capital assets, including infrastructure assets, in the government-wide statement of net assets and generally should report depreciation expense in the statement of activities. Infrastructure assets that are part of a network or subsystem of a network are not required to be depreciated as long as the government manages those assets using an asset management system that has certain characteristics and the government can document that the assets are being preserved approximately at (or above) a condition level established and disclosed by the government.

The net assets of a government should be reported in three categories: invested in capital assets net of related debt, restricted, and unrestricted. This Statement provides a definition of the term restricted.

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Permanent endowments or permanent fund principal amounts included in restricted net assets should be displayed in two additional components: expendable and nonexpendable.

The government-wide statement of activities should be presented in a format that reports expenses reduced by program revenues, resulting in a measurement of "net (expense) revenue" for each of the government's functions. Program expenses should include all direct expenses. General revenues, such as taxes, and special and extraordinary items should be reported separately, ultimately arriving at the change in net assets for the period. Special items are significant transactions or other events that are either unusual or infrequent and are within the control of management.

Important Aspects of the Fund Financial Statements

To report additional and detailed information about the primary government, separate fund financial statements should be presented for governmental and proprietary funds. Required governmental fund statements are a balance sheet and a statement of revenues, expenditures, and changes in fund balances. Required proprietary fund statements are a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows. To allow users to assess the relationship between fund and government-wide financial statements, governments should present a summary reconciliation to the government-wide financial statements at the bottom of the fund financial statements or in an accompanying schedule.

Each of the fund statements should report separate columns for the general fund and for other major governmental funds. Enterprise funds will continue to be reported separately. Major funds are funds whose revenues, expenditures/expenses, assets, or liabilities (excluding extraordinary

items) are at least 10 percent of corresponding totals for all governmental or enterprise funds and at least 5 percent of the aggregate amount for all governmental and enterprise funds. Any other fund may be reported as a major fund if the government's officials believe that fund is particularly important to financial statement users. Non-major funds should be reported in the aggregate in a separate column. Internal service funds also should be reported in the aggregate in a separate column on the proprietary fund statements.

Fund balances for governmental funds should be segregated into reserved and unreserved categories. Proprietary fund net assets should be reported in the same categories required for the government-wide financial statements. Proprietary fund statements of net assets should distinguish between current and non-current assets and liabilities and should display restricted assets.

Proprietary fund statements of revenues, expenses, and changes in fund net assets should distinguish between operating and non-operating revenues and expenses. These statements should also report capital contributions, contributions to permanent and term endowments, special and extraordinary items, and transfers separately at the bottom of the statement to arrive at the all-inclusive change in fund net assets. Cash flows statements should be prepared using the direct method.

Separate fiduciary fund statements (including component units that are fiduciary in nature) also should be presented as part of the fund financial statements. Fiduciary funds should be used to report assets that are held in a trustee or agency capacity for others and that cannot be used to support the government's own programs. Required fiduciary fund statements are a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Interfund activity includes interfund loans, interfund services provided and used, and interfund transfers. This activity should be reported separately in the fund financial statements and generally should be eliminated in the aggregated government-wide financial statements.

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Required Supplementary Information

To demonstrate whether resources were obtained and used in accordance with the government's legally adopted budget, RSI should include budget to actual comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedules should present both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the government's budgetary basis. This Statement also requires RSI for governments that use the modified approach for reporting infrastructure assets.

CDE requires a district, using any of the funds identified in the Financial Policies and Procedures Chart of Accounts with bolded fund codes, to report those funds in RSI, including trust and agency funds.

IV.

Effective Date and Transition

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 with total annual revenues (excluding extraordinary items) of \$100 million or more (phase 1) should apply this Statement for periods beginning after June 15, 2001. Governments with at least \$10 million but less than \$100 million in revenues (phase 2) should apply this Statement for periods beginning after June 15, 2002. Governments with less than \$10 million in revenues (phase 3) should apply this Statement for periods beginning after June 15, 2003. Earlier application is encouraged.

| Phase | Total annual revenues in the first fiscal year ending after June 15, 1999 | Apply GASB 34 for periods beginning |
|-------|---|-------------------------------------|
| 1 | \$100 million or more | June 15, 2001 |
| 2 | \$10 million, up to \$100 million | June 15, 2002 |
| 3 | Less than \$10 million | June 15, 2003 |

Requirements of the Management Discussion & Analysis Section

The new requirements of GASB No. 34 mandate that all local government financial statements include a Management Discussion and Analysis section (MD&A). The MD&A is considered Required Supplemental Information (RSI) which will be presented before the financial statements. This section will provide an introduction to the financial statements, a narrative analysis of the statements and an analytical review of current financial activities. The goal of the MD&A is to give readers an objective and easily readable overview of the government's financial performance. This section will give management an opportunity to present both short-term and long-term financial analysis.

According to GASB No. 34, the MD&A should include the following:

A brief discussion of the basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide.

Condensed financial information from the government-wide financial statements comparing the current year to the prior year.

An analysis of the government's overall financial position and results of operations to aid users in assessing whether financial position has improved or deteriorated as a result of the year's operations.

An analysis of the balances and transactions of individual funds.

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An analysis of significant variances between original and final budget amounts and between final budget amounts and actual results for the general fund.

A description of significant capital asset and long-term debt activity during the year. This would include a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.

A discussion by governments that use the modified approach to report some or all of their infrastructure assets. A modification disclosure is not required when interest is capitalized for "qualifying assets".

A description of currently known facts, decisions, or conditions expected to have a significant effect on financial position or the results of operations.

The local government's financial management is responsible for preparing the MD&A section. Producing the MD&A section will take a considerable effort. Therefore, before you begin the process we recommend you review GASB No. 34, as introduced, and subsequently issued questions and answers from GASB, AICPA and the MD&A example provided, then consult with your auditors. The example provided by GASB 34 is to be used for guidance only and is not intended to be used as a template.

For districts that already produce a letter of transmittal in their comprehensive annual financial report, there appears to be some redundancy between the two requirements. If a letter of transmittal is included, it should not duplicate what is already in the MD&A but should expand on that information or focus on other areas not normally covered by the letter of transmittal. Additional guidance has been reported by GASB 34. New developments have been communicated through illustrations and questions and answers.

**Governmental Accounting Standards Board
Statement No. 34 (Selected Sections)
Basic Financial Statements - and Management's Discussion and
Analysis - for State and Local Governments**

Introduction

Acknowledgements

This guide was originally developed for the Texas Education Agency by Deloitte & Touche, LLP, assisted by many local officials throughout the state representing school districts and regional education service centers. The Texas Comptroller gave permission for the Colorado Department of Education to use the information, modify it to meet the requirements of the State of Colorado and publish it for use by Colorado School Districts and Boards of Cooperative Education Services. The Public School Finance Unit wishes to express appreciation for the use of this material.

