

Questions & Answers – updated September 2014 with additional questions and answers

Background

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 a School Food Authority (SFA) by the department, and such fund shall not be used by non-SFAs.

Additional Questions and Answers Being Addressed After Initial FAQ Document was Released

With the move from fund 51 to fund 21, how should the ending fund balance in fund 51 at the close of fiscal year 2013-14 be handled, including possible use of the prior period adjustment code of 6880?

Because the entire fund is moving from fund 51 to fund 21, we do not believe that the district would need to go through the prior period adjustment (code 6880) process. The amount of net position closed under fund 51 as of July 1, 2014 will likely not agree with the amount of fund balance being set up in fund 21 as of July 1, 2014. This is due to the capital assets and long-term liabilities being directed to the government-wide reporting.

The following link is to an excel file outlining these changes and the potential footnote needed for FY2014-15:

<http://www.cde.state.co.us/cdefinance/fsfchanges> - select: Food Service Fund Conversion

Please be aware that the differences in beginning fund balance for fund 51 and fund 21 will generate a warning edit within the finance December data pipeline system. This warning edit is explainable by the district due to the food service fund conversion.

Should the District Consider Accelerating Depreciation on the Food Service Fund Capital Assets during fiscal year 2013-14?

No. The district should not use any method that would misstate the operations of the food service program during fiscal year 2013-14. The depreciation of the capital assets within the food service fund during fiscal year 2013-14 should continue to be based on the capital assets' useful lives, with depreciation methods being applied consistently. Any activities by the district to expense the remaining value of the capital assets prior to June 30, 2014, beyond the application of a normal year's worth of depreciation will be viewed as a possible federal grant program violation.

With the change to the Special Revenue Fund treatment, how should disposals of equipment be handled?

Disposal of equipment by the food service fund should continue to be handled in compliance with the federal regulations.

Under the special revenue fund treatment, the concept of gain or loss on the disposal of equipment would no longer be applied. Under the modified accrual basis of accounting, the revenue received from the disposal of the equipment, if reportable by the fund, would be credited to a source code such as 1930.

Is the food service fund allowed to write off bad debts?

No. As a federal grant program, the food service fund must follow all applicable federal regulations. Under the federal cost principles (OMB Circular A-87 and the new OMNI-Circular), bad debts arising from uncollectable accounts and other claims are unallowable. The writing off of such bad debts arising from the food service program should be handled by shifting the bad debts to the district's general fund and such bad debts should not impact the revenue and expenditure (or operating statement) of the food service fund.

Does the change to the Special Revenue Fund treatment impact how upgrades and remodels to the kitchens should be handled?

The issue is not that the food service fund is now a special revenue fund, the issue relates to what is acceptable under the child nutrition federal grant program, including applicable state board rules and statutory provisions.

Therefore, the responsibility for the proposed costs related to upgrades and remodels to the kitchens must be answered prior to charging the food service fund for such costs. It is likely that the costs are

the responsibility of the district, as they relate to the food service facilities, which shall be provided by the district, and therefore not chargeable to the food service fund.

Original Questions Answered from the Initial FAQ Document

Why was this change necessary?

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

With the numerous limitations and unallowable costs identified within the above sources, it was determined that the current enterprise fund treatment was not the best option for representing the federal grant program that is the food service fund going forward.

Please review the additional documents on the department's website at <http://www.cde.state.co.us/cdefinance/fsfchanges> for more details on some of the limitations and unallowable costs that were identified within each of these sources.

Other Considerations Involved?

If fund 21 is still being used by district – the current (FY13-14) fund 21 must be transferred to fund 43 prior to June 30, 2014. The department identified three districts that were still actively using fund 21 as of June 30, 2013, and an additional seven districts with remaining balances as of June 30, 2013. The department has reached out to each of these districts to communicate the changes and actions needed by them prior to June 30, 2014.

The district should continue to use fund 51 for the food service fund for FY13-14 reporting.

Explain conversion from current Capital Reserve Special Revenue Fund (Fund 21) versus Capital Reserve Capital Projects Fund (Fund 43)?

