APPENDIX B – Additional Accounting Guidance

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TO-FROM TRANSPORTATION

School districts are required by RCW 28A.160.160 (3) to isolate and report the costs of transporting eligible students to and from school in their annual financial statement. The transportation funding system is based upon the accuracy of costs reported in the financial statements. Throughout the school year, transportation services support school programs and those costs are all initially charged to Program 99. A methodology has been created to ensure districts report the necessary data for the student transportation funding system.

The methodology consists of a two-step process. First, is the consistent calculation of the non-to-and-from transportation amounts. Second is the consistent application of the debit-credit transfer process to remove those costs from Program 99. **The application of this two-step process results in isolation of state to-and-from school transportation costs in Transportation Program 99.** For contracted transportation services, the charges are based upon contractor billings and costs will be direct charged to the appropriate program.

Identification of Costs

The goal of this guidance is to identify the costs that exist within a student transportation program, and then further identify what costs should be transferred out of the program because they do not pertain to the transportation of students to or from school. Within Program 99, there are three types of expenditures or costs: core, incremental, and direct.

Core costs are central to a student transportation program and would be incurred whether or not the district engages in any non-to-and-from transportation. Core costs are not transferred out of the Program 99. Core costs include the costs involved with the training of new school bus drivers, training costs for school bus driver instructors and other costs necessary providing student transportation services.

Incremental costs are incurred for both to-and-from transportation as well as non-to-and-from transportation. Incremental costs go up or down incrementally dependent upon the number of bus trips. For example, adding a new route for schools incurs additional fuel, as does adding trips for student athletes. These costs are allocated between to-and-from and non-to-and-from transportation based on the total number of miles driven for each activity.

Direct costs are similar to incremental costs since they increase as the Transportation Department performs more non-to-and-from and non-student transportation activities. These costs are allocated between to-and-from and non-to-and-from based on either miles driven or driver hours. Direct costs for non-student transportation costs are removed from Program 99 as expenditure reimbursements. An example would be when the Maintenance Department purchases fuel from the Transportation Department fuel station. The cost to fill the fuel station is charged to Program 99; the Maintenance Department then reimburses Transportation for this direct cost.

Accounting for Non-To-and-From and Non-Pupil Transportation

The intent of the Legislature is to ensure that only the costs directly relating to to-and-from school transportation of students are reported in Program 99 at year end. However, costs that should belong in another program may be initially charged to Program 99 and subsequently transferred to another program as described below.

Non-pupil transportation (NPT)

Non-pupil transportation (NPT) expenditures are those expenditures that are not related to student transportation vehicles or activities. These expenditures may be initially coded to Program 99, and could include motor pool expenditures, grounds equipment maintenance costs, fuel used by vehicles other than yellow buses, labor spent on activities other than yellow buses, and maintenance work done through an inter-local agreement.

NPT expenditures should not remain in Program 99 at year end. Districts must move the costs by an "expenditure reimbursement" journal entry, crediting the account code originally charged and then debiting the costs in to the appropriate program. This is not done through the debit-credit transfer process, which leaves the base costs intact; and affects the cost pool for allocating non-to-and-from costs. Only by directly reducing the Program 99 expenditures will the costs be taken out appropriately.

Non-to-and-from transportation

Non-to-and-from transportation expenditures may be coded directly to the appropriate program, but are typically coded to Program 99 initially. Later, these costs are moved out of Program 99 using the debit-credit transfer process based upon the calculations of one of two forms (described below). The costs that are transferred out of Program 99 using Object 1 and transferred into the using program, as determined by the district using Object 0. In the event a suitable

program cannot be determined, districts will transfer the costs to Program 89 Other Community Services.

Calculating State-Funded and Non-State-Funded Pupil Transportation Costs

OSPI has developed two forms for the purposes of calculating state-funded (to-and-from school) and non-state-funded (non-to-and-from school) transportation costs. Consistent application of these forms is essential to providing meaningful comparable data on school district transportation costs. Both forms are available on the School Apportionment and Financial Services web page under Tools.

The first form is called the Short-Form. This form is an optional, one-step calculation based solely on total costs per mile. It is used at year-end to determine what level of costs need to be transferred out of Program 99 for non-to-and-from transportation. Only Class II districts that do not contract for pupil transportation services, and that do not generally direct-charge pupil transportation costs to a program other than 99 are allowed to use the Short-Form process. The Short-Form is done at year-end, and so current-year mileage and expenditures are used.

The second form is called the **Long-Form**. This form is a two-step calculation based upon vehicle costs per mile, plus driver costs per hour. The Long-Form must be used by Class I districts and by any Class II districts that either do not meet the criteria to use the Short-Form or choose not to use the Short-Form. Use of the Long-Form allows for charges to other programs throughout the year. The Long-Form is not applicable for contracted transportation services.

The Long-Form is completed at the end of the fiscal year and it serves multiple purposes. The primary intent of the Long-Form is to calculate the total cost of non-state-funded trips incurred in the current year. This amount should have been charged out throughout the year to other programs in the debit-credit transfer process.

Current year mileage from the School Bus Mileage Report, prepared by the district's Transportation Department, and current year expenditures are needed to complete the Long-Form.

When the Long-Form is completed, the amount representing the "Total Cost of Non-State-Funded Trips" on Line 18 of the Long-Form is compared to Program 99, Activity 59, Object 1, the credit transfers to other programs. When compared, an immaterial variance is expected; and typically exists when a trip rate used throughout the year

estimates trip costs. A final adjusting entry is created to debit or credit the variance to Program 89 Other Community Services.

