

Financial Reporting Manual for Maryland Public Schools



Revised 2014



Maryland State Department of Education

Lillian M. Lowery
Secretary-Treasurer of the Board
State Superintendent of Schools

Penelope Thornton Talley, Esq.
Chief Performance Officer

Dr. Jack Smith
Chief Academic Officer

Kristy Michel
Chief Operating Officer

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State of Maryland

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Governor

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Equity Assurance and Compliance Branch

Maryland State Department of Education
200 W. Baltimore Street—6th Floor
Baltimore, Maryland 21201–2595
410.767.0433 (voice)
410.767.0431 (fax)
410.333.6442 (TTY/TDD)



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Maryland State Department of Education
Nancy S. Grasmick State Education Building
200 West Baltimore Street
Baltimore, Maryland 21201
410.767.0100
www.marylandpublicschools.org





~ Note ~

The following acronyms and terminology are used throughout this Manual:

GAAP: Generally Accepted Accounting Principles

LEA or LEAs: Local Education Agency(s), Maryland's 23 Counties and Baltimore City

MSDE: Maryland State Department of Education

County (e.g., as in County government) refers to Maryland's 23 Counties and Baltimore City.



Editor: Kathy Marzola
Maryland State Department of Education
Office of Finance & Administration
410.767.0011
kmarzola@msde.state.md.us

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The *Financial Reporting Manual for Maryland Public Schools* (Manual) was developed and adopted by the Maryland State Board of Education in 1963 in response to the need for a uniform system of budgeting and reporting Maryland public school financial data. To assure uniform reporting at both the state and federal levels, the Manual was based upon the federal *Handbook II, Financial Accounting for Local and State School Systems*, written and produced in 1957 by the U.S. Office of Education.

In 1968, the education laws were reviewed and changes were proposed to limit county government control of local school budgets. Subsequent passage of Article 77, Section 117 of the *Annotated Code of Maryland* (now known as Section 5-101 of the *Education Article of the Annotated Code of Maryland* and referred to as the Budget Categories Law) and changes in federal reporting requirements necessitated revisions to the Manual that were made in 1970.

In the early 1970s, the federal government began working on a new financial handbook and distributed discussion drafts to states. The handbook introduced a multi-dimensional expenditure framework to address the demands for increasingly sophisticated program cost information, and it reduced the number of major reporting categories from twelve to four. The revised federal *Handbook II* was adopted in 1973 and introduced as *Handbook II, Revised - Financial Accounting, Classifications and Standard Terminology for Local and State School Systems (HBIIR)*. Maryland was then unable to report expenditures to the federal government in accordance with the new definitions.

A 1973 report to the State Board of Education recommended the adoption of HBIIR for Maryland public schools, but the recommendations were too controversial and were not adopted. Over the next several years, public sentiment shifted in favor of changing the state budget categories because of the focus on Special Education and the desire by local governments to change the definitions of some of the categories listed in the Manual. In 1977, Maryland's Budget Categories Law was revised to add a new expenditure category for Special Education, to revise the definitions of the categories of Administration and Instruction, and to make some other less significant changes, effective for 1979 fiscal year. The Manual was revised to incorporate the changes and was distributed to users in 1980.

In 1983, the Manual was again revised to include a standard chart of accounts to accommodate the automated reporting of financial information; to provide a structure to support the 1980 revision of the federal handbook, *Handbook IIR2 - Financial Accounting for Local and State School Systems*; and to provide guidance in areas not previously addressed in the Manual.

The 1996 version of the Manual was precipitated by the growing awareness that the 1983 Manual was seriously out-of-date. Changes in educational policy, changes in operating practices, changes in public interest, and the desire for comparable financial information and greater accountability created an interest in revising the definitions and account codes. A committee of local finance officers and state education staff reviewed the Manual and recommended changes.

Concurrently with this activity, the State Board of Education granted a three-year waiver beginning with fiscal year 1995 to include expenditures for instructional staff development in the category of Instruction rather than in the category of Administration, as defined in the Manual. It was also

concluded that school-based curriculum development should be charged to Instruction as these activities are performed by teachers, usually during summer work sessions.

During the 1996 legislative session, several bills were introduced to modify the state budget categories. At the conclusion, three budget categories were added to segregate certain instructional expenditures. This revision conforms to the new budget categories, codifies the Board's waiver, refines the definitions of expenditure areas, and introduces new concepts.