Purpose

The primary purpose of GASB Statement No.34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, is to establish a basic financial reporting model:

To provide more relevant information that will result in greater accountability by state and local governments, and

To enhance the understandability and usefulness of the annual financial reports to the users of these reports, to enable them to make more informed economic, social, and political decisions.

1.1.1 Background

Accountability

Accountability is a broad concept but is generally used to describe the process and procedures used to hold an organization responsible for its performance. The Governmental Accounting Standards Board (GASB) has recognized accountability as the primary objective of government financial reporting.

Government financial statements, have in the past, focused on two different forms of accountability:

Fiscal accountability for governmental activities, and

Operational accountability for business-type and certain fiduciary activities.

Fiscal Accountability - has been defined as the responsibility of governments to ensure that their current period actions have complied with public decisions concerning the raising and spending of public moneys in the short term.

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Operational Accountability - represents the responsibility of governments to report the extent to which services are being provided efficiently and effectively using all resources available for that purpose, and whether they can continue to meet objectives in the foreseeable future.

10.1.1.1 Users

GASB has recognized a wide variety of users of a government's annual financial reports. Users can be broadly categorized into three groups namely:

The Citizenry - to whom the government is principally answerable

The Legislative and Oversight Bodies - who are representatives of the citizens

The Financial Community - which includes investors and creditors

Users' needs are many and diverse. Some users require information for short-term financial decisions that focus on resource allocation and legal and contractual compliance such as a government's short-term financial position and liquidity, current year resource outflows compared with inflows, compliance with budgetary and other legal limitations on the sources and uses of financial resources, and amounts available for appropriation. Other users, in contrast, require information with a longer-term focus and from an economic viewpoint. Additionally, there is a difference in the extent of information required by users. Some users are interested only in a synopsis of the government's resources and activities, others require more in-depth information, such as data on a particular fund.

10.1.1.2 GASB Statement No. 34

For governments to achieve their objective of accountability it is essential that they provide financial information that is both relevant and reliable to reasonably informed users. GASB concluded that to meet the varied needs of a wide range of users it was important for financial statements to report information by fund as well as to focus on the entire government as an economic entity.

Accordingly, in June 1999, GASB introduced the new financial reporting model in Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments ("GASB 34"). The Statement integrates the traditional focus of government fund financial statements, relating to fiscal accountability and the modified accrual basis of accounting, with new forms of reporting to meet users' needs for longer-term financial information, and to ensure that the operational accountability objective of governments is fulfilled

10.1.2 Major Changes To Financial Statements Under The New Financial Reporting Model

GASB Statement No. 34 does not change the requirement that governments prepare and publish the Comprehensive Annual Financial Report (CAFR). The Statement establishes new financial reporting requirements for governments by restructuring much of the information that governments have presented in the past. The impact of GASB Statement No. 34 on the presentation of the CAFR is as follows in Exhibit 1.

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Exhibit 1: A Comparative Overview Of Major Changes To Financial Statements Under GASB Statement No. 34

| Contents of the CAFR Under the Previous Reporting Model | Contents of the CAFR Under the New Reporting Model per GASB 34 as Modified by CDE |
|--|--|
| <p>INTRODUCTORY SECTION</p> <p><u>Required</u></p> <p>Table of Contents</p> <p>Other Material Deemed Appropriate by Management</p> <p>Letter of Transmittal</p> <p>GFOA Certificate of Achievement</p> <p>Organization Chart</p> <p>Principal Officials</p> | <p>INTRODUCTORY SECTION</p> <p><i>No change under GASB 34</i></p> <p><u>Required</u></p> <p>Table of Contents</p> <p><u>Optional</u></p> <p>Letter of Transmittal</p> <p>GFOA Certificate of Achievement</p> <p>Organization Chart</p> <p>Principal Officials</p> |
| <p>FINANCIAL SECTION</p> <p>Auditor's Report</p> <p>General Purpose Financial Statements (GPFS)</p> <p>Combined Balance Sheet - All Fund Types, Account Groups, and Discretely Present Component Units</p> <p>Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - All Governmental Fund Types and Discretely Presented Component Units</p> <p>Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General and Special Revenue Fund Types (and similar governmental fund types of the primary government for which an annual budget has been legally adopted)</p> | <p>FINANCIAL SECTION</p> <p><i>Major change under GASB 34</i></p> <p>Management's Discussion & Analysis</p> <p>Auditor's Report</p> <p>Basic Financial Statements</p> <p><u>Government-Wide Financial Statements</u></p> <p>Statement of Net Assets</p> <p>Statement of Activities</p> <p><u>Fund Financial Statements</u></p> <p><i>Governmental Funds</i></p> <p>Balance Sheet</p> <p>Statement of Revenues, Expenditures, and Changes in Fund Balances</p> <p>Required Reconciliation Schedules</p> |

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| <p>Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity) - All Proprietary Fund Types and Discretely Presented Component Units</p> <p>Combined Statement of Cash Flows - All Proprietary Fund Types and Discretely Presented Component Units</p> <p><i>Trust Funds may be reported above as appropriate or may be reported separately</i></p> | <p><i>Proprietary Funds</i> Statement of Net Assets</p> <p>Statement of Revenues, Expenses, and Changes in Fund Net Assets</p> <p>Required Reconciliation schedules</p> <p>Statement of Cash Flows (using the direct method)</p> <p><i>Fiduciary Fund (and similar Component Units)</i> Statement of Fiduciary Net Assets</p> <p>Statement of Changes in Fiduciary Net Assets</p> <p><i>Discretely Presented Component Units</i> Fund Financial Statements as RSI if component unit does not issue separate financial statements.</p> |
| <p><u>Notes to Financial Statements</u> Two types of disclosure are necessary in the CAFR</p> <p>Notes to the financial statements that are essential for fair presentation of the GPFS (Combined Statements-Overview) level And Narrative explanations</p> <p><i>Notes Essential to the Fair Presentation of GPFS include</i></p> <p>Summary of Significant Accounting Policies</p> <p>Description of the component units of the financial reporting entity & their relationships to the primary government (GASB 39)</p> <p>Policies for reporting infrastructure Policies for capitalization of interest on fixed assets</p> <p>Definition of cash & cash equivalents Policy regarding use of FASB pronouncements for proprietary activities</p> <p>Revenue recognition policies Encumbrance accounting and reporting methods</p> <p>Cash deposits with Financial Institutions</p> | <p><u>Notes to Financial Statements</u> <i>Refer to additional disclosures per GASB 34</i></p> <p>General Disclosure Requirements (Similar to Notes to Financial Statements per the old reporting model as applicable)</p> <p>Additional Disclosures in Summary of Significant Accounting Policies (Paragraph 115 of the Statement)</p> <p>Description of government-wide financial statements including measurement focus & basis of accounting used</p> <p>Description of types of transactions included in program revenues, policies for and elimination of internal activity in the statement of activities</p> <p>Policy for asset capitalization and estimation of their useful lives separately from historical cost.</p> <p><i>Required Disclosures about Capital Assets</i> <i>Refer to additional disclosures per GASB 34</i></p> <p>(Paragraphs 116-120 of the Statement)</p> <p>Beginning and ending balances and acquisitions and dispositions for the year for each major class of capital asset and the related accumulated depreciation reported</p> |

