

## **Attachment D**

### **First Addendum to the School District Accounting Manual For School Year 2016–17**

#### **CHAPTER 1 – Principles of Accounting**

**Page 1-3, Fund Accounting Systems:** Narrative has been modified to better describe the fund termination.

Likewise, when all CPF projects are completed, the fund may be terminated and any remaining moneys transferred to another fund in accordance with legal provisions. When a fund is terminated, care should be taken to ensure that all claims and restrictions on the use of any residual equity have been cleared.

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**Page 1-16 & 1-17, Transfer, Revenue, Expenditure, and Expense Account Classification:** Guidance has been moved into its appropriate place within the section. The guidance for reciprocal and nonreciprocal interfund activity is moved to Chapter 3. A minor narrative addition is made to introduce concepts.

GAAP categorizes interfund activity by two classes: reciprocal and nonreciprocal. Refer to Chapter 3 and the section titled Interfund Activities, for topical guidance.

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#### **CHAPTER 3 – Accounting Guidelines**

**Page 3-7, Deferred Outflow and Deferred Inflow of Resources:** The narrative in this section is modified to better describe property taxes receivable and to recognize adherence to state law and the departure from GAAP.

A familiar example for school districts is the recognition of Property Taxes Receivable at the end of the year for the full amount of the levy, resulting in a "deferred inflow of resources." These resources are measurable but considered unavailable for revenue accrual under state law, RCW 28A.505.010, WAC 392-123-047, RCW 28A.150.400. This is a departure from GAAP as defined by GASBS 33 and Interpretation 5 and should be disclosed in the notes to the financial statements.

**Page 3-10, Revenue Versus Contra-Expenditure Recognition:** The narrative in this section is modified and other guidance is moved to the section titled Interfund Activities, later in Chapter 3. The modified section is shown here.

Examples of expenditure reimbursements that should be reflected as revenue and not a refund of expenditure include: substitute teacher reimbursement from other districts, student fees for field trips, teacher training reimbursement from OSPI, and reciprocal interfund services provided and used; such as Trip Billings to ASB.

Nonreciprocal interfund reimbursements between funds are an exception. An interfund reimbursement is treated as a refund of expenditures. Refer to the section titled Interfund Activities, later in this chapter, for additional guidance on reciprocal and nonreciprocal interfund activities.

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**Beginning at Page 3-37, Interfund Activities:** The guidance in this section is modified to include narrative moved from other sections of the Accounting Manual. Section excerpts are shown below.

## **INTERFUND ACTIVITIES**

Interfund activity is classified as reciprocal and nonreciprocal. Reciprocal interfund activity is the internal counterpart to exchange and exchange-like transactions and includes interfund loans and interfund services. Nonreciprocal interfund activity is the internal counterpart to nonexchange transactions and includes interfund transfers and interfund reimbursements.

GAAP establishes two classes of interfund activity:

- ***Reciprocal interfund activity*** is the interfund equivalent of exchange and exchange-like transactions.
  - *Interfund services provided and used* are sales and purchases of goods and services between funds for a price comparable to their external exchange value. They are reported as revenues in the providing fund and expenditures in the receiving fund. Unpaid amounts are treated as interfund receivables or payables.
  - *Interfund loans* are amounts for which repayment is expected. They should be reported as interfund receivables to the lending fund and as interfund payables to the receiving fund. They should **not** be reported as other financing sources or uses in the fund financial statements. After adoption of board

resolution, WAC 392-123-140 allows loans to the General Fund, Transportation Vehicle Fund, Capital Projects Fund, and Debt Service Fund. Loans are permitted from the General Fund or Capital Projects Fund only. Interfund loans do not increase budget capacity. Appropriate interest shall be charged. (Reference: WAC 392-123-135 through WAC 392-123-160, RCW 28A.320.320.)

- ***Nonreciprocal interfund activity*** is the interfund equivalent of nonexchange transactions or transfers, previously known as “operating transfers” and “residual equity transfers.”
  - *Interfund transfers* are defined as “flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment.” They should be reported as other financing sources in the receiving fund and other financing uses in the providing fund.
  - *Interfund reimbursements* are repayments from a fund responsible for expenditures to the fund that initially made the disbursement. Reimbursements are treated as adjustments and **not** reported in the financial statements.

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A new sub-section, Interfund Services Provided and Used, is added to the Interfund Activity section. The guidance provided here was moved in from Chapter 3, Page 10 and modified.

### **Interfund Services Provided and Used**

School Districts engage in a variety of interfund services between funds. Examples of services provided and used include: bus-trip charges and printing services; charged from the General Fund to the ASB. These transactions are sales and purchases of goods and services between funds for a price comparable to their external exchange value. They are reported as revenues in the providing fund and expenditures in the receiving fund. Unpaid amounts are treated as interfund receivables or payables.

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Additional guidance is included in the Accounting Manual to describe accounting procedures related to interfund transfers.

### **Interfund Transfers**

GAAP defines interfund transfers as “flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment.” Interfund transfers are recorded as other financing uses in the fund making the transfer and other financing sources in the fund receiving the transfer. The board resolution authorizing an

interfund transfer may be executed in increments. The amount and frequency of transfers may be determined by the district so long as the total transfer authority within the resolution is not exceeded. A budgeted transfer amount not previously credited into the receiving fund may be rescinded in accordance with the same requirements which were met to initially authorize the transfer.

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The guidance describing the redirection of apportionment is modified into the several bullet points shown. Additional guidance is added.