Since the last revision of the Manual in 1996, there have been major statutory changes affecting public financing of public education. These include the establishment of Bridge to Excellence in 2002 that dramatically increased State aid to education and replaced 25 restrictive grant programs with four new unrestricted funding formulas, increased fiscal accountability under the Education Fiscal Accountability and Oversight Act of 2004, and the authorization and establishment of charter schools as a new type of public school in Maryland.

In addition to legislation, significant changes have been made in financial reporting with the implementation of the web-based Annual Financial Reporting system and in reporting categories. This Manual is revised to include guidance in interpreting financial reporting policy and directives.

Legal Authority

The structure of financial accountability in Maryland is determined by several references in the *Education Article of the Annotated Code of Maryland*. Section 5-101 establishes the budget categories and references the *Financial Reporting Manual for Maryland Public Schools*, revised 2009 as the source for identifying additional budgetary details that the county fiscal authorities may request of the county board. Section 2-205 requires the State Board to adopt bylaws, rules, and regulations that govern the administration of the public school systems in Maryland and empowers the State Board to collect the financial information. Section 2-303 authorizes the State Superintendent to withhold State funding if a school system violates the legal requirements identified in the laws, bylaws, and State Board rules and regulations. Section 5-101 prescribes a uniform method of reporting receipts, expenditures, and balances of the operations and activities of the public schools.

The *Code of Maryland Regulations* (COMAR) 13A.02.01.02, cites as legal authority Section 5-101, *Education Article, Annotated Code of Maryland* and reads as follows:

- C. Annual School Budget. The Annual School Budget shall be submitted by the local board of education to the board of county commissioners or county council or the city council according to the form and procedures adopted by the State Board of Education and set forth in the *Financial Reporting Manual Maryland Public Schools*, revised 2009, that is incorporated by reference. The forms and procedures in the Manual shall apply to the annual school budgets beginning with fiscal year 2010.
- D. Annual School Financial Report. The Annual School Financial Report shall be submitted by the local board of education to the State Board of Education according to the form and procedures adopted by the State Board of Education.

Distribution

The Manual will be available in .pdf format on the Maryland State Department of Education's main webpage. The URL will be provided when the revisions to Manual are finalized and the Manual is posted. The anticipated path will be:

marylandpublicschools.org
click on Newsroom
click on Publications
scroll to The Financial Reporting Manual for Maryland Public Schools

Compliance

Maryland LEAs are required to adhere to the definitions of accounts contained in this Manual when submitting expenditure information to the Maryland State Department of Education. Although LEAs may use a different chart of accounts or unique structures to record expenditures for purposes of internal control, they are required to report in accordance with the provisions outlined in this Manual to assure reasonable comparability. "Differences between financial reports should be due to substantive differences in the underlying transactions. . . rather than to the selection of different alternatives in accounting procedures and practices."*

Failure to comply with the definitions and other requirements is a violation of State Board regulations and may be the basis for withholding State Aid (refer to Sections 2-303(b), 5-114, and 5-205(a) of the *Education Article of the Annotated Code of Maryland*).

* Quoted in National Council on Governmental Accounting, *Governmental Accounting, Auditing and Financial Reporting*, published by Government Finance Officers Association, Chicago, 1988, p.3.



In 1979, the National Council on Governmental Accounting (NCGA) set forth twelve basic principles of accounting and financial reporting in Statement 1, Governmental Accounting and Financial Reporting Principles. These principles are the generally accepted accounting principles (GAAP) for governmental units as recognized by the American Institute of Certified Public Accountants and the Association of School Business Officials of the United States and Canada. Maryland local education agencies are required to maintain their accounts in accordance with GAAP.

GAAP for state and local governments is monitored by the NCGA, a group sponsored by the Government Finance Officers Association. The latter organization has produced a comprehensive publication entitled Governmental Accounting, Auditing and Financial Reporting (GAAFR), commonly known as the Blue Book. GAAFR is the premier source of guidance on state and local government accounting, auditing, and financial reporting. It does not set GAAP, nor is it the authoritative source of GAAP, but it does provide practical guidance for implementation of GAAP standards.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement Number 34 entitled Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. This statement significantly changed the presentation format of financial statement information by requiring the inclusion of government-wide financial statements presented on the accrual basis of accounting. All Maryland LEAs were required to implement this statement by the fiscal year ending June 30, 2003.