The Long-Form can also be used to create a standard trip rate for subsequent trip billings using the two variables created on the Long-Form: "Operating Costs per Mile" plus an average "Cost per Hour of Driver." The inflation factors provided can be used to determine a future operating cost per mile. A standard trip rate creates equity in the amounts charged to all Programs utilizing transportation services and also allows Programs to accurately budget the cost of future trips.

The Long-Form template can be used throughout the subsequent fiscal year to determine if a variance exists between the year-to-date Credit-Transfers and the amount reported at the bottom of the Long-Form. Up-to-date mileage, and Program 99 expenditures are used for this purpose. This allows management to adjust trip rates if necessary.

School district should take care to only include Incremental Costs and Direct Costs in the Long-Form; Core Costs should be excluded. Core Costs included on the Long-Form decrease the Transportation Allocation and shift the funding burden to Basic Education. The various types of costs are described above in the section titled: Identification of Costs.

The Transportation Long-Form worksheet tool and instructions are available on the OSPI SAFS Web page at Tools.

Miscellaneous Issues

Bus Aides

The cost of a bus aide is appropriately charged to the program that requires the aide. If an aide is not program-specific, then the costs for those aides should be charged to Program 99.

An example of an aide that is program-specific is a bus aide that is hired in accordance with a special education student's Individualized Education Plan (IEP). In this case, the aide should be charged to Program 21 Special Education—Supplemental—State or Program 24 Special Education—Supplemental—Federal. The excess cost for hiring the bus aide is appropriately charged to that program for that student. A bus aide hired for a special education bus that is not attributable to one

or more IEP(s) of the students on the bus, but is provided generally to assist the driver and enable higher student loads would be charged to Program 99.

Utilities

Districts may only directly charge utility costs to programs that have Activity 65 Utilities open. Chapter 6 shows the acceptable program-activity-object combinations on pages 6-45 through 6-60. Program 99 does not have Activity 65 open, therefore districts cannot directly charge utility costs to Program 99. Utilities should instead be charged to Program 97 Districtwide Support, Activity 65 Utilities.

Homeless Transportation

Districts that have received a McKinney-Vento grant are allowed to charge the grant for the excess cost of providing transportation for homeless students. However, the cost of providing to-and-from transportation for all of a district's students should be charged to Program 99. Therefore, if a district has a McKinney-Vento grant, only non-to-and-from school transportation costs for homeless students should be charged to the grant. This would include summer school transportation or transportation for extra-curricular activities.

Use of Motor Pool Vehicles

Some districts elect to utilize vehicles from their motor pool for providing to and from transportation for students. Districts that utilize motor pool vehicles in such a manner may charge Program 99 a rate based on the state privately-owned vehicle (POV) mileage rate for any miles driven in providing to and from transportation. The state POV mileage rate is intended to be an all-inclusive rate that encompasses fuel costs, maintenance charges, depreciation, and so on. The rate that is to be charged is the same as the state POV mileage rate. Because the mileage rate includes fuel costs, districts must remove the fuel usage of motor pool vehicles from Program 99.

Accounting for Cooperative Arrangements

Districts have the option of creating a cooperative arrangement with other entities, including other school districts, cities, and counties. There are two main types of cooperative arrangements that pertain to pupil transportation for the purposes of this guidance: transportation cooperatives and maintenance cooperatives. A "transportation cooperative" is defined as a situation where two or more school districts combine their resources for the provision of student transportation services. A "maintenance

cooperative" is defined as a situation where one district provides vehicle maintenance services for its own vehicles including yellow buses, the vehicles of other school districts (possibly including their yellow buses), and other governmental entities such as cities and counties.

The costs that are incurred for these cooperative arrangements are typically coded initially to Program 99. However, since the costs do not pertain to the to-and-from transportation of the district's students, the costs need to be removed from the district's overall transportation expenditures for the purposes of calculating the mileage rate and at the end of the year for determining funding.

The identification of costs relating to cooperative arrangements depends on the nature of the cost. Some costs are easily identifiable, such as parts that are purchased specifically for a cooperative vehicle (such as another district's bus). Other costs require a bit more work to identify and separate. For instance, to identify the costs relating to a mechanic, a job-costing system should be used to track the hours spent working on cooperative vehicles compared to district yellow buses.

Once costs have been identified as belonging to the cooperative arrangement, and not the district's costs for its own yellow buses, the costs need to be either moved out of Program 99, or otherwise equalized for funding purposes. Moving the costs out uses the debit-credit transfer process to move the costs into Program 89 Other Community Services. Revenues received from the cooperative members would be coded to the appropriate XX89 revenue account. This is the recommended method for handling cooperative costs, as it removes the costs from Program 99 at the end of the year.

Alternatively, a school district may let the costs remain in Program 99 and not transfer them out. This may **only** happen if the district charges for the services on a reimbursement basis. The revenue received *must* be coded to the appropriate XX99 revenue account. The state funding system will reduce the district's total Program 99 expenditures by the amount in the appropriate XX99 revenue accounts, equalizing the non-to-and-from costs in the system. If the district running the cooperative charges an additional fee, such as an administrative charge, the revenue that is received for that fee should not be coded to the XX99 revenue account, but an XX89 revenue account instead. Leaving these fees in would result in the state funding system 'equalizing' more of the district's expenditures.

ASB Transportation

A significant portion of the non-to-and-from transportation costs relate to Associated Student Body (ASB) activities such as sporting events. These costs should be removed from Program 99 using the calculation on either the Long-Form or Short-Form.

If the district's accounting software allows for it, districts may directly charge the ASB fund for the cost of the non-to-and-from trips.