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| <p>Investments</p> <p>Significant contingent liabilities</p> <p>Encumbrances outstanding</p> <p>Significant effects of subsequent events</p> <p>Pension plan obligations</p> <p>Accumulated unpaid employees benefits, such as vacation and sick leave</p> <p>Material violations of finance-related legal and contractual provisions</p> <p>Schedule of debt service requirements to maturity</p> <p>Commitments under noncapitalized leases</p> <p>Construction and other significant commitments</p> <p>Changes in general fixed assets</p> <p>Changes in general long-term debt</p> <p>Any excess of expenditures over appropriations in individual funds</p> <p>Deficit fund balance or retained earnings of individual funds</p> <p>Interfund receivables and payables</p> <p><i>Narrative Explanations</i></p> <p>Narrative explanations of combining, individual fund, account group, and component unit statements and schedules should provide information not included in the financial statements, notes to the financial statements, and schedules that is necessary</p> <ul style="list-style-type: none"> -To assure an understanding of the combining and individual statements and schedules, and -To demonstrate compliance with finance-related legal and contractual provisions. | <p><i>Required Disclosures on Long-term Liabilities</i> (Paragraphs 116-120 of the Statement)</p> <p>Beginning and ending balances and increases and decreases for the year for each major long-term liability.</p> <p>Additional disclosure is required for portion of items due within one year</p> <p>Information on governmental funds that have liquidated the long-term operating liabilities in the past</p> <p>Policy for authorizing and spending investment income</p> <p><i>Disclosures for Donor-Restricted Endowments</i> (Paragraph 121 of the Statement)</p> <p>Amounts of net appreciation on investment available for authorization for expenditure</p> <p>How amount are reported in net assets</p> <p>State Law relating to ability to spend net appreciation</p> |
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| <p><i>Segment Information for Enterprise Funds</i></p> <p>Enterprise fund segment disclosures are required if Material long-term liabilities are outstanding, The disclosures are essential to assure the GPFS are not misleading, or They are necessary to assure interperiod comparability.</p> <p>Required Supplementary Information (RSI)</p> <p>Required supplementary information consists of statements, schedules, statistical data, or other information that GASB has determined is necessary to supplement, although not required to be a part of, the general purpose financial statements of a governmental entity</p> | <p><i>Segment Reporting</i> (Paragraph 122 of the Statement)</p> <p>Provision of Condensed Financial Statements in the Notes</p> <p>Required Supplementary Information (RSI) Other than MD&A <i>Note additional information required by GASB 34</i></p> <p>Budgetary Comparison Schedules (Paragraph 130 of the Statement)</p> <p>Original budget (Adopted by July 1) & final appropriated budget (As of June 30)</p> <p>Actual amounts (Budgetary basis)</p> <p>Column to report the variance between the final budget and actual amounts is encouraged</p> <p>Must include all funds identified in the “Chart of Accounts” with bolded codes that are used by the district.</p> <p>Modified approach to infrastructure disclosures (if applicable)</p> |
| <p>Combining and Individual Fund and Account Group Statements and Schedules.</p> <p><i>Combining Statements</i> By Fund Type where a governmental unit has more than one fund of a given fund type</p> <p>For Discretely Presented Component Units where the reporting entity has more than one component unit</p> <p><i>Individual Fund and Account Group Statements</i> Where a governmental unit (including blended component units) has only one fund type & for account groups or where necessary to present prior year and budgetary comparisons</p> <p><i>Schedules</i> To demonstrate finance-related legal & contractual compliance To present information spread throughout the statements that can be brought together and shown in greater detail To present in greater detail information reported in the statements</p> <p>CDE Required Schedules</p> | <p>Combining and Individual Fund Statements</p> <p>Combining statements are limited to nonmajor funds and are not required under GASB Statement No. 34</p> <p>CDE Required Schedules No change</p> <p>ADE transmission will be based on Fund Statements not on GASB 34 Statements</p> |

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| STATISTICAL SECTION | STATISTICAL SECTION <i>No change under GASB 34</i> |
|---|---|
| Statistical tables present comparative data for several periods of time—often ten years or more—or contain data from sources other than the accounting records and are presented in the final section of the CAFR. The following statistical tables should be included CAFR unless clearly inapplicable in the circumstances: | The following statistical tables should be included in the CAFR unless clearly inapplicable in the circumstances: |
| General Governmental Expenditures by Function | General Governmental Expenditures by Function |
| General Revenues by Source | General Revenues by Source |
| Property Tax Levies and Collections | Property Tax Levies and Collections |
| Assessed and Estimated Actual Value of Taxable Property | Assessed and Estimated Actual Value of Taxable Property |
| Property Tax Rates-All Overlapping Governments | Property Tax Rates-All Overlapping Governments |
| Special Assessment Billings and Collections | Special Assessment Billings and Collections |
| Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita | Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita |
| Computation of Legal Debt Margin, if not presented in the General Purpose Financial Statements | Computation of Legal Debt Margin |
| Computation of Overlapping Debt | Computation of Overlapping Debt |
| Ratio of Annual Debt Service for General Bonded Debt to Total General Expenditures | Ratio of Annual Debt Service for General Bonded Debt to Total General Expenditures |
| Revenue Bond Coverage | Revenue Bond Coverage |
| Demographic Statistics | Demographic Statistics |
| Property Value, Construction, and Bank Deposits | Property Value, Construction, and Bank Deposits |
| Principal Taxpayers. | Principal Taxpayers |
| Miscellaneous Statistics | Miscellaneous Statistics |

Required Implementation Dates

The largest school districts in Colorado will be required to implement the provisions of GASB Statement No. 34 for the fiscal year ending June 30, 2002.

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 with total annual revenues

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(excluding extraordinary items) of \$100 million or more (phase 1) should apply this Statement for periods beginning after June 15, 2001. Governments with at least \$10 million but less than \$100 million in revenues (phase 2) should apply this Statement for periods beginning after June 15, 2002. Governments with less than \$10 million in revenues (phase 3) should apply this Statement for periods beginning after June 15, 2003. Earlier application is encouraged. All component units are required to implement the requirements of this statement no later than the same fiscal year as their primary government regardless of the total revenue of each component unit.

