

Accounting Bulletin #2000-04

SUBJECT: Budgeting for Federal Funds

Effective Immediately

Date: May 16, 2000

In the past, some schools omitted federal funds from their general fund budget, PDE-2028. This accounting bulletin emphasizes that federal funds should be included in the general fund budget adopted by the School Board.

The PA Public School Code of 1949, Section 687 (b) requires that schools prepare and adopt an annual budget that represents "the amount of funds that will be required by the school district in its several departments for the following fiscal year." The elimination of federal funds, a significant source of revenue, from the General Fund budget would underestimate the funds available to your school and not present an accurate picture to taxpayers as to what funds are being received and spent by your school.

Additionally, Section 609 of the School Code allows for inclusion during the year of additional state and federal revenue, not budgeted for, as it becomes available. However, this does not dismiss the duty of the fiscal officer from presenting to the School Board and the constituents of the school district an overall picture of available revenue sources. In fact, excluding federal revenue may falsely give the impression that federally sponsored programs are not being financed with federal funds and that local and state sources will be used to maintain these programs. Additionally, excluding federal funds from your budget will also show your report users that you have huge variances in your budget-to-actual comparisons on the Annual Financial Report (AFR). To make the omission even more obvious to report users, the implementation of GASB Statement 34 will require BOTH the original and final budgets to be compared to actual figures on the AFR.

Section 609 does not provide for federal funds to be expended from a special revenue fund. In fact, the Section provides the means to handle these funds within the general fund. Additionally, Generally Accepted Accounting Principles (GAAP) requires that only a minimum number of funds be maintained for an entity to meet legal requirements and sound financial management. This prevents fragmentation, inflexibility, and complex accounting systems when they are not necessary. The use of a special revenue fund is not recommended or encouraged by GAAP if the funds can be reported within the general fund. Since federal funds are a small part of a public school's operating budget, we also conclude that there is no need to set federal funds apart.

The final reason for reporting federal funds within the general fund has to do with calculating your school's restricted indirect cost rate. PA's USDE-approved restricted indirect cost plan is approved on the assumption that all federal revenue and expenditures are included within the general fund. We cannot approve a restricted indirect cost rate for your school if federal funds are not included within the general fund of your report.

For the reasons mentioned above and to maintain consistency in financial reporting for all education programs across PA public schools, we must advise you that estimates for federal funds should be included in your general fund budget. Federal funds may not be segregated in a special revenue fund, and must be reflected on the PDE-2028 as general fund revenues and expenditures.

Questions regarding this bulletin may be directed to the School Finance staff within the Office of Comptroller Operations at Ra-Schlfin@pa.gov