If the district is unable to directly charge the ASB fund, there are two options. The first is to move the costs from Program 99 into the ASB fund using a journal entry. The costs in Program 99 will be reduced, and the costs in the ASB fund will be increased. This would be a reimbursement of expenditures. See Chapter 3 for more information on interfund reimbursements. However, this method has the effect of reducing the cost pool for determining the applicable rates for non-to-and-form transportation.

An alternative method would be to move the costs out from Program 99 using the debit-credit transfer process into another program such as 89. An invoice would be generated, which would be paid for by the ASB fund. The money would be deposited into the district's general fund in the appropriate XX89 revenue account. This results in both funds showing the costs at the end of the year.

In either case, the cost for the non-to-and-from transportation billed to the ASB fund should not exceed the actual costs calculated using the districtwide rate. To do so otherwise would cause the district's General Fund to benefit at the expense of the ASB Fund.

Transportation Frequently Asked Questions

I. HOW TO DEFINE TO-AND-FROM SCHOOL (TO AND FROM) STATE-FUNDED TRANSPORTATION

Q1. How do I decide if the costs for some particular pupil transportation should be included in Program 99?

A. The intent of the Legislature is to have the costs in Program 99 reflect school district expenditures for providing the transportation that the state considers in the funding formula. The easiest method to determine if those costs should remain in Program 99 is to ask the following question: "Do I get funded for this transportation as part of the state ridership report?" (Or: would I get funded for the transportation if it was

happening during count week?) If the answer is "Yes," then you should include those costs in Program 99 as to and from. Note that the question is unrelated to whether the funding provided by the state is adequate. If the state funds the transportation during ridership, leave those costs in Program 99. Note also that the new funding system does not require the reporting of all to-from transportation activity.

Q2. Should pupil transportation for summer school programs be included in Program 99?

A. Pupil transportation costs associated with extended school year programs must be transferred out of Program 99. (Note that this is the exception to the rule stated above.)

Q3. The state does not fund pupil transportation within one mile where no hazards to walking exist (the walk area). Should I include the cost of providing pupil transportation within the walk area in Program 99?

A. Yes. While the current formula does not specifically fund school bus passengers with bus stops within the walk area, those costs must be included in Program 99.

Q4. Do I have the option of leaving the costs for academically related field trips in Program 99?

A. No. The costs associated with field trips, extra-curricular trips, and all other transportation that would not qualify for state funding must be moved out of Program 99.

Q5. When a special needs route gets added after the winter reporting period, do I include those costs in Program 99?

A. Yes. Those costs should be included in Program 99. While the current formula does not provide additional funding for that route, the costs are to and from. The accounting process should identify the costs associated with performing necessary to and from transportation, regardless of the fact that the new system does not adjust funding for changes made after the winter reporting period.

Q6. We provide pupil transportation for zero hour and extended day (after school). Are those to-and-from costs?

A. Transportation provided for zero hour students enrolled in a course of study as defined in WAC 392-121-106 should be reported as to and from. Extended day (after school) program transportation should be charged to Program 99 if it is an academic program. If the transportation is provided for both academic and non-academic programs, the student counts must be separated, and the costs relating to the academic program should be charged to Program 99.

Q7. Where should I report the costs for transportation for a student identified as homeless outside of the count period?
A. To-and-from school homeless transportation is charged to Program 99, regardless of whether the work is performed during the transportation report count period. If a district has a McKinney-Vento grant, only non-to-and-from school homeless transportation (for example, summer school and extra-curricular activities) may be charged to the grant.

Q8. Who should I ask for clarification, if I have questions regarding a specific type of transportation that we provide?
A. The first person to ask is your Regional Transportation Coordinator. Contact information for the regional transportation coordinators is available on the OSPI website at Transportation Coordinators. If you are still in need of clarification, please contact Mindy Smith, Student Transportation Program Supervisor at OSPI at 360-725-6121 or mindy.smith@k12.wa.us.

II. HOW TO APPLY THE ACCOUNTING GUIDELINES

Q9. To calculate non-to-and-from costs, my district currently uses a method other than the short or long method defined by OSPI. Is this acceptable?
A. Using a different method will yield different results, and the Legislature is seeking consistent results. Therefore, districts must use either the short or long methods to calculate non-to-and-from costs. The exception is that contract districts may direct charge all of their non-to-and-from costs if these costs are broken down on the invoice.

Please note that the long method provides flexibility in the calculation of driver costs, so it is possible that your district's method is incorporated in the variations allowed in the long method.

Q10. In preparation for the upcoming school year, our district needs the rates per mile by August 15 in order to budget non-to-and-from transportation expenditures in the programs. May we, therefore, use expenditure data for the prior 180-day school year (September through June) rather than the prior fiscal year (September through August)?
A. If, in your judgment, using the prior school year expenditure data will generate an accurate estimate of the non-to-and-from costs, you may use the prior school year expenditure data rather than the prior fiscal year expenditure data. Districts that use prior school year data should perform the calculation at the end of the year using prior fiscal year data to determine that the school year calculation was accurate. All districts

should maintain documentation of the non-to-and-from cost calculation for audit purposes.

Q11. Who should I ask for clarification?
A. Contact Paul Stone, School District and ESD Accounting Supervisor, at 360-725-6303 or paul.stone@k12.wa.us.

Program 99 Transportation Matrix by Activity and Object
How Costs are Split Between State-Funded and Non-State-Funded Transportation

	Debit Transfer	Credit Transfer	Cert. Salaries	Class. Salaries	Employee Benefits	Supplies, Matrls – Non-Cap	Purchased Services	Travel	Capital Outlay
ACTIVITY	**(0)**	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(7)**	**(8)**	**(9)**
25 Pupil Mgment and Safety	**C**		**C**	**C**	**C**	**C**	**C**	**C**	**C**
29 Pmts to School Districts ①							**C / A**		
51 Supervision ②	**C**		**C**	**C**	**C**	**C**	**C**	**C**	**C**
52 Operations ③	**A**			**D**	**D**	**A**	**A / D**	**C / D**	**A**
53 Maintenance	**A**			**A**	**A**	**A**	**A**	**A**	**A**
56 Insurance							**C**		
59 Transfers		**NA**							

The designations on this Matrix visually depict the cost nature(s) of each Program 99 activity-object combination and were used to develop the short and long method Templates.