Financial Statement Elements

The main components of GASB Statement No. 34 are:

Management's Discussion & Analysis (MD&A) as Required Supplementary Information (RSI)

Basic Financial Statements
Government-Wide Financial Statements
Fund Financial Statements
Notes to Financial Statements

Required Supplementary Information other than MD&A

The basic financial statements and the required supplementary information constitute the minimum requirements for external financial statements under GASB Statement No. 34.

Exhibit 2: User Group that the Financial Statement Components are Aimed at:

| Financial Statement Components | User Group Primarily Aimed At |
|---|--|
| Required Supplementary Information (including MD&A) | Citizenry, Legislators and Oversight Bodies, Financial Community |
| Government-Wide Financial Statements | Citizenry and Legislators |
| Fund Financial Statements | Oversight Bodies and Financial Community |

10.2.1 Measurement Focus and Basis of Accounting

The modified accrual or accrual basis of accounting, as appropriate, should be utilized in measuring financial position and operating results of each fund. The appropriate measurement focus is described under each fund type that follows.

10.2.2 Government-Wide Financial Statements

The focus of the government-wide statements is on reporting the operating results and financial position of the government as an economic entity. These statements should distinguish between the governmental and business-type activities of a primary government and between the primary government and its discretely presented component units. Activities accounted for in the fiduciary funds and component units that are fiduciary in nature should not be included in the government-wide financial statements.

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Government-wide financial statements should be used to obtain information about operating results; how current-period activities were financed; financial position, including capital and financial assets and long-term as well as short term liabilities; the districts' economy, efficiency, and effectiveness of operations; the effect of operations on financial position and condition; and the extent to which inter-period equity is being achieved.

10.2.3 Fund Financial Statements

Governmental Fund Financial Statements

Under GASB Statement No. 34, governmental fund financial statements (including financial data for the general fund and special revenue, capital projects, debt service, and permanent funds) should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus and basis of accounting, revenues should be recognized in the accounting period in which they become available and measurable and expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due.

Proprietary Fund Financial Statements

Proprietary fund financial statements (including financial data for enterprise and internal service funds) should be prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues should be recognized in the accounting period in which they are earned and become measurable, and expenses should be recognized in the period incurred, if measurable.

Fiduciary Fund Financial Statements

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

Exhibit 3: Measurement Focus and Basis of Accounting for Financial Statements

| Financial Statements | Measurement Focus | Basis of Accounting |
|---|-----------------------------|----------------------------|
| Government-Wide Financial Statements | Economic Resources | Accrual |
| Governmental Funds Financial Statements | Current Financial Resources | Modified Accrual |
| Proprietary Funds Financial Statements | Economic Resources | Accrual |
| Fiduciary Funds Financial Statements | Economic Resources | Accrual |

10.3 Presentation Of Financial Statements

10.3.1 Management's Discussion & Analysis

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

Provide a concise, unbiased, and easily readable description of the district's financial activities

Help users understand the relationship of the results reported in the governmental activities in the government-wide financial statements and the results reported in the major governmental funds financial statements.

10.3.1.1 Contents

An analysis of the government's overall financial position and results of operations to aid users in assessing whether financial position has improved or deteriorated as a result of the year's operations.

The following is a list of required information that should be included and addressed in the MD&A. MD&A is restricted to the following topics although there is no limit to the information that may be presented about these topics.

Information and discussion on the basic financial statements presented, their relationship to one another, and the significant differences in the information they provide. The discussion could include the different methods of accounting utilized in the government-wide and fund financial statements.

Condensed financial information comparing current year to prior year. The analysis should include specific economic factors that contributed to the change from the prior year. Charts and graphs may be used to supplement information in the condensed statements but should not be used in place of them.

Objective analysis of the district's financial condition as a whole. Analysis of the government's overall financial position and results of operations should address both governmental and business-type activities separately.

An analysis of balances and transactions on a fund basis addressing the reasons for significant changes in fund balances or fund net assets. The analysis should also include information on whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use.

A discussion on significant variances between the district's original budget (July 1), final budget (June 30), and actual expenditures, and the impact of these variances on the government's future liquidity.

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A description of activity relating to the district's capital assets and long-term debt activity during the year. This discussion should include commitments made for capital expenditures, changes in credit ratings, and debt limitations affecting the financing of planned facilities or services.

A description of currently known facts, decisions or conditions expected to impact the district's financial position and results of operation. The term 'currently known' is limited to events or decisions that have occurred, been enacted, adopted, agreed upon, or contracted as of at the date of the auditor's report. The discussion should address expected effects on both governmental and business-type activities.

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

10.3.1.2 Letter of Transmittal and MD&A

The district should ensure that information contained in the MD&A is not duplicated in the letter of transmittal.

During the year of implementation, comparative information will not be available for government-wide financial statements. The districts should consider preparing the MD&A in the year of implementation with a focus on the comparative fund level financial statements.

Exhibit 4: Important Distinction between Letter of Transmittal and MD&A

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

Comment

If the district provides comparative financial statements by presenting basic financial statements and RSI for two years, then a separate MD&A for each year is not required but the MD&A is required to address both years presented in the comparative financial statements. The MD&A should include comparative condensed financial information and related analysis for both years.

10.3.2 Basic Financial Statements

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The basic financial statements include:

Government-wide Financial Statements

Fund Financial Statements

Notes

These statements replace the combined statements of the general-purpose financial statements (GPFS) required by the former reporting model. Districts are required to present both the government-wide and the fund financial statements as basic financial statements. Additionally government-wide statements should not be combined with fund financial statements.

10.3.3 Government-Wide Financial Statements

The purpose of government-wide financial statements is to present the financial position and the operating results of the district as a whole. The statements are expected to provide users with operational accountability information and to enable them to:

Understand the true financial position of the district including capital and financial assets and long term as well as short term liabilities.

Determine if the district is able to continue to provide current service levels and meet liabilities as they become due.

Determine the operating results of the district, including the economic cost and the net cost of services, and assess the economy, efficiency, and effectiveness of operations.

The government-wide financial statements include:

Statement of Net Assets

Statement of Activities

10.3.3.1 Measurement Focus and Basis of Accounting

Information in the government-wide financial statements should be reported using the flow of economic resources measurement focus and the accrual basis of accounting.

Comment

GASB Statement No. 20 allowed governments to choose whether to apply FASB Statements and Interpretations issued after November 30, 1989 except for those that conflict with or contradict GASB pronouncements for all enterprise funds. GASB 34 does not provide an opportunity to change that election. The option used in the past for a district's proprietary funds must now be used in accounting for the information included in the government wide financial statements.