Fund Accounting

For accounting purposes, a government entity is a collection of smaller entities, each designed for a specific purpose. To account for these individual purposes, fund accounting evolved to serve as the framework for accounting and reporting in the public sector.

A fund is defined as a “fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.”*

Governments and government subunits, such as LEAs, are required to use fund accounting. GAAFR describes three broad fund categories, subdivided into a maximum of ten fund types, for accounting and financial reporting. The funds are described below. The basic financial statements should conform to the requirements of Governmental Accounting Standards Board Statement Number 34 and consist of government-wide financial statements and fund financial statements, and include the following:

- The Government-Wide Financial Statements, consisting of a Statement of Net Assets

* Governmental Accounting Standards Board (GASB), Codification of Governmental Accounting and Financial Reporting Standards, Section 1100.110.

and a Statement of Activities, are prepared using the economic resources measurement focus and the accrual basis of accounting. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Each statement should distinguish between the Governmental Activities and Business-Type Activities of the primary government and its discretely presented component units by reporting each in separate sections.

- The Fund Financial Statements consist of a series of statements that focus on information about the government's major governmental and proprietary funds, including its blended component units. Fund Financial Statements also should report information about a government's fiduciary funds and component units that are fiduciary in nature.
- The Governmental Fund Financial Statements should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting, and they include the following:
 - (1) General Fund – The chief operating fund used to account for all financial resources except those required to be accounted for in another fund.
 - (2) Special Revenue Fund – A fund used to set apart particular operating revenues that may be restricted for expenditures of a specific purpose. Examples are federal restricted programs, state restricted programs, and local restricted programs.
 - (3) Debt Service Fund – A fund used to account for monies set aside for current and future debt service requirements. These funds are required if legally mandated and if financial resources are accumulated for principal and interest payments maturing in future years. It is not applicable to all school systems.
 - (4) Capital Projects (School Construction) Fund – A fund used to account for financial resources to be used for the acquisition or construction of major capital facilities that are not financed by proprietary or trust funds.
- The Proprietary Fund Financial Statements should be prepared using the economic resources measurement focus and the accrual basis of accounting and include the following:
 - (1) Enterprise Fund – A fund used to report any activity for which a fee is charged to external users for goods and services.
 - (2) Internal Service Fund – A fund used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis.
- The Fiduciary Fund Financial Statements should be prepared using the economic resources measurement focus and the accrual basis of accounting and include the following:
 - (1) Pension (and Other Employee Benefit) Trust Fund – A fund used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans.

- (2) Investment Trust Fund – A fund used to report the external portion of investment pools reported by the sponsoring government.
- (3) Private-Purpose Trust Fund – A fund used to report all other trust arrangements under which principal and income benefit individuals, private organizations or other governments.
- (4) Agency Fund – A fund used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).



Maryland local education agency (LEA) accounting systems shall provide the information necessary to prepare financial reports that present fair and full disclosure of the LEA financial operations in accordance with GAAP. The system shall accommodate adjustments to demonstrate financial compliance with legal provisions and reporting requirements of the Maryland State Department of Education (MSDE).

This Manual presumes adherence to GAAP, but dictates a unique reporting structure for Maryland LEAs based on federal and state reporting requirements. The design and structure of the account code facilitates reporting in accordance with Section 5-101 of the Education Article of the Annotated Code of Maryland and in accordance with the requirements of the National Center for Education Statistics, as described in *Financial Accounting for Local and State School Systems*, 2003 edition.

Funds and Report Groups

While Maryland LEAs are encouraged to use any or all of the described funds for management purposes, they are limited to only those funds identified below when reporting in accordance with Section 5-101 of the *Education Article, Annotated Code of Maryland*. Each of these funds is described in that context:

Funds:

- (1) Current Expense - This fund is the composite of the General Fund and all Special Revenue Funds except the Food Service Fund and Special Revenue funds set up for capital projects. The Current Expense Fund accounts for the basic education programs and includes all financial resources used for the basic operations of the school system. It may be thought of as the operating fund. The Current Expense Fund is subdivided into Unrestricted Programs and Restricted Programs. Included in the Current Expense Fund are the proprietary-type Internal Service Funds that shall be reported in the appropriate category, program, and object in accordance with the Public School Laws of Maryland.
- (2) [Not Used]
- (3) School Construction - This fund is used to account for the financing of major construction projects within the LEA, including remodeling and alterations to existing facilities. This is generally funded with debt proceeds rather than through operating revenues. Funds available for payment toward the completion of a school construction project in a subsequent fiscal year(s) should be recognized as assets and corresponding deferred revenues in the current fiscal year.
- (4) Debt Service - This fund is used to report the payment of interest and principal on long-term general obligation debt used to finance LEA capital projects. Although most Maryland LEAs do not have the authority to issue bonds, they are required to report the revenue and expenses related to the portion of the county or city debt that is attributable to the LEA on the Annual Financial Report.