C = Core costs—These costs are considered core to the state-funded transportation and are not allocated to non-state-funded transportation.

A = Incremental costs—These costs are variable based upon the number of miles driven. They are to be charged here first and then allocated, using the short method template or the long method template, to non-state-funded transportation based on miles.

D = Direct Costs per Hour and Trip Costs—These costs are driven by the number of driver hours or trip-specific costs. The largest component is driver salaries and benefits. Direct costs to be allocated to non-state-funded transportation are calculated in the following manner: (1) using the long method template based on hours (driver salaries and benefits); (2) using the long method template based on specific trip costs (tolls, parking fees, etc.); or (3) using the short method template, added to incremental costs and allocated based upon the percent of to-and-from miles. These costs may be direct-charged to the using program rather than initially charged to Program 99.

NA = Not applicable—The credit transfer amount is not allocated and is not part of the cost per mile or cost per hour calculation.

Non-state-funded costs are accounted for as follows:

- Direct costs (D above) such as driver and trip costs may be charged directly to a non-transportation program.
- Incremental costs (A above) and direct costs (D above), are allocated to non-transportation programs using the debit and credit transfer process. The amounts are calculated using the short or long method for splitting state-funded and non-state-funded transportation costs.

Notes:

① These costs may be core or incremental, determined on a specific-transaction basis.

② The district can identify specific non-state-funded activity 51 expenditures and allocate them, but this will be the exception. The transportation director salary and benefits are core costs. Costs for a dispatcher hired solely for non-state-funded dispatching may be allocated.

③ These costs may be incremental or direct, determined on a specific-transaction basis.

FOOD SERVICE PROGRAM GUIDANCE

Definition of Costs

There are two varieties of costs that need to be considered when looking at program-related expenditures: direct and indirect. Direct costs are those that are specifically incurred for a program or other cost objective, and can be readily identified to a particular objective. For example, food purchased for school lunches is a direct cost of the food service program. The salary for a teacher during a regular school day is a direct cost for Program 01 Basic Education.

In contrast, an indirect cost is incurred for the benefit of multiple programs or cost objectives, and therefore cannot be identified readily and specifically with any given program or cost objective. These costs are also known as "overhead costs."

Direct Costs

A direct cost is one "that can be identified specifically with a particular final cost objective" (2 CFR Part 225, Appendix A, paragraph E.1v). For a cost to be considered a direct cost, it needs to be traceable to the activity that received the benefit of the cost. The Federal Cost Principles, formerly published as OMB Circular A-87 and now codified in Part 225 of Title 2 of the Code of Federal Regulations (2 CFR Part 225), identify, in general terms, four main categories of direct costs.

The first are the *salary and benefit costs* for employees who work on a particular cost objective. This means that the labor costs for employees who prepare and serve meals to students are direct costs, as would be the cost of a food service director within a district. The costs of staff that collect lunch money would also, in general terms, be a direct cost. However, if, for example, that staff member was also the school's attendance secretary, the entirety of the salary costs would not be a direct cost of the food service program. Only the portion of the salary that is directly related to the food service program may be considered a direct cost. There are other similar issues in this regard; see *Allowability*, below.

The second general category of costs is the "*cost of materials* acquired, consumed, or expended specifically for the purpose" of a cost objective. The largest material-related cost for the food service program is, of course, the food that will be served to the students. However, other material-related costs can be attributed to the school food service program. These include items such as plates, trays, utensils, and so on.

In addition, the costs of office supplies for the food service program are also material-related costs and so should be recorded as a cost of the food service program.

The third category of costs is related to the second: the *costs of "equipment* and other approved capital expenditures." This applies to the necessary equipment to store, prepare, and serve meals to students. If there are any capital expenditures that are necessary for the operations of a school food service program, they should be charged to the program as well.

The fourth general category is travel expenses that are necessary to meet the cost objective.

Indirect Costs

In contrast to direct costs which are identified with a particular cost objective, indirect costs are costs that are "incurred for a common or joint purpose benefiting more than one cost objective." In addition, these costs are "not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved" (2 CFR Part 225, Appendix A, paragraph F.1). Put simply, these costs only indirectly benefit a particular cost objective. These costs are considered as being central costs, and are sometimes known as "overhead costs."

Indirect costs can be, in some ways, a direct cost of a particular program, but the time and effort necessary to identify those exact costs far exceed the benefit of knowing the exact cost to a given program. For instance, consider the task of accounts payable for the entire district. It takes time to process an invoice for payment, including confirmation that the items or services were actually received, to entering it into the system, and so on. Each program receives a direct benefit of the process of handling accounts payable, and so the time costs (represented by salary and benefit costs) would be a direct cost of the program. However, it would take determining some basis for spreading the cost, such as the number of invoices processed, or actually determining how long it takes to process a particular invoice, to be able to consider the costs as direct costs for the activity. Hence, the treatment of these costs as indirect costs.

In general terms, indirect costs are recorded in Program 97 Districtwide Support; as they are costs that relate to district-level operations and that benefit all programs.