10.3.3.2 Statement of Net Assets

The statement of net assets is intended to present the financial position of the primary government and of its discretely presented component units. This statement is accordingly required to present *all* financial and capital resources. GASB 34 encourages the net assets format which displays assets less liabilities equal net assets (*not* fund balances or fund equity).

Exhibit 5: Key Differences Between the Combined Balance Sheet per the Previous Reporting Model and the Statement of Net Assets Under the New Reporting Model per GASB 34

| Combined Balance Sheet per the Previous Reporting Model | Statement of Net Assets Under the New Reporting Model |
|---|--|
| Focus was on fund and fund-type reporting. | Focus is on governmental and business-type activities. |
| Reporting was on current financial resources measurement focus and modified accrual basis of accounting as well as on economic resources measurement focus and accrual basis of accounting based on nature of the fund. | Reporting is on economic resources measurement focus and accrual basis of accounting for all assets and liabilities. |
| General capital assets and general long-term liabilities were reported only in account groups. | The statement includes general capital assets and general long-term liabilities. |
| The reporting of infrastructure assets was optional. | Infrastructure assets must be reported. Refer to Section 10.3.3.5. |
| No accumulated depreciation was reported for general fixed assets. | Accumulated depreciation must be reported for all capital assets. |

Presentation

Data is required to be reported in separate columns for governmental activities and business-type activities of the primary government which is the reporting entity.

Exhibit 6: Distinguishing between Governmental Activities and Business-Type Activities

| Governmental Activities | Business-Type Activities |
|--|---|
| Activities financed by taxes and intergovernmental revenues, and other nonexchange revenues. | Activities for which fees are charged to external parties for goods or services |
| Activities reported in governmental funds and internal service funds | Activities reported in Enterprise funds and internal service funds (as applicable - see note below) |
| Internal clearing account funds, for example payroll clearing, should be reported in the governmental activities column. Funds used to | |

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| | |
|--|--|
| account for tax collections on behalf of other entities should be accounted for as private purpose trust funds and therefore excluded from the government-wide financial statements. | |
|--|--|

Note: GASB Statement 34 states that although internal service funds are reported as proprietary funds of the government, the activities accounted for in them are usually more governmental than business-type in nature. If enterprise funds are the predominant or only participants in an internal service fund, however, the district should report that internal service fund's residual assets and liabilities within the business-type activities column in the statement of net assets

Discretely presented component units are required to be presented in total in a separate column.

A total column is required for the primary government. A total column for the reporting entity as a whole, including the discretely presented component units, may be presented but is not required.

Comparative data is not required but may be presented at the option of the district. If comparative data is presented, all columns must be included for both years.

Fiduciary funds and fiduciary component units are not included in the government-wide statements, as fiduciary resources cannot be used to support the government's programs or other services.

GASB 34 encourages presentation of assets and liabilities based on their relative liquidity. The classified presentation distinguishing between current and long-term assets and liabilities is allowed but not encouraged.

Exhibit 7: Determining Liquidity of Assets and Liabilities

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

The difference between a district's assets and liabilities is its net assets. Terms such as equity, net worth, or fund balance should not be used in the statement of net assets. The three components of net assets are:

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

Exhibit 8: Net Asset Classification

| Invested in Capital Assets, Net of Related Debt | Restricted Net Assets | Unrestricted Net Assets |
|---|---|---|
| <p>All capital assets (including restricted) net of accumulated depreciation and reduced by outstanding balances of debt relating to the acquisition, construction, or improvement of these assets</p> <p>If the district has capital assets but no related debt the account should be titled 'invested in capital assets' so as not to mislead readers</p> | <p>Assets on which limitations have been placed by creditors, grantors, contributors, laws and regulations.</p> <p>Must Include: Tabor Reserve, Bond Proceeds, Bond Redemption and Grants</p> <p>Districts may include other items identified as being restricted</p> | <p>All other assets not included in 'Invested in capital assets net of related debt' category or 'Restricted net asset' category. Internal designations may not be shown at this level.</p> |

Comment

Assets held for others included in a governmental or proprietary fund may be eliminated against the related liability though elimination is not required for the statement of net assets.

10.3.3.3 Capital Assets

Definition

Capital assets relate to all assets of the district regardless of the associated fund or activity and have been defined as tangible and intangible assets that are used in operations and that have useful lives extending beyond a single reporting period. Capital assets include:

- 1) Land and Land Improvement
- 2) Buildings and Building Improvement
- 3) Machinery and Equipment
- 4) Vehicles
- 5) Easements

Comment

GASB 34 does not prescribe a minimum level for the capitalization of assets. Different classes of assets may have different capitalization policies and different thresholds may be set for management control purposes or for compliance with laws and regulations. However districts are required to disclose the capitalization policy i.e. the dollar value above which asset acquisitions are added to the capital accounts which is up to \$5,000 per unit (threshold to be determined by the entity). Reference: Circular A-87 2) "Equipment" means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which equals the lesser of (a) the capitalization level established by the governmental unit for financial statement purposes, or (b) \$5000.

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Reporting

Depreciable capital assets should be reported in the Statement of Net Assets at historical cost net of accumulated depreciation.

The historical cost, on a prospective basis, should include supplementary charges necessary to place the asset into its intended location and condition including freight and transportation charges, site preparation costs, and professional fees that directly relate to the acquisition of the asset.

Depreciable capital assets may be reported on the face of the statement as a single item or in major classes.

Non depreciable capital assets that are either inexhaustible, such as land, or infrastructure assets reported using the modified approach should be reported as separate line items on the Statement of Net Assets. GASB has defined an inexhaustible capital asset as one whose economic benefit or service is used up so slowly that its estimated useful life is extraordinarily long. Construction in progress should be included with the non depreciable capital assets in the Statement of Net Assets.

Accumulated depreciation should be reported in the Statement of Net Assets on the face of the statement (parenthetically or as separate line item reducing capital assets). Regardless of the presentation in the Statement of Net Assets, the notes to the financial statements should disclose accumulated depreciation separately in addition to changes in accumulated depreciation.

10.3.3.5 Infrastructure Assets

Definition

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

| | |
|------------------|-------------------------|
| Roads | Water and sewer systems |
| Bridges | Dams |
| Tunnels | Drainage systems |
| Lighting systems | |

Note: Parking lots and lighting systems may be defined by the district as part of the associated building, rather than as infrastructure. Wiring for networks in buildings are not defined as infrastructure. Additionally, activities involving the Telecommunications Infrastructure Fund also do not meet the definition of infrastructure.

Reporting

Districts are required to capitalize and report *major* general infrastructure assets that were acquired in fiscal years ending after June 30, 1980, or that received major renovations, restorations, or improvements during that period.

GASB Statement No. 34 defines major general infrastructure at the network or subsystem level to be determined based on the following criteria:

The cost or estimated cost of the subsystem is expected to be at least 5 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999.

