

Summary

On May 9, 2014, the Financial Policies and Procedures (FPP) Committee approved the following recommendation:

In order to align the compliance, accounting, and reporting of the federal grant program that is the food service fund, the required basis of accounting to be used by the food service fund shall be the modified accrual basis of accounting, and such fund shall be isolated as a special revenue fund effective for the fiscal year beginning July 1, 2014 and beyond.

Therefore, effective with the FY14-15 reporting, the food service fund must be reported as a special revenue fund, as fund 21. In addition, the current fund 51 will be unusable for data pipeline reporting beginning with FY14-15.

The food service fund (fund 21) will continue to be required for entities that are considered to be School Food Authority's (SFA) by the department, and such fund shall not be used by non-SFAs.

Why was this change necessary at this time?

Various reasons factored into the considerations for changing the food service fund from the current enterprise fund treatment. These included:

- State board rules and state statute considerations
- USDA heightened focus on fiscal matters – federal regulations
- Food service fund as a federal grant program
- Office of Management & Budget (OMB) Circular A-87 & the new OMNI-Circular considerations
- Governmental Accounting Standards Board (GASB) considerations

Current Food Service Fund Treatment

Current state board rule requires that the food service fund be reported as an enterprise fund. An enterprise fund treatment requires the reporting of all current and long-term assets and liabilities, and the related revenues and expenses under the full accrual basis of accounting.

Actions Needed

- If still using Fund 21, transfer such activities to Fund 43 prior to June 30, 2014.
- Continue to use Fund 51 for FY13-14 reporting.
- Start using Fund 21 as the new Food Service Fund as of July 1, 2014.
- Reclassify balance sheet accounts from Fund 51 to Fund 21 needed as of July 1, 2014.

State Board Rules

Numerous provisions applicable to the child nutrition programs limit the activities and allowable usage of resources within the food service fund:

- There are specific uses for the “surplus” funds within the food service fund account.
 - Reduce price of meals; improve quality of the meals; provide basic supplies; replace equipment; and repair equipment.
- All other expenses are the responsibility of the district from other district funding sources
- Indirect cost recovery, plus direct charging of indirect cost pool items, is limited.

State Statutes

Numerous provisions applicable to the child nutrition programs limit the activities and allowable usage of the resources within the food service fund:

- Food service facilities shall be provided by the district, and not the food service fund.
- Capital outlay and rental costs shall not be included in computing the cost of the meals served.
 - Capital outlay normally includes depreciation.
- Ongoing deficits – negative amount reporting in the unrestricted net position account are not allowed.
- Food Service employees are member of PERA

Federal Regulations

Numerous provisions applicable to the child nutrition programs limit the activities and allowable usage of resources within the food service fund:

- Use only for the operation or improvement of the program.
- Shall include non-federal funds used to support paid lunches, as well as non-program food revenues.
- Observe the requirements for and limitations on the use of the food service fund revenues.
- Limit net cash resources to an amount not to exceed 3 months average expenditures.
- District shall maintain necessary facilities for storing, preparing, and serving food.

Cost Principles under OMB Circular A-87 & OMNI-Circular

Numerous provisions applicable to the child nutrition programs limit the activities and allowable usage of the resources within the food service fund:

- Equipment and other capital expenditures – **prior approval required from CDE**
- Depreciation of contributed capital – **no longer allowable** under OMNI- Circular
- Bad debts – **unallowable**
- Fringe benefits – **lesser of** amount accrued or funded
- Pension costs – amount **funded** within six months after year end.

In addition, the general focus of the cost principles relate to cash or modified accrual basis of accounting, and not on the full accrual concept used by the enterprise fund treatment.

GASB Considerations

Cost-sharing employers must follow economic resources measurement focus and accrual basis of accounting for their proportionate share of the net pension liability under the new changes being implemented by GASB (Statement No. 68)

The net pension liability should be determined on a basis consistent with the manner in which contributions to the pension plan are determined.

Applying a proportional share to the food service fund under the enterprise fund treatment would contribute to the reporting of an ongoing deficit for such funds.

To eliminate such negative amounts being reported by the unrestricted net position portion of the food service fund, general fund subsidies to the food service fund would be needed.

Enterprise Fund Conclusions

With the numerous limitations and unallowable costs identified with the state board rules, state statutes, federal regulations, and cost principles, as well as the GASB considerations, it was determined that the current enterprise fund treatment was not the best option going forward.

Special Revenue Fund – Fund 21

After exploring other options, the use of the special revenue fund treatment was considered to be the best option for reporting the food service fund in the future. The modified accrual basis of accounting under the special revenue fund treatment would avoid many of the compliance, accounting, and reporting issues that had been identified with the current treatment.

As it was desirable to maintain fund codes within the special revenue fund series within the statewide chart of accounts, the department analyzed the possible conversion of fund 21 – capital reserve special revenue fund.

Effective for FY09-10, Senate Bill 09-256 revised statute to eliminate the required allocation to the capital reserve fund.

GASB Statement No. 54, effective for FY10-11, eliminated the allowability of the capital reserve special revenue fund – fund 21 beyond the spend down period. Districts have the option to use fund 43 – capital reserve capital projects fund if needed.

The department will support districts with the necessary conversion from their current capital reserve special revenue fund (fund 21) to the capital reserve capital projects fund (fund 43) as of June 30, 2014.

Other Considerations

Some districts/entities may determine that the enterprise fund treatment of the food service fund is appropriate for external financial reporting purposes. In those occasions where the special revenue fund reporting of the food service fund does not match the basic financial statement presentation, supplemental schedules must be provided within the audited financial statements to demonstrate legal and federal program compliance. These supplemental schedules, when applicable shall (at a minimum) be subject to the “in relation to” opinion by the independent auditor and shall be used as the basis for determination of when a federal award has been expended for the Schedule of Expenditures of Federal Awards (SEFA), if required to be presented.

Other Guidance Related to the Food Service Fund Changes

On Friday, May 30, 2014, the department sent an email to the finance listserv maintained by the department to notify school district business officials and other interested parties of the approved change to the accounting treatment of the food service fund from an enterprise fund to that of a special revenue fund as of July 1, 2014. The email included other timelines for actions that may be needed by districts prior to June 30, 2014, and the actions needed as of July 1, 2014.

In addition, the department is compiling questions related to these food service fund changes for the release of a future FAQ document to the finance listserv and for posting on the department’s website.

Where can I learn more?

- <http://www.cde.state.co.us/cdefinance>
- Contact Kirk Weber at 303-866-6610 or weber_k@cde.state.co.us