- (5) Food Service - This fund is used to account for the operation of the food service program, including all activities involved in providing food to schools, students, staff, or the community. The fund may be a government-type special revenue fund or a proprietary-type enterprise fund.
- (6) Student Activities - This fiduciary type fund is used to account for the operations of student activities which are owned, operated, and managed by the student body under the guidance and/or direction of staff members or other adults. Student payments and fundraisers are the principal revenue sources for the Student Activities Fund.
- (7) Trust/Agency - This fund is used to report financial resources for which the LEA is only a trustee, an agent, or a conduit. Expenditures from this fund are in the form of refunds of previous contributions, pass-through monies to agencies for whom economic benefit will occur, or funds for accumulation of assets to be liquidated at a future date. When an LEA receives a grant that will benefit several LEAs, it assumes the leading function of doling funds, and collecting revenue and expenditure reports from all parties involved for the purpose of filing the main grant Annual Financial Report with MSDE under the Trust/Agency Fund. Each LEA directly benefiting from the grant should report its portion under a locally created grant number in the Current Expense Fund.
- (8) For all Funds, the accounts required for complete reporting are :
- Assets;
 - Liabilities;
 - Expenditures;
 - Revenue (or Income) and Nonrevenue; and
 - Fund Balances (beginning and ending).
- (9) Fixed Charges Supplemental Report Group - defined as charges of a generally recurrent nature that are not readily allocable to other expenditure categories. They have traditionally been included in a separate category under Maryland law. Until there is a change in the law, it will be necessary to request that these expenditures be distributed to the appropriate category as supplementary information to comply with federal reporting requirements. The fixed charges supplemental account group was created to facilitate the reporting of fixed charges in the proper expenditure category.

Basis of Accounting

LEAs must use the accrual basis of accounting for proprietary funds and nonexpendable trust funds and use the modified accrual basis of accounting for all other funds. The modified accrual basis of accounting means that expenditures are recognized when the liability is incurred and revenues are recognized when they are measurable (the amount of revenue can be determined) and available (realized within 60 days after the end of the fiscal year).

For Restricted Programs, revenue can be recognized only to the extent of the expenditures. Expenditures for restricted programs are defined as Cash + Payables + Outstanding encumbrances.

Revenue, Expenditure, and Transfer Accounts

The structure of an accounting system is dependent upon the needs of the user. Revenue, expenditures (or expenses), and transfer accounts provide the basis for tracking the flow of funds.

Revenue is an increase in fund financial resources that does not increase any liability, does not represent the recovery of an expenditure, does not represent the cancellation or decrease in assets, and does not represent contributions of fund capital in proprietary funds. Revenue does not include interfund transfers, debt issue proceeds, exchanges of property for cash, or expenditure refunds.

Federal program funds applicable to expenditures for the same program in the current fiscal year, but expected to be received in the next fiscal year, are to be accrued as current revenue at the end of the fiscal year. Federal revenue is to be recognized when the expenditure has occurred. State aid entitlements are to be recognized as revenue in the year of entitlement even though some funds may be received in a subsequent fiscal year.

Revenue is categorized by source of funds (federal, state, or local) and by funding authority (state aid category or federal program).

Expenditures or expenses for proprietary funds are decreases in net financial resources resulting from charges incurred, whether paid or not paid, that benefit the current year. For purposes of MSDE financial reporting and the Budget to Actual Statement in the Component Unit Financial Report (Audit), expenditures are defined as cash + accounts payable + encumbrances. In some cases, expenditures should be recorded as transfers.

Expenditures are classified by fund and object in all funds. The Current Expense fund has additional classifications by category, program, and activity.