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or

The cost or estimated cost of the network is expected to be at least 10 percent of the total cost of all general capital assets reported in the first fiscal year ending after June 15, 1999

The reporting of non-major networks is encouraged, but not required.

Valuation of Infrastructure Assets

Historical Cost

Estimated Historical Cost (see website for historical cost calculator

<http://www.jsc.nasa.gov/bu2/inflateCPI.html>)

If determination of the historical cost is not viable due to incomplete records, an estimated historical cost may be used by: Calculating the current replacement cost of a similar asset, and deflating this cost back by using price-level indexes to the year of acquisition.

Infrastructure assets are depreciated using the basic standard depreciation approach used for capital assets or governments can adopt a modified approach and eliminate the need to depreciate eligible general infrastructure assets. It is to be noted that the modified approach may not be feasible for certain school districts because of the effort involved in gathering the information required under this approach.

In order to use the modified approach for eligible infrastructure assets, i.e. infrastructure assets that are part of a network or subsystem of a network, the following two requirements must be met:

- 1) The district has a qualifying asset management system which includes the:
 - a) Existence of an up to date inventory of infrastructure.
 - b) Performance of consistent and complete condition assessments every three years the results of which are summarized using a measurement scale.
 - c) Ability to estimate, on an annual basis, the cost to maintain and preserve the infrastructure assets at the disclosed condition level.

- 2) The district documents that the eligible infrastructure assets are being preserved approximately at or above a condition level established and disclosed by the government.

Comment

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

If the district chooses the modified approach for reporting general infrastructure assets it is required to present RSI on condition level and on estimated versus actual maintenance.

If the district will report eligible infrastructure assets using the modified approach, the following schedules and disclosures are required as RSI:

The assessed condition, performed at least every three years, for at least the three most recent complete condition assessments. The dates of the assessments must be disclosed.

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The estimated annual amount calculated at the beginning of the fiscal year to maintain and preserve at or above the condition level established and disclosed by the district. This estimated amount must be compared with actual expensed amounts for each of the past five reporting periods.

The basis for the condition measurement and the measurement scale used to assess and report condition.

The condition level at which the agency intends to preserve its eligible infrastructure assets reported using the modified approach.

Factors significantly affecting the trends in the information reported above, such as changes in the measurement scale, the basis for the condition measurement, or the condition assessment methods used during the period covered by the schedule should be reported. If the condition level at which the agency intends to preserve infrastructure assets changes, an estimate of the effect of the change on the estimated annual amount to maintain and preserve those assets for the current period should be disclosed.

The district may adopt new condition assessment methods, beginning with the next condition assessment, as new methods of condition assessment become available and as the knowledge base of asset management grows. System upgrades that do not change the basic assessment methodology are not considered to be a change in assessment methodology.

Works of Art and Historical Treasures (including historical buildings)

GASB has stated that districts should capitalize works of art, historical treasures, and similar assets at their historical cost or fair value at date of donation (estimated if necessary) whether they are held singly or in collections.

Districts are encouraged, but not required to capitalize a collection that meets all of the following conditions in accordance with paragraph 27 of GASB 34 as follows:

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

Monuments are capital assets that may qualify as works of art, historical treasures, or similar assets if they meet the requirements above.

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

Appropriate disclosures should provide a description of the collection and whether the assets are capitalized or not. (GASB 34, Paragraphs 116-118)

APPENDICES

Government Finance officers Association

203 N. LaSalle Street – Suite 2700

Chicago, IL 60601

Phone: (312) 977-9700 Fax (312) 977-4806

Website: <http://www.gfoa.org/>

Publication: Governmental Accounting, Auditing and Financial Reporting
(The Blue Book)

Website for publication:

<https://www.estoregfoa.org/Source/Orders/index.cfm?section=OrdersBooks>

Governmental Accounting Standards Board

401 Merrit 7, P.O. Box 5116

Norwalk, CT 06856-5116

Phone: (203) 847-0700

Website: <http://www.gasb.org/>

Publications Website: <http://www.gasb.org/pub/index.html>

CONTACTS

State Organizations

State of Colorado

State Capitol Building
Governor's Office, Room 136
200 East Colfax
Denver, CO 80203-1792
Phone: 303/866-2471
Fax: 303/866-2003
<http://www.state.co.us>

The State of Colorado's home page provides links to many different types of state and local government resources.

Colorado Department of Education

201 East Colfax Avenue
Denver, CO 80203
Phone: 303/866-6806
Fax 303/866-6938
<http://www.cde.state.co.us>

- **Public School Finance Division**

Room 508
201 East Colfax Avenue
Denver, CO 80203
Phone: 303/866-6845
Fax: 303/866-6888

This Division administers public school finance for the state and establishes statewide budgeting, reporting, and auditing standards for school districts. **Contact Vody Herrmann for further information.**

Colorado Department of Labor and Employment

Tower 2
Suite 400
1515 Arapahoe Street
Denver, CO 80202-2117
Phone: 303/620-4701
Fax: 303/620-4714
<http://cdle.state.co.us/default.htm>

CONTACTS

Public Employees' Social Security Program

<http://pess.cdle.state.co.us>

The Colorado Department of Labor and Employment offers this Web site as a quick reference tool for public employers and their employees, accountants, payroll officials, and others who need information about Social Security and Medicare (hospital insurance) requirements for state and local government employees.

- **Office of the State Social Security Administrator**

Tower 2
Suite 700
1515 Arapahoe Street
Denver, CO 80202-2117
Phone: 303/620-4458
Fax: 303/620-4485

This Office provides information regarding responsibilities of state and local government employers for Social Security and Medicare coverage and Federal Insurance Contributions Act (FICA) tax withholding. **Contact Becky Greben for additional information.**

- **Division of Workers' Compensation**

Tower 2
Suite 500
1515 Arapahoe Street
Denver, CO 80202-2117
Phone: 303/575-8700
Toll-free: 1-888/390-7936
Fax: 303/575-8822
<http://workerscomp.cdle.state.co.us>

The Division administers the mandatory workers' compensation insurance program. It also provides information to help the public understand the workers' compensation system, provides dispute resolution services, and enforces compliance with the laws and rules of workers' compensation.

Colorado Department of Local Affairs (DOLA)

Centennial Building
Room 323
1313 Sherman Street
Denver, CO 80203
Phone: 303/866-2771
Fax: 303/866-2251
http://www.state.co.us/gov_dir/loc_affairs_dir/frontpage_locaffairs.html

CONTACTS

- **Division of Local Government**
Centennial Building
Room 521
1313 Sherman Street
Denver, CO 80203
Phone: 303/866-2156
Fax: 303/866-4819
<http://www.dlg.oem2.state.co.us>

The Local Government Division of the Department of Local Affairs is charge with assisting local governments and advocating local issues at the state level. They assist in all aspects of local government administration through workshops, publications, on-line computerized data, and direct staff consultation. A description of the services provided by the Division with specific contacts for each area follows. **Contact Geoff Withers at 303/866-4660 or geoff.withers@state.co.us for additional information.**

Budgeting

The Division provides technical assistance on budgeting issues such as compliance with the Local Government Budget Law and calculating various TABOR and tax limits.