Application of Indirect Costs—Indirect Rates

How are indirect costs applied to programs such as food service? This is done through a calculated indirect rate. There are three types of indirect rates that school districts in Washington state use: the Federal Restricted Indirect Rate, the Federal Unrestricted Indirect Rate, and the State Recovery Rate. Each of these rates has specific programs for which they are used. The Federal Unrestricted Indirect Rate (FUIR) is allowed for federal programs that do not have a "supplement, not supplant" requirement, such as food service programs. Thus, for school food service programs, the rate that is used is the FUIR.

The FUIR is calculated through a formula that has been agreed upon by both OSPI and the Department of Education, which is OSPI's cognizant federal agency for indirect rate determinations. The full calculation is done on the district's F-196 Annual Financial Statement. Rates are calculated with a two-year lag, so the rate that is effective for 2020–21 was calculated using 2018–19 F-196 data for the district.

Indirect costs that are applied to a program's direct costs are ***not*** reflected on the F-196. Only direct expenditures for programs are reported on the F-196.

Allowability

Not every cost that can be conceived of as being "direct" may be charged to a given program. The Federal government has identified several criteria that need to be evaluated before a cost can be "allowed" to be charged to a specific program.

First, the costs must be reasonable and necessary. "Reasonable" means the price paid for a particular item is the same price that a prudent person would have paid for the same item under similar circumstances. "Necessary" means the cost needed to be incurred for the program or cost objective to move forward or operate.

Second, the costs must be allocable to the program. This either means the costs are directly chargeable to the program in accordance with the relative benefits received, or they are indirect costs that are allocated through the applied use of an indirect cost rate.

Third, the costs must be authorized, or not prohibited under state or local laws or regulation. The Appendix B to Part 225 provides general examples of what sort of costs are applicable to Federal programs in general. If there are additional restrictions about what costs may be charged to a given program, either in state law

or other applicable law, those must be taken into account as well. Related to this is that the costs must conform to any limitations or exclusions that are set forth.

Fourth, the costs must be applied consistently to all relevant programs and treatments. That is, if a cost is treated as a direct cost for a particular program, then the same costs cannot be treated as an indirect cost for other programs. One example, provided by the USDA, is custodial costs. A custodian's time can be directly charged to the food service program, by some form of cost allocation measure (for example, the amount of square footage taken up by the food service program compared to the school taken as a whole). However, to direct charge the custodial costs and meet the consistency requirement, then all custodial costs in schools must be allocated out to the various programs and charged as direct costs. They cannot be treated as an indirect cost that is allocated through the use of an indirect rate. This would include such programs as Basic Education, Special Education, Title I programs, Bilingual programs, etc.

Finally, the costs must be recorded as net of all applicable credits, and be adequately documented. "Net of all applicable credits" means that if there are purchase credits that apply to a given item (or rebates), the cost is recorded as the lower cost once those credits have been applied, not the higher, base cost without credits. "Adequately documented" means that there must be some form of documentation to "back up" the cost. For salaries, this would be timesheets or other payroll records (especially for staff that are not charged 100 percent to food service programs). For purchased supplies or services, there are two types of general documentation. The first is an invoice, detailing the items delivered or services performed, as well as the cost for those items or services. The second is some form of documentation or verification that the items being billed for on the invoice were actually received, and that the invoice is authorized to be paid.

Definition of Program Income or Loss

Program income is defined as the excess of Food Service revenues (any XX98 Revenue Code) over total Program 98 expenditures, including applied indirect costs.

Program operating loss is defined as the excess of total Program 98 expenditures, including applied indirect costs, over Food Service revenues (any XX98 Revenue Code). It is assumed that any costs that are not covered by XX98 revenues are covered by other available resources of the district, including local levy dollars, state apportionment money, and so on. Resources that are used in this fashion can be considered as being "loaned" to the Food Service Program on behalf of the district to cover the costs.

Final calculation of program income or loss will be completed by OSPI Child Nutrition Services using the Report 1800.

Estimation of Program Income or Loss

Districts may estimate the food service program income or loss for the purposes of recording carryover or offsetting prior carryover amounts. This process starts by summing up all XX98 Revenue Codes for the given year and then deducting all Program 98 direct expenditures, subtracting Object 1 Credit Transfers from total expenditures.

Next, apply the district's federal unrestricted indirect rate to the direct expenditures. The rate for any given fiscal year was calculated based on the F-196 data from the second prior fiscal year, per OSPI's indirect rate agreement with the Federal government. This means that the rate for 2020–21 was calculated based on 2018–19 financial data. The indirect rate is not applied to all direct expenditures. The rate is only applied to food service salaries and benefits (Object Codes 2, 3, and 4), purchased supplies *other than food* (Object Code 5, except Activity 42 Object 5), purchased services (Object Code 7, except Activity 42 Object 7), and "other" expenditures (Object Code 0 debit transfers, and Object 8 Travel). If a school district contracts out food services with a food service management company and records the contract costs under Program 98, Object 7, Purchased Services, the district will need to split out the costs between labor, supplies, and other on OSPI Form 1505. Child Nutrition will use the form to split out costs to the appropriate object codes and expenditure activities on the Report 1800 before applying the unrestricted indirect rate. For an explanation of these codes, please see Chapter 6.

The amount that remains (XX98 Revenue less Program 98 direct expenditures less applied indirect expenditures) is the estimated program income or loss for the year. The final calculation of program income or loss will be handled by Child Nutrition Services, with the publication of the Report 1800 for each district.

Carryover of Program Income

A district that has program income shall carry over the excess as a Restriction of Fund Balance. Per Federal statues, "revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service, *except that*, such revenues shall not be used to purchase land or buildings, unless otherwise approved by FNS, or to construct buildings" (7 C.F.R. §210.14(a)). This is

considered a monetary restriction placed on the use of financial resources by enabling legislation, which means that excess program revenue is treated as "Restricted." Any excess program income should be recorded in GL 828 Restricted for Carryover of School Nutrition Revenue.