Transfers are distinguished from revenues and expenditures. Transfers are special types of expenditure and revenue accounts that must be differentiated to avoid duplication or to identify an expenditure that should not be included when calculating per pupil expenditures. Transfer accounts allow money to flow between funds or governments without duplicate recording by the various recipients. Transfers may occur between funds, between units of government, or between LEAs.

For example, one school system may pay tuition to another school system to educate a child. The receiving LEA enrolls the student and pays for the services rendered. Both LEAs will have revenue and expenditures related to the same student. Recognizing and recording the transactions related to the same student as transfers out or in prevents the overstatement of state and national expenditures for education.



The structure of the Maryland State Department of Education (MSDE) account code is hierarchical and governs the financial reporting structure to be followed for the Annual Financial Report. The design is multi-dimensional and allows the aggregation of financial data within any field. School systems are encouraged to adopt a compatible structure with modifications based on locally-identified needs for additional detail. Expansion of the hierarchy will allow more finite accounting while facilitating extraction of details required by MSDE.

Structure of Accounts/Record Layout

The MSDE account codes are shown below. This structure of accounts allows financial information to be submitted via electronic media and/or file transfer. (See Appendix A for file specifications and reporting requirements.)

Column	Length	Data Element	Data Type
1-2	2	LEA Number	Numeric
3	1	Fund	Numeric
4	1	Class	Numeric
5-6	2	Category	Numeric
7-8	2	Program	Numeric
9-10	2	Activity	Numeric
11	1	Object	Numeric
12-13	2	Sub-Object	Numeric
14-25	10	Dollar Amount	Numeric
26-29	4	Fund (Revenue) Source	Numeric
30-37	8	Grant Document Number	Numeric

See below for numbering non-MSDE issued grants

38-47	10	Local Grant Number	Alpha-numeric
48-59	12	<i>Original Grant Amount</i>	<i>Numeric</i>
60-71	12	<i>Cash Received</i>	<i>Numeric</i>
72-83	12	<i>Cash Expenditures</i>	<i>Numeric</i>
84-91	8	<i>Payables</i>	<i>Numeric</i>
92-99	8	<i>Encumbrances</i>	<i>Numeric</i>
100-109	10	Administration-Federal	Numeric
110-119	10	Administration-Nonfederal	Numeric
120-129	10	<i>Career & Tech. Maintenance of Program</i>	<i>Numeric</i>
130-133	4	Fiscal Year	Numeric
134-143	10	<i>Local Contributions</i>	<i>Numeric</i>

The first five italicized fields (columns 48-99) are inception-to-date data that is indispensable for MSDE-issued grants requiring Restricted Program Reports. They are optional for non-MSDE (locally restricted) grants. The Career and Technology fields (columns 120-129) apply exclusively to MSDE-issued grants under the Carl D. Perkins Act. The Local Contributions fields (columns 134-143) are for local matching funds as the required addition to the grant award.

How to Assign Grant Numbers to Programs without MSDE Grant Numbers

Using the following numbering scheme for non-MSDE issued grants will assure a unique number for each restricted report submitted:

First 2 digits - FY (2009 = 09)

Next 2 digits - LEA #

Next 4 digits - Unique number of LEA choice (e.g., sequential, beginning with 0001)

CODING BY FIELD

LEA Number

The LEA number identifies the local education agency for which financial information is being submitted. The LEA code numbers are:

01 Allegany	12 Harford
02 Anne Arundel	13 Howard
03 Baltimore	14 Kent
30 Baltimore City	15 Montgomery
04 Calvert	16 Prince George's
05 Caroline	17 Queen Anne's
06 Carroll	18 St. Mary's
07 Cecil	19 Somerset
08 Charles	20 Talbot
09 Dorchester	21 Washington
10 Frederick	22 Wicomico
11 Garrett	23 Worcester

Fund

The fund codes are used to identify the fund types for which revenue, expenditures, assets, liabilities, and fund balances are reported. The fund codes are:

- 1 Current Expense
- 2 [Not Used]
- 3 School Construction
- 4 Debt Service
- 5 Food Service
- 6 Student Activities
- 7 Trust/Agency
- 8 General Fixed Assets
- 9 Fixed Charges Supplemental Report Group (This account is used to redistribute expenditures reported in the Fixed Charges category to the category for which the charge was incurred. It should not be confused with the true fund types and is used for convenience only.)

Class

The class code describes the type of nominal and real accounts. These account totals are used to describe the operations and status of each of the major funds identified in the Fund code.