- Transfers for the redirection of state apportionment may be made from the General Fund to the Capital Projects Fund and/or Debt Service Fund as authorized under RCW 28A.150.270 and WAC 392-121-445, subject to the following conditions and requirements:
  - The transfer will not result in a negative estimated ending fund balance in the General Fund.
  - The district board of directors must execute a resolution authorizing the transfer. However, the district's board adopted budget, if it accurately reflects the desired transfer, may serve as the required resolution.
  - Whether the transfer resolution is included in the resolution to adopt the budget or if it is a separate, independent board resolution, a copy must be sent to OSPI to approve the transfer.
  - The resolution must specify the justification in detail and the dollar amount to be transferred.
  - This resolution must be received by OSPI on or before the tenth of the month in which the transfer is to begin.
  - Once apportionment moneys have been credited into the receiving fund by the County Treasurer, the resources cannot be subsequently transferred to the credit of another fund. The term "another fund" is not intended to imply the General Fund. Such resources may be credited back to the General Fund, for its original intended use.
  - The redirection of state apportionment is subject to specific use as authorized under WAC 392-121-445.
  - Resources committed to a specific purpose cannot be used for another purpose without the district taking the same type of action it employed to previously commit those amounts (GASBS 54 §10.) This includes, but is not limited to, a copy of the amended-use resolution sent to OSPI.
  - Apportionment, redirected by board resolution, may be transferred back into the General Fund for its original intended purpose, in accordance with the same requirements which were met to initially authorize the transfer.

Under additional statutory authority, the guidance in this section has been expanded by moving narrative found in other areas of the Accounting Manual. The section now reads as follows:

- Additional statutory authority has been granted enabling districts to:
  - Transfer moneys related to state forest revenue from the Debt Service Fund to the Capital Projects Fund (RCW 28A.320.330(3) and RCW 79.64.110(3)). Districts receive distributions from revenues relating to the sale of harvest timber in proportion to the levies that they have enacted. Districts receiving state forest money in their Debt Service Fund that is not needed for the payment of debt service on district-issued bonds may transfer that money into the Capital Projects Fund.
  - Transfer moneys from the Capital Projects Fund to the General Fund for certain expenditures associated with the application and modernization of technology systems for operations and instruction including, but not limited to, the ongoing fees for online applications, subscriptions, or software licenses, including upgrades and incidental services, and ongoing training related to the installation and integration of these products and services. (RCW 28A.320.330(2)(f)(ii)).
  - Transfer moneys from the Capital Projects Fund to the General Fund for certain major renovation and repairs, and other major preventative maintenance purposes. Based on the district's most recent two-year history of General Fund maintenance expenditures, financial resources used for this purpose may not replace routine annual preventive maintenance expenditures made from the district's General Fund (RCW 28A.320.330(2)(g)).

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Under the residual equity transfer section, the guidance-examples are eliminated. The section now reads as follows:

- Equity transfers are initiated by board resolution and occur when the purpose for which a fund was established no longer exists, however, the district's board adopted budget, if it accurately reflects the desired transfer, may serve as the required resolution.
- All claims against the fund to be closed must be resolved before the authority to make the equity transfer is executed.
- All restrictions imposed on the use of resources remaining as residual equity within a fund must be resolved before the authority to make the equity transfer is executed.
- The Debt Service Fund should remain open for the established purpose of subsequent tax collections (RCW 28A.320.330(3)).

Interfund Reimbursement guidance is expanded in this section; narrative was moved in from Chapter 3, Page 10 and modified.

### **Interfund Reimbursements**

Interfund reimbursements are repayments from a fund responsible for expenditures to the fund that initially made the disbursement. Interfund reimbursements are not interfund transfers. Interfund reimbursements are treated as adjustments and not reported in the financial statements.

A transaction would be reported as a reimbursement when:

- An accounting error has been made (e.g., moneys were deposited or an expenditure was charged to an incorrect fund).
- When a single fund, usually the general fund, pays an invoice or payroll for other funds (i.e., as a convenience), and then charges back the expenditure/expense to the appropriate fund where the cost should be reported.
  - When an expenditure is made from one fund (fund A) on behalf of another fund (fund B), fund B records the expenditure by reimbursing fund A. Fund A records the moneys received as an adjustment to the original expenditure.
  - When a revenue, intended for deposit in one fund (fund A), is incorrectly deposited into another fund (fund B), fund B reverses the deposit by reimbursing fund A. Fund A records the moneys received as revenue from the original source.

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## **CHAPTER 4 – General Ledger Accounts**

**Page 4-18, GL 536 Other Financing Uses—Transfers Out:** The guidance for this general ledger account code is modified, removing the reference to the ABR Handbook and changing this to Chapter 3 and the section on Interfund Activities.

### **536 Other Financing Uses—Transfers Out (Budget and Actual)**

Applicable Fund: (GF, DSF, CPF, TVF, PF)

This account is used to record transfers out to another fund. Redirections of apportionment should be included here. (Refer to Chapter 3 and the section on Interfund Activities for allowable transfers). This account is also used to summarize budgetary actions for estimated transfers out.

**CHAPTER 5 – Revenues and Other Financing Sources**

**Page 5-1, INTRODUCTION:** The guidance describing property taxes receivable is modified to recognize adherence to state law and the departure from GAAP.

For districts using the modified accrual basis of revenue recognition, state law considers property taxes receivable unavailable for revenue accrual, RCW 28A.505.010, WAC 392-123-047, RCW 28A.150.400. This is a departure from GAAP as defined by GASBS 33 and Interpretation 5 and should be disclosed in the notes to the financial statements.