The discussions related to the two different capital reserve funds have to do with the need to free up a fund code to be used by the new food service special revenue fund as of July 1, 2014. The previous capital reserve special revenue fund (fund 21) was no longer needed or supported by the current special revenue fund definitions as determined by the Governmental Accounting Standards Board

(GASB). Therefore, districts that were still using the old fund 21 coding are being required to transfer those activities to the other allowable fund code (fund 43) prior to June 30, 2014.

What happens to the old Fund 21 data and activities?

We suggest that the district work with their financial system software vendor to determine the appropriate method to capture and isolate the previous fund 21 data and reports so that fund 21 may be used as the new food service fund as of July 1, 2014.

Will this accounting change cause any negative impact to the current Child Nutrition Program (CNP) funding?

No – the federal reimbursements determined by the meals-times-rate funding formula are not impacted by this accounting change. The accounting change to that of a special revenue fund reporting will impact the types of costs, such as excluding depreciation expense that will be reported by the fund after July 1, 2014.

What are the accounting differences between operating as a special revenue fund versus an enterprise fund?

A special revenue fund is considered to be a governmental fund which follows a current resources measurement focus using the modified accrual basis of accounting. Therefore, the focus is on current assets and current liabilities, with the remaining fund equity being defined as fund balance.

An enterprise fund is considered to be a business type fund which follows an economic resources measurement focus using the full accrual basis of accounting.

Therefore, the focus of full accrual accounting is on all assets (including capital assets) and all liabilities (including long-term liabilities), with the remaining fund equity being defined as net position.

Can you give us a quick definition of modified accrual basis of accounting?

The modified accrual basis of accounting focuses on a current resource measurement objective. Basis of accounting refers to *when* revenues, expenditures, expenses, and transfers – and assets, deferred outflows of resources, liabilities, and deferred inflows of resources – are recognized in the accounts and reported in the financial statements. Current assets and current liabilities, instead of all assets and all liabilities are the focus under the modified accrual basis of accounting.

Will there be any changes as to how the year-end fund balance is handled?

The “invested in capital assets, net of related debt” would not be reclassified to the new fund 21 and the “unrestricted net position” would become “fund balance” in the new fund 21. For the FY14-15 audit, a footnote in the audited financial statements will be needed to explain this change in fund type as of July 1, 2014.

Under the special revenue fund treatment, the fund balance section will be segregated into specific classifications noted below based on the specific purposes for which the amounts in the fund can be spent. The five possible classifications are as follows:

- Nonspendable fund balance (for example inventories and prepaid items)
- Restricted fund balance (constraints placed on the use by grantors or imposed by law)
- Committed fund balance (constraints imposed by formal action by the district's board)
- Assigned fund balance (constrained by the district's intent to use for specific purposes)
- Unassigned fund balance (would only be reported if the residual amount is a negative)

In a previous email document (the link is provided at the end of this FAQ), we stated that the old "unrestricted net position" portion would become "assigned fund balance" in the new fund 21. However, the district should apply the appropriate fund balance classifications as outlined above.

Can the district still charge indirect costs?

Yes, the use of the nonrestricted indirect cost rate is still available to the district, subject to the current limitations imposed by the state board rule, unallowable costs, state statutes, and the federal indirect cost rate agreement. The base amount (which will continue to exclude food and USDA food costs) on which the nonrestricted indirect cost rate may be applied may change slightly based on the total expenditures being reported by the special revenue fund, specifically, the depreciation expense will be eliminated and the amount of current year long-term obligations may be reduced. In addition, any capital equipment expenditures (such items are subject to a prior approval process) would also be excluded from the base amount used for determining indirect costs.

Does the percentage rate for calculating indirect cost change?

The method used to determine the nonrestricted indirect cost rate does not change. The nonrestricted indirect cost rate continues to be calculated annually for each district based on the department's federal indirect cost rate agreement.

The district must ensure that it is using the appropriate rate and that the maximum amount of indirect costs (including any direct charges of indirect cost pool items) is not exceeded for that fiscal year.