If the district is constantly generating excess program income, the amount recorded year-over-year will continue to accumulate. However, Federal statutes state that a district shall limit "its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit school food service" (7 C.F.R. §210.14(b)). For the purposes of meeting this definition, the following terms are defined:

- "Net cash resources" means the excess of program revenue over program expenditures, accumulated at year-end and year-over-year.
- "3 months average expenditures" means one-third of the total Program 98 expenditures for a school district for a given year, or: (total expenditures ÷ 9 months) × 3.

What happens in the event a district accumulates more than three months of expenditures in GL 828? In such a situation, the district's food service program staff will need to work with OSPI Child Nutrition Services on implementing program changes. The changes that are outlined in statute include, but are not limited to, reducing the price paid by students for school lunches, improving the quality of the food that is served to students, and other actions that are designed to improve the food service program. The exact steps that are taken will be determined through agreement between the district and OSPI.

Carryover of Program Loss

Most districts in Washington run school food service programs that do not generate excess program income, or their total Program 98 expenditures exceed their total XX98 revenues. In such a situation, the assumption is that the district is using other available resources to cover the operating deficit of the food service program, whether it is local levy dollars, general apportionment money, or any non-restricted source of money. The district's General Fund may be "loaning" the food service program the additional resources necessary to provide a school meal program to the students.

Unlike the situation where a district has recorded net program income, there is nothing to record when the district runs a food service deficit. The food service

program is running a deficit and is being "loaned" money from the rest of the district's General Fund, which would mean that there would be some form of receivable to be recorded by the General Fund. In order to balance the accounts, such a receivable would need to be offset by some form of revenue recognition, which would distort the district's financial statements.

To record a food service deficit balance, a separate food service supplemental report will be developed. On this report, the district's current balance of deficit carryover will be displayed. Deficit carryover is limited to a cap of the amount of the annual deficit calculated for each of the previous five years. Put another way, any individual deficit amount can be carried over (as a part of the aggregate) up to a maximum of five years. After that time period, it no longer is displayed on reports.

Offsetting Program Income and Program Loss

There are many times when a district will run a food service program that has net income in one year, but has a deficit the following year, or vice versa.

If the district has a balance in GL 828—that is, the food service program has had net income—and then has a deficit the following year, the deficit will first be applied against the balance in GL 828. If the amount of the deficit is not enough to reduce the balance in GL 828 to zero, then the remaining balance is "carried forward." If the amount of the deficit is greater than the balance in GL 828, then the balance in that account is reduced to zero and the remaining deficit is "carried forward."

If the district has had a deficit program and has built up a balance, as shown on Report 1800SUM and then has a net income, the amount of net income can be used to offset the balance of the food service deficit account. If the amount of net food service income is not enough to completely remove the deficit, any remaining deficit amounts will be carried forward on the supplemental report. If there is sufficient net income to overcome the deficit balance, any remaining net food service income will be reported in GL 828.

Catering Services (Optional)

Some districts elect to perform catering services within and around the district. The costs and revenues that are associated with such services are not related to the food service program, and therefore should not be reported in Program 98. The most appropriate program code for recording catering services is Program 89 (Other Community Services).

For staff and related services costs, there are a number of methods for moving the costs out of Program 98 and into Program 89. The first method would be to charge the employee's time directly to Program 89 for the time spent on catering services, using time sheets or some other method of determining how much time to charge.

The second method is to do a journal entry to move the costs out of Program 98 (reduce the expenditures in the program) into Program 89 (increase the expenditures in the program). The amount that is to be transferred should be calculated based on some established method, such as percentage of time over the period spent working on catering services. In this instance, the appropriate share of all salary and benefit costs would need to be transferred. With this method, the salary and benefit costs would no longer be shown in Program 98.

The third method would be to use the debit-credit transfer process as outlined in Chapter 6. For this method, the amount to be transferred is calculated on an established method, and then transferred using transfer objects from Program 98 to Program 89. The difference between this method and the last method is that with this method, all of the original expenditures remain intact in Program 98 by expenditure object, but the total Program 98 expenditures are reduced by the amount transferred out.

According to (7 C.F.R. §250.59 (c)), the school food authority should not use donated foods in meals or other activities that do not benefit primarily schoolchildren, such as banquets or catered events. However, as their use in such activities may not always be avoided (*e.g.,* if donated foods are commingled with purchased foods in a single inventory management system), the school food authority must ensure reimbursement to the nonprofit school food service for the value of donated foods used in such activities. When such reimbursement may not be based on actual usage of donated foods (*e.g.,* in a single inventory management system), the school food authority must establish an alternate method of reimbursement—*e.g.,* by including the current per-meal value of donated food assistance in the price charged for the meal or other activity.

COMPENSATED ABSENCES

Introduction

GASB Statement 16, Accounting for Compensated Absences, provides specific guidance on how this leave liability should be calculated. Compensated absences are absences for which employees will be paid, such as vacation and sick leave. This guidance does not deal with whether the compensated absences liability should be reported in governmental funds. Rather, this guidance applies only to compensated absences liabilities reported on the Schedule of Long-Term Liabilities. Separate guidance for vacation leave and unused sick leave to be paid at termination is provided.

Vacation Leave

Districts are required to report a liability for vacation leave and other leave with similar characteristics earned by employees when both the following two criteria have been met:

- The vacation leave is related to employee services already rendered.
- Eventual payment to the employee is considered probable.