Contact Lillie Fuller at 303/866-3967 or lillie.fuller@state.co.us for additional information.

Economic & Demographic Information

As the primary source for state demographic information, the Division prepares, maintains, and interprets population statistics, estimates, and projections. Demographic information is available for economic trend analysis, budget projections, and various other uses. **Contact Mark Krudwig at 303/866-3591 or mark.krudwig@state.co.us**

or

Earl Hughes at 303/866-2729 or earl.hughes@state.co.us for further information.

Financial Management

Financial management assistance is furnished in the areas of investment and cash management, capital financing, revenue development, expenditure control, fiscal policy development, and banking and financial analysis and projections. **Contact Susanna Lienhard at 303/866-2354 or susanna.lienhard@state.co.us for further information.**

Planning Assistance

The Division provides professional assistance to local governments in their land use, and environmental and capital improvement planning efforts. **Contact Charles Unsel at 303/866-2353 or charles.unsel@state.co.us for further information.**

Purchasing Assistance

The Division aids local governments to improve current procurement procedures, establish and update procurement codes, develop cooperative bids, and foster networking among the purchasing community. The Division is also responsible for receiving the

CONTACTS

Conservation Trust Fund Status Reporting Form. This form is annually submitted by eligible local governments and indicates projects and project expenses associated with Trust Fund moneys. **Contact David Metsch at 303/866-3005 or david.metsch@state.co.us for additional information.**

- **Division of Property Taxation**

Centennial Building
Room 419
1313 Sherman Street
Denver, CO 80203
Phone: 303/866-2371
Fax: 303/866-4000

The Property Taxation Division of the Department of Local Affairs coordinates and administers the implementation of property tax law in the State's 63 counties. **Contact Mary Huddleston at 303/866-2371 for further information.**

Colorado Dept. of Personnel General Support Services

- **State Archives**

Centennial Building
Room 1B-20
1313 Sherman Street
Denver, CO 80203
Phone: 303/866-2055
Fax: 303/866-2257

http://www.state.co.us/gov_dir/gss/archives/index.html

The Division produces a *Colorado General Records Management Manual* which provides general guidelines for the retention or disposition of records. Although this *Records Manual* is developed for state agencies, it could be used by local governments to manage their retention and disposition of records.

- **Colorado State Controller's Office**

State Services Building
Room 250
1525 Sherman Street
Denver, CO 80203
Phone: 303/866-3281
Fax: 303/866-4233
<http://www.sco.state.co.us>

CONTACTS

Through this Web site, a copy of the State Controller's fiscal rules can be obtained to determine compliance with the maximum inventory level according to Sections 29-1-506 and 29-1-607, C.R.S.

Colorado Department of Regulatory Agencies

Suite 1550
1560 Broadway
Denver, CO 80202
Phone: 303/894-7855
Fax: 303/894-7885
<http://www.dora.state.co.us>

- **Division of Banking**

Room 1175
1560 Broadway
Denver, CO 80202
Phone: 303/894-7575
Fax: 303/894-7570
<http://www.dora.state.co.us/Banking>

The Division is responsible for the regulation of state-chartered commercial banks, trust companies, and industrial banks. The Division also is responsible for the enforcement of the Public Deposit Protection Act. **Contact Cynthia Chamberlin at 303/894-7571 for further information**

- **Division of Insurance**

Suite 850
1560 Broadway
Denver, CO 80202
Phone: 303/894-7499
Toll-free: 1-800/930-3745
Fax: 303/894-7455

<http://www.dora.state.co.us/Insurance>

The Division serves individual consumers and the insurance industry. The Division's mission includes resolving consumer complaints against insurers, monitoring companies for financial solvency, licensing producers, and investigating illegal activities.

- **State Board of Accountancy**

Room 1340
1560 Broadway
Denver, CO 80202
Phone: 303/894-7800
Fax: 303/894-7802
<http://www.dora.state.co.us/Accountants>

CONTACTS

In general, this Board is responsible for licensing and regulating individual Certified Public Accountants (CPAs) and Certified Public Accounting Firms, and for investigating complaints filed against its licensees.

Colorado Department of Treasury

State Capitol Building

Room 140

200 East Colfax

Denver, CO 80203

Phone: 303/866-2441

Fax: 303/866-2123

<http://www.treasurer.state.co.us>

The State Treasurer's Office provides technical services in areas of cash management, investments, and banking services to local governments.

- **Unclaimed Property Program**

Suite 1225

1560 Broadway

Denver, CO 80202

Phone: 303/894-2443

Fax: 303/894-2351

The Unclaimed Property Program is responsible for collecting and distributing unclaimed property according to the Unclaimed Property Law. All governmental entities must file annually an "unclaimed or abandoned property report" with the State Treasurer's Office. **Contact Patty White for further information.**

Colorado Legislative Service Agencies

- **Colorado General Assembly**

State Capitol Building

200 East Colfax

Denver, CO 80203

Phone: 303/866-2904 (House)

303/866-2316 (Senate)

http://www.state.co.us/gov_dir/stateleg.htm

This Internet site is useful when following legislation or conducting legislative searches. It contains the Colorado Revised Statutes, session laws, house and senate bills, calendars, and the *Digest of Bills*.

CONTACTS

- **Office of Legislative Legal Services**

State Capitol Building

Room 091

200 East Colfax Avenue

Denver, CO 80203-1782

Phone: 303/866-2045

Fax: 303/866-4157

http://www.state.co.us/gov_dir/leg_dir/olls/olls1.html

The Office of Legislative Legal Services prepares the bills and resolutions introduced in the General Assembly. In addition, a digest of bills is published annually that summarizes the enacted bills for each current year's legislative session. **Contact Sharon Eubanks at 303/866-2045 for further information.**

- **Office of the State Auditor (SAO)**

Legislative Services Building

200 East 14th Avenue

Denver, CO 80203-2211

Phone: 303/866-2051

Fax: 303/866-2060

http://www.state.co.us/gov_dir/audit_dir/audit.html

This Web site offers access to the *Financial Management Manual*, the latest performance and financial audits performed by the SAO, and links to various auditing and accounting organizations.

