

# ***GORENZ DISTRICT NEWSLINE***

**A newsletter of audit significance from Gorenz and Associates, Ltd., Peoria, IL**    November 2010

## ***Is your grant revenue matching the expenditures claimed?***

Federal and State grant revenues (including ARRA funds) can be used for many approved purposes. For most districts, grants are used for costs incurred in the Educational Fund. Grant revenues are received and deposited in the Educational Fund. If the grant was written to include benefits that are paid out of the IMRF/Social Security Fund, then the District needs to match these expenditures claimed with the revenue received. Depending on how the District budgeted the grant, either a portion of the grant revenue should be deposited and recorded in the IMRF/Social Security Fund or the claimed expenditures should be moved to the Educational Fund. If grants include O&M Fund or Transportation Fund expenditures the same holds true, the revenue to cover the grant expenditures needs to match the fund where those expenses are being paid.

## ***When you claim your Education Jobs Funds –***

From an audit perspective, we will be looking at some of the compliance issues associated with these funds, as we did with the ARRA Funds used to supplant General State Aid. Both the revenue and the expenditures should be tracked separately in your general ledger. Preferably, use a “source of funds” code to identify the expenditure account where these expenses are claimed. Only salary obligations incurred after August 10, 2010 are allowable (FY10 July & August salary obligations are NOT eligible). Salaries charged are not subject to the 25.12% TRS federal salaries reporting. Expenditure reports are due five calendar days after the end of the quarter when the claimed expenditures are made. Salaries and benefits for maintenance personnel and bus drivers are allowable, but remember to record the revenue and claimed expenditure in the same fund. Contractual services are NOT eligible for this new batch of federal funds.

## ***Where are you charging payments for tuition?***

We proposed many adjusting journal entries again this year for miscoded payments to other governmental units (tuition and purchased services). These payments are made to other public schools, joint agreements, and/or private facilities. According to the Illinois Program Accounting Manual – 2008 Edition (IPAM), the .8 object is to be used for Termination Benefits after July 1, 2008. Tuition expenses to private schools should be charged to the .6 (Other) object in the appropriate function - 1910 for Pre-K to 1922 for Truant Alternative Programs. Tuition paid to other governments should be charged to the .6 (Other) object in the appropriate function - 4210 for Regular Programs to 4280 for Other Programs.

## ***Do you actually have “Non-Capitalized Equipment”?***

ISBE also changed the .7 object for transfers to “Non-Capitalized Equipment”. This was done due to a perception at the ISBE that many capital expenditures were inappropriately being charged to supplies. Particularly since the advent of GASB 34 and the institution of capitalization policies by schools that are significantly greater than ISBE’s \$500 threshold for grants. If you have established a capitalization policy of greater than \$500, then any purchases between \$500 and your capitalization threshold should be recorded in the .7 object for the appropriate account function. If you are still utilizing the \$500 threshold then you will NEVER use the .7 object.

## ***Do you want to use excess funds in the Life Safety Fund for Operation & Maintenance purposes?***

Maybe you can. In accordance with Code Section 10-22.14 and the revised Section 17-2.11, the School Board (by proper resolution) has the option to transfer excess Life Safety Funds to the Operations and Maintenance Fund for building repair purposes. This is conditioned on the excess funds being from previous taxes levied and accumulated interest and that ALL required Life Safety amendments have been completed. The other “catch” is that the District MUST abate the Operations and Maintenance Tax levy for the subsequent year by the amount of the transfer. Excess Life Safety Bond funds (including accumulated interest revenue) may be retained in the Life Safety Fund for future Life Safety projects, or may be transferred to the Debt Services Fund to be used to retire the Life Safety related debt. Again a transfer to the Debt Services Fund requires an abatement of the Bond & Interest tax levy in an amount at least equal to the transfer.

***How are you recording payments on your lease purchase contracts and other non-bonded debt?***

Section 23.100 of the Illinois Administrative Code requires that payments for principal and interest on all long-term debt be made out of the Debt Services Fund. Payments are to be made from the Debt Services Fund regardless of the fund that has pledged the revenues to cover the expenditures. That means that any capital leases, or other long term debt, that is actually funded in Ed, O&M, or Transportation should be transferred to the Debt Services Fund and then the payments made from there. This even includes ISBE technology revolving loan payments. The ISBE has created specific account numbers in the 7000 and 8000 series of accounts to provide for these transfers. The Administrative Code does not require school board resolutions for these types of transfers. However, these transfers should be included in your budget document.

***Do you have excess Lease Levy accumulated?***

Section 17-2.2c of the School Code provides that a fund established for leasing educational facilities or computer technology may be abolished or abated by resolution of the school board after a determination by the board that the funds are no longer needed for such purposes. Upon the adoption of said resolution, the funds must be transferred as directed in the resolution.

***Are you making and appropriately repaying inter-fund loans?***

The School Code provides the ability for School Boards to authorize inter-fund loans as follows:

- The Educational Fund to the O&M, Transportation, and Life Safety Funds
- The O&M Fund to the Educational, Transportation, and Life Safety Funds
- The Transportation Fund to the Educational, O&M, and Life Safety Funds
- The Working Cash Fund to any Fund that levies taxes.

Loans between the operating funds must be repaid within 3 years. Loans from the Working Cash Fund are to be repaid with the first available tax revenues received.

Any loan transactions not outlined above are not authorized by the School Code and should be cited by the auditor during the annual audit of the financial statements.

***Other Funding Options – Fund Sweeps –***

The legislature has again extended the “no specific purpose” allowance for transfers of funds among the operating funds. So if you have good fund balance in the Operations and Maintenance Fund for example you can make a permanent transfer to the Educational or Transportation Fund with proper board approval and no requirement that it be for a one-time non-recurring expenditure. This exception has now been extended to June 30, 2013.

The legislature has also simplified the process of abating the Working Cash Fund, now allowing the direct abatement to the “fund in most need” as provided by School Code Section 20-10

***PTELL – Debt Service Extension Base Change –***

Starting with 2010, for those districts subject to the Property Tax Extension Limitation Law (PTELL), the debt service extension base had been frozen at the original debt extension levy amount that was established when PTELL first became law for that taxing body. Going forward that base amount will be adjusted each year, starting this year, by the lesser of 5% or the percentage increase in the Consumer Price Index during the 12-month calendar year preceding the levy year.

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