"Payment" means compensation through paid time off or some other means, such as cash payments at termination or retirement. Consequently, accumulated vacation leave at fiscal year-end should be accrued for time that will be taken off by the employee in a subsequent fiscal year and paid through the employee's regular pay.

Vacation leave liability should be valued using current salary rates in effect at the balance sheet date (that is, pay rates in effect as of fiscal year-end). The liability should also reflect certain benefits. Any salary-related payments **directly and incrementally** connected with leave payments to employees (employer FICA, employer Medicare, eligible contributions to the state retirement system) and are applicable to payments made upon termination. For example, retirement contributions are made for accrued vacation paid upon termination for employees in TRS 1 and PERS 1, but not for employees in TRS 2 and PERS 2. Statement 16 requires inclusion of retirement for all TRS 1 and PERS 1 accrued vacation, but **none** is to be included for TRS 2 or PERS 2 accrued vacation. (Note: Salary-related benefit rates should take into account factors such as employees whose salaries exceed the maximum social security withholding. Salary-related payments would **not** include life insurance premiums and health care premiums paid on behalf of employees.)

The liability for vacation leave should include nonvested leave earned by employees that are expected to vest. For example, assume new employees earn one day of vacation leave per month, but may not take any leave prior to completing a six-month probationary period. Further, assume that employees not completing the probationary period forfeit any leave earned during that period. The district would then accrue leave earned by new employees to the extent those employees are expected to successfully complete the probationary period.

Conversely, the liability for vacation leave should not include accumulated amounts expected to lapse.

Sick Leave

Districts are required to report a liability for unused sick leave to be paid at termination that is based only on rendering past service.

Districts do not accrue sick leave payments made to employees for time taken off on account of illness or other medical-related reasons because this is not considered a true liability since it is contingent upon a future event beyond the control of both the employer and employee.

GASB Statement No. 16 sets forth the following two different approaches for measuring this liability:

1. Termination Payments Method: Under this approach, a district calculates the amount of sick leave to be paid upon termination based upon past experience in making such payments.

2. Vesting Method: Under this approach, a district estimates the liability for sick leave payouts by calculating the amount of sick leave expected to become eligible for payout at termination.

Using either method, the liability includes salary-related payments (benefits) connected with termination payouts for unused sick leave. In addition, both methods require the use of current salary rates unless compensation is at some other rate.

Further, if any unused sick leave is applied to an employee's service credits to qualify the employee for retirement, that unused sick leave must be removed from the amount available to be paid out at termination.

In choosing which method to use, several observations must be made. For example, the vesting method may be the more practical approach in situations where a district does not have adequate historical data to establish past sick leave payout patterns. Larger districts may choose to use samples to avoid the need to collect and manipulate data for numerous employees. Similarly, past sick leave payout patterns (termination payments method) may be of limited benefit for districts with a relatively small number of employees.

Note also the time focus of the two methods. The termination payments method focuses on several past periods. The vesting method focuses primarily on data as of the balance sheet date.

Termination Method Calculations

There are at least three different ways the termination payments method for sick leave can be applied in practice: (1) The "ratio" approach, (2) the "days paid" approach, and (3) the "amount paid" approach.

"Ratio" Approach

This approach appears to be one of the simpler calculation methods. The liability for unused sick leave is calculated using the historical ratio of sick leave paid to sick leave accumulated. Refer to Exhibit A when considering the following steps:

1. The district prepares a list of sick leave payouts for the past several years (in this example, a previous five-year period) as well as a list of year-end sick leave balances in dollars for those same years.

   (See Exhibit A: This amount includes vesting and nonvesting sick leave.*)

2. The district then totals the sum of sick leave payouts ($8,026) and the sum of year-end sick leave balances ($167,840) for the five-year period.

3. The district then calculates the ratio of sick leave payouts to year-end sick leave balances ($8,026/$167,840 = 4.8%).

4. This rate can then be applied to the current sick leave balance ($42,710) and adjusted for salary-related payments (7.65% of payroll) to calculate the liability for payouts of unused sick leave at termination (4.8% x $42,710 x 1.0765 = $2,207).

EXHIBIT A Assumptions Underlying "Ratio" Example		
Year	**Sick Leave Payouts**	**Total Sick Leave Balance***
20X1	$1,075	$21,500
20X2	1,266	28,133
20X3	1,650	36,000
20X4	2,010	40,020
20X5	2,025	42,187
	$8,026	$167,840
20X6	?	$42,710

"Days Paid" Approach

Under this approach, the sick leave liability is calculated on the basis of sick leave days paid in the past. Refer to Exhibits B and C (illustrative examples shown are from these exhibits) when considering the following steps:

1. The district prepares a list of employees who have terminated during the past several years (in this example, the preceding five-year period as illustrated in Exhibit C).

2. For each employee terminated during that five-year period, the district lists (1) the number of unused sick leave days payout at termination and (2) the total years worked. These amounts are then totaled (70 days of paid unused sick leave, 60 years of service).

3. State of Washington employees are paid at 25 percent of their regular pay rate for unused sick leave. Accordingly, the total number of paid unused sick days (70 days) is first multiplied by the average daily pay rate for current employees ($96 per day) and then reduced to the pay rate in effect for termination payments (70 days x $96 per day x 25% = $1,680).

4. The adjusted value of sick leave ($1,680) is divided by the total service years of terminated employees to calculate the sick leave payout per year of service ($1,680/60 years of service = $28 per year of service).

5. Once the sick leave payout per year of service has been calculated, it is applied to the years of service of current employees (in this example, 38 years) and adjusted to reflect salary-related payments (7.65 percent of payroll). The result is the

liability for unused sick leave payouts at termination (38 years of current employee service x $28 per year of service x 1.0765 = $1,145).