Local Government Section

The Local Government Section is responsible for reviewing all audits and Applications for Exemption from Audit for compliance with generally accepted accounting principles and applicable Colorado laws as prescribed by the Local Government Audit law. For technical assistance on governmental accounting and auditing issues **contact Linda Greenly or Cynthia Hochmiller at 303/866-2051.**

For general Local Government assistance related to audit submission or Applications for Exemption from Audit, requests for forms, and orders for the *Financial Management Manual* **contact Yolonda Foley at 303/866-2051.**

General Accounting Office (GAO)

P.O. Box 37050

Washington, DC 20013

Phone: 202/512-6000

Fax: 202/512-6061

<http://www.gao.gov>

CONTACTS

The GAO performs audits and evaluations of federal government programs and activities. This Web site offers access to GAO publications, audit reports, and reports on Federal Agency Rules.

Government Printing Office (GPO)

Superintendent of Documents
Washington, DC 20402
Phone: 202/512-1800
Fax: 202/512-2250
<http://www.access.gpo.gov>

The mission of the GPO is to inform the nation by producing, procuring, and disseminating printed and electronic publications of the Federal government. This Web site provides access to more than 70 databases of federal publications, including the *Congressional Record* and the *Federal Register*.

Department of Health & Human Services (HHS)

200 Independence Avenue, S.W.
Washington, D.C. 20201
Phone: 202/619-0257
Toll Free: 1-877/696-6775
<http://www.hhs.gov>

HHS is the United States government's principal agency for protecting the health of all Americans and providing essential human services.

<http://www.os.dhhs.gov/progorg/grantsnet>

GrantsNet is a tool for finding and exchanging information about HHS and selected other federal grant programs.

- **Health Care Financing Admin. (HCFA)**

7500 Security Boulevard
Baltimore, Maryland 21244
Phone: 410/786-3000
<http://www.hcfa.gov>

HCFA administers the Medicare, Medicaid and Child Health Insurance Programs for the Department of health and Human Services. Their Web site contains information about each of these programs.

National Archives and Records Administration (NARA)

700 Pennsylvania Avenue NW
Washington, DC 20408-0001
Phone: 202/523-5227
Fax: 202/523-6866

CONTACTS

<http://www.nara.gov>

NARA is an independent federal agency that helps preserve our nation's history by overseeing the management of all federal records. This Web site offers records management guidance, links to publications such as the *Federal Register*, and technical guidance concerning archival preservation and management.

Office of Management and Budget (OMB)

Administration Office

725 17th Street NW

Washington, DC 20503

Phone: 202/395-3080

Fax: 202/395-9068

<http://www.whitehouse.gov/OMB> Circulars or Publications

Phone: 202/395-7332

Fax: 202/395-9068

<http://www.whitehouse.gov/OMB/grants>

This Web site provides access to all OMB Circulars, Publications, and standard forms including the *Circular A-133 Compliance Supplement* and data collection form.

Securities and Exchange Commission (SEC)

SEC Headquarters

450 Fifth Street, NW

Washington, DC 20549

Phone: 202/942-7040

<http://www.sec.gov>

The SEC is a federal regulatory agency with responsibility for administering the federal securities laws. This Web site offers investor education and assistance as well as access to SEC rules and the *News Digest*.

Single Audit Clearinghouse

Bureau of the Census

1201 East 10th Street

Jeffersonville, IN 47132

Phone: 1-888/222-9907

<http://harvester.census.gov/sac>

This Web site offers access to the on-line database containing current information from the Federal Audit Clearinghouse. Included is an electronic template of the data collection form which is used to capture single audit information.

CONTACTS

Professional and Other Types of Organizations

American Institute of Certified Public Accountants (AICPA)

Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881
Phone: 201/938-3000
Fax: 201/938-3329
Gen. Tech. Info. Phone: 1-888/777-7077
24-hour Fax Hotline: 201/938-3787
<http://www.aicpa.org>

The AICPA Web site contains information on the Single Audit Act, new accounting and auditing standards, and various types of research links.

<http://www.aicpa.org/belt/a133main.htm>

This Web site offers guidance related to *OMB Circular A-133* including examples of the reports required, and links to the *Circular* and *the Compliance Supplement*.

Association of School Business Officials International (ASBO)

11401 North Shore Drive
Reston, VA 20190-4232
Phone: 703/478-0405
Fax: 703/478-0205
<http://www.asbointl.org>

Colorado Association of School Boards (CASB)

1200 Grant Street
Denver, CO 80203-2306
Phone: 303/832-1000
Toll Free: 1-800/530-8430
Fax: 303/832-1086
<http://www.casb.org>

Colorado Government Finance Officers Association (CGFOA)

P.O. Box 19276
Denver, CO 80219-0276
Phone: 1-888/922-4647
Fax: 303/922-5295
<http://gossamer-moon.com/cgfoa>

CONTACTS

Colorado Society of Certified Public Accountants (CSCPA)

Suite 500
7979 East Tufts Avenue
Denver, CO 80237-2845
Phone: 303/773-2877
1-800/523-9082 (in-state watts)
Fax: 303/773-6344
<http://cocpa.org>

Government Finance Officers Association (GFOA)

Suite 800
180 North Michigan Avenue
Chicago, IL 60601-7576
Phone: 312/977-9700
Fax: 312/977-4806
<http://gfoa.org>

Governmental Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB)

Suite 7
401 Merritt
PO Box 5116
Norwalk, CT 06856-5116
Phone: 203/847-0700
Fax: 203/849-9714
<http://www.gasb.org>

Moody's Investors Service

99 Church Street
New York, NY 10007
Phone: 212/553-0377
Fax: 212/553-4700
<http://www.moodys.com>

Public Employees Retirement Association (PERA)

1300 Logan Street
Denver, CO 80203-2386
Phone: 303/832-9550
Toll Free 1/800-759-7372
Fax: 303/837-6264
<http://www.copera.org>

PRIMA – Colorado

5334 South Prince Street
Littleton, CO 80166-0001

CONTACTS

Phone: 303/795-4639

Fax: 303/794-4657

<http://www.coloradoprime.org>

Standard & Poor's Ratings Services

55 Water Street

New York, NY 10041

General Ratings Phone: 212/438-2000

<http://www.standardandpoors.com>

Other Useful Internet Sites

Bureau of Labor Statistics

<http://www.stats.bls.gov>

This Internet site offers information pertaining to labor economics and statistics compiled by the Bureau of Labor Statistics.

Federal Law

<http://www.legal.gsa.gov>

This site provides access to federal laws and regulations, court cases, state and territorial laws, and arbitration and mediation rules.

Medicaid

<http://pweb.netcom.com/~rcauchi/mdg/states.html>

This Web site offers links to information from other states regarding Medicaid.

Statute Manager

<http://www.intellinetusa.com/statmgr.htm>

This Web site provides access to Colorado Revised Statutes and court rules. However, these statutes do not contain annotations (specific references to relevant court proceedings and statutes).