Will depreciation standards still be implemented?

With the change to a special revenue fund treatment, the depreciation standards would be applied to the district-wide capital assets for district-wide reporting of such assets and expenses. Depreciation would no longer be charged directly to the food service special revenue fund as of July 1, 2014. The capital assets, accumulated depreciation and depreciation expense related to food service activities would be reported only at the district-wide level on the statement of net position and statement of activities by the district, and no longer at the fund level.

How will the district account for capital purchases related to the Food Service Fund?

Capital equipment may be reported as current year expenditure by the food service special revenue fund, if such equipment purchase was granted prior approval by the Office of School Nutrition at the department. Please contact Jan Bodnar at (303) 866-6306 or Bodnar_j@cde.state.co.us for guidance on the prior approval process. All other capital equipment, and the related depreciation would no longer be reported directly by the food service special revenue fund, but would be captured as district-wide capital assets instead. This includes any capital equipment being provided by another fund of the district (such as the building fund).

How is capital equipment defined?

Capital equipment continues to be defined as the lesser of the district's capitalization policy or \$5,000.

How should the current capital assets and accumulated depreciation of the Food Service Fund be handled?

In no case should the food service special revenue fund be required to reimburse or pay another fund for the capital assets that are being transferred to the district-wide reporting. The current capital assets and accumulated depreciation of the food service fund as of June 30, 2014 will no longer be reported directly by the food service fund. Such items will be captured with the district's other district-wide items. This is true for any long-term liabilities (such as accrued compensated absences) reported by the food service fund as of June 30, 2014, as well.

How should inventories, including USDA Foods (commodities) be handled by the Special Revenue Fund?

The handling of USDA Foods (commodities) would not change under the special revenue fund treatment.

The consumption method should be used for the inventory items, including the USDA Foods (commodities). This is the method that is implied by the OMB cost principles applicable to the food service fund activities. The consumption method means that the inventory is recorded at the time of purchase or receipt and recognized as an expenditure for the amount of inventories actually used during the fiscal year. The value of the inventory (asset) at the end of the fiscal year should be reported using the balance sheet codes for inventory (8171, 8172, or 8173). Currently, the balance sheet code 8173 – Commodities Inventory in the chart of accounts includes a statement "(use with enterprise fund)". That statement will be dropped in the FY14-15 updated release of the chart of accounts.

Is the district required to use the Food Service Special Revenue Fund?

Effective for FY14-15, the district/entity that is a school food authority (SFA) must be able to report the required fund 21 information to the department through the financial December data pipeline process.

However, some district/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.

If the district/entity is not a SFA, the district/entity must not report fund 21 or fund 51 to the department. They may use any other available and appropriate fund coding.

How should districts handle other Enterprise Funds they might have?

The guidance we have outlined relates to the conversion of the federal grant program that is the food service fund. The possible conversion of any other enterprise fund being maintained by the district should be addressed and discussed with the district’s internal accounting staff and with the district’s external financial auditor.

How should the FY14-15 budget for the Food Service Fund be handled?

If the district adopted a budget for the food service fund under the old enterprise fund treatment, the district has the option to revise the budget presentation prior to January 31, 2015 for the change in food service fund treatment for FY14-15, and if needed the supplemental budget process may be available from February 1, 2015 to June 30, 2015 for such changes. With the change from the enterprise fund to the special revenue fund treatment, the depreciation expense would be dropped and any capital outlay items (if approved by the Office of School Nutrition) would be included, and a current year changes in long-term liabilities would be removed from the expenditures. In addition, a modified Uniform Budget Summary Sheet for FY14-15 is available on the department’s website at:

<http://www.cde.state.co.us/cdefinance/FinancialReportingFY2014-15>

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, a “Summary of the Food Service Fund Changes” document is also available on the department’s website.

Both documents are available at <http://www.cde.state.co.us/cdefinance/fsfchanges>

Where can I learn more?

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

The Colorado Department of Education
201 E. Colfax Ave., Denver, CO 80203