Larger districts may consider using samples to eliminate the need to provide detailed information for numerous employees.

"Amount Paid" Approach

Under this method, the sick leave liability is calculated on the dollar value basis of unused sick leave paid in the past. Refer to Exhibits B and C when considering the following steps (illustrative amounts are from those exhibits):

1. The district prepares a list of employees who terminated during the past several years (in this example, the preceding five-year period as illustrated in Exhibit C).

2. For each employee terminated during that period, the district lists both (1) the total years worked and (2) the amount of unused sick leave payout at termination. The number of years worked for terminated employees is then totaled (60 years).

3. The amount of sick leave paid in each of the preceding years must then be converted into current year dollars. The rate used reflects the average yearly rate of pay increases during the period (five years). The district then calculates the sum of sick leave payouts in current year dollars ($2,494).

4. Because of their seniority, terminating employees are often paid at a higher daily pay rate than other employees. For example, the average daily pay rate for current employees may be 80 percent of the average daily pay rate of terminating employees. Therefore, the sum of sick leave payouts must be adjusted accordingly ($2,494 x 80% = $1,995).

5. The $1,995 is then divided by the total years of service of terminated employees to calculate the sick leave payout rate per year of service ($1,995/60 years of service = $33.25 per year of service).

6. Once the sick leave payout per year of service has been calculated, it is applied to the years of service of current employees (38 years) and adjusted to reflect salary-related payments (7.65 percent of payroll). The result is the liability for unused sick leave payouts upon termination (38 years of current employee service x $33.25/year of service x 1.0765 = $1,360).

Again, larger districts may consider using samples to eliminate the need to provide detailed information on numerous employees.

EXHIBIT B		
Assumptions Underlying "Days Paid" and "Amount Paid" Examples		
Pay rate for termination payments:		**25%**
Salary-related payment ratio:		**7.65%**
Current average daily salary:		**$96**
Current Employees:	**Employee**	**Length of Service**
	1	8 years_
	2	1 year__
	3	10 years__
	4	16 years__
	5	3 years_
	TOTAL	**38 years__**

EXHIBIT C					
Schedule of Employee Terminations Last Five Fiscal Years					
Employee	**Year of Termination**	**Sick Day Payout**	**Years Worked**	**Sick Leave Payout**	**Adjusted Payout (4% per yr.)**
A	20X1	15	13	$567	$690
B	20X2	0	7	0	0
C	20X3	25	14	660	743
D	20X4	30	20	981	1,061
E	20X5	0	6	0	0
TOTALS		**70**	**60**	**$2,208**	**$2,494**

Vesting Method Calculation

Under the vesting method, the sick leave liability is based upon leave balances for current employees that are likely to become eligible for termination payments. Refer to Exhibits D and E when considering the following steps (amounts used are from those exhibits):

1. Typically, employees obtain the right to be compensated for unused sick leave upon completing a certain number of service years. In that case, the district should establish an eligibility policy. It must decide at what point it becomes probable an employee will, in fact, complete the required service period. Turnover is often different for various classes of employees; therefore, the milestone selected may be different for

each class of employees (for example, kitchen employees—ten years; professional and technical employees—eight years).

2. The sick leave balance for each current employee who has met the appropriate milestone (for example, kitchen employees—with more than ten years of service) should then be reduced to reflect any cap on sick leave payouts (for example, 180-day maximum).

3. State of Washington employees are paid at 25 percent of their regular pay rate for sick leave payouts on a maximum of 180 accrued days. Accordingly, the sick leave balance for an employee (180 days) is first multiplied by the employee's daily pay rate ($65 per day) and then reduced to the pay rate in effect for termination payments (180 days x $65 per day x 25% = $2,925).

4. The district then calculates the sum of these amounts for all employees and adjusts it to reflect salary-related payments (for example, employer FICA and Medicare) to determine the total liability for unused sick leave payouts ($13,823).

EXHIBIT D				
Assumption for Illustration of Vesting Method				
Employee	**Class**	**Balance**	**Pay Rate**	**Service**
1	A	182 days	$65 per day	20 years
2	B	84 days	$85 per day	7 years
3	A	122 days	$50 per day	17 years
4	C	300 days	$95 per day	22 years
5	A	20 days	$45 per day	10 years
6	C	70 days	$90 per day	6 years
7	C	40 days	$95 per day	27 years
8	B	34 days	$80 per day	22 years
9	A	12 days	$55 per day	5 years
10	A	490 days	$50 per day	31 years

Service required to be eligible for sick leave payout: 20 years. Limitations on sick leave payouts: 25% pay and 180-day maximum. Salary-related payments rate: 7.65%.

Likely to complete 20 years of service:

	Milestone
Class A	10 years
Class B	8 years
Class C	12 years

EXHIBIT E						
Assumption for Illustration of Vesting Method						
Emp.	**Eligible**	**Service**	**Accrue?**	**Days**	**Sick Pay per Pay Rate****	**Liability**
1	10 years	20 years	Yes	180*	$16.25 per day	$2,925
2	8 years	7 years	No	84	N/A	0
3	10 years	17 years	Yes	122	$12.50 per day	1,525
4	12 years	22 years	Yes	180*	$23.75 per day	4,275
5	10 years	10 years	Yes	20	$11.25 per day	236
6	12 years	6 years	No	70	N/A	0
7	12 years	27 years	Yes	40	$23.75 per day	950
8	8 years	22 years	Yes	34	$20.00 per day	680
9	10 years	5 years	No	12	N/A	0
10	10 years	31 years	Yes	180*	$12.50 per day	2,250
						12,841
		Salary-related payments***				982
						$13,823

*Sick leave payouts limited to 180-day maximum
**25% of regular pay rate
***7.65%

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