1 Revenue	5 [Not Used]
2 Expenditures	6 [Not Used]
3 Assets	7 Fund Balance
4 Liabilities	

Category/Program/Activity

The category/program/activity fields are dependent upon the class (and fund type) codes. The number of digits required to completely describe the account varies according to the class code. With the exception of the revenue and expenditure accounts, coding is required only to the category level.

Below are three matrix representations showing the linkages of category/program/activity codes to class codes and the fund types in which these accounts will be reported.

Assets, Liabilities, and Fund Balances by Fund Matrix

Coding for these account groups requires only the category code appended to the fund and class codes. All LEA Asset accounts that are not shown below are to be reported by Fund in Code 399-Other Assets. All LEA liability accounts not shown below are to be reported by Fund in Code 499-Other Liabilities.

Account	Current Expense	School Construction	Debt Service	Food Service	Student Activities	Trust/Agency	General Fixed Assets
3 Assets							
301 Cash (including CDs)	X	X		X	X	X	
302 Temporary Investments	X	X		X	X	X	
320 Accounts Receivable	X	X		X	X	X	
370 Inventories	X	X		X	X	X	
383 Land & Land Improvements							X
384 Buildings & Additions							X
385 Furniture & Equipment							X
389 Construction in Progress							X
399 Other Assets	X	X		X	X	X	
4 Liabilities							
450 Payroll Deductions/Withholding	X	X		X			
473 Deferred Revenue-Transportation	X						
474 Deferred Revenue-Other	X	X		X			
499 Other Liabilities	X	X		X	X	X	
7 Fund Balance							
701 Opening Balance	X	X		X	X	X	
710 Closing Balance-Unreserved	X	X		X	X	X	
712 Closing Balance-Reserved	X	X		X	X	X	
750 Investment in General Fixed Assets							X
760 Prior Years' Adjustments	X	X		X	X		

Revenue by Fund Matrix

Coding for the Revenue accounts requires category and program codes appended to the fund type and class codes. For restricted programs, the revenue (fund) source code field is also required to identify the type of federal program or the specific initiative of each major state aid funding source. Revenue details in the Trust/Agency Fund apply only if one LEA is acting as the agent for other LEAs.

Revenue by Fund		Current Expense	School Construction	Debt Service	Food Service	Student Activities	Trust/Agency
101	Local Appropriations	X	X	X	X	X	X
105	Other Revenue						
10502	Tuition-Nonresident	X					
10503	Tuition-Adult Education	X					
10505	Tuition-Summer School	X					
10509	Tuition-Other	X					
10511	Student Payment/Fees	X			X	X	
10512	Other Sales	X			X	X	
10520	Transportation Payments	X					
10530	Earnings on Investments	X			X	X	X
10535	Rent	X			X		X
10591	Locally Donated Commodities				X		
10598	Local Revenue For/On-Behalf of the LEA	X	X		X		
10599	Other Miscellaneous Revenue	X	X	X	X	X	X
120	State Revenue						
12001	State Share of Current Expenses						
1200131	Formula	X					
1200191	Supplemental Grant	X	X		X		
12002	Compensatory Education						
1200237	Formula	X					
12005	Formula Grants for Specific Populations	X					
1200532	Schools Near County Lines	X					
1200534	Out-of-County Living Arrangement	X					
12007	Students with Disabilities	X					
1200749	Formula	X					
1200750	Nonpublic Placement	X					
1200777	Maryland Infants & Toddlers	X					
12009	Gifted and Talented	X					

Revenue by Fund		Current Expense	School Construc- tion	Debt Service	Food Service	Student Activities	Trust/ Agency
1200954	Gifted and Talented Grants	X					
12013	Innovative Programs						
1201388	School-Based Health Centers	X					
1201395	Smith Island Boat	X					
12014	Adult Continuing Education						
1201466	Formula	X					
1201467	External Diploma	X					
1201468	Multi-Service Centers	X					
1201469	Literary Works	X					
12024	Limited English Proficient			X			
1202435	Formula	X					
12025	Guaranteed Tax Base						
1202586	Formula	X					
12027	Food Services						
1202717	State Program				X		
1202759	MD Meals for Achievement Program				X		
12039	Transportation						
1203978	Formula	X					
1203979	Students with Disabilities	X					
12052	Science & Math						
1205284	Grants	X					
12098	State Revenue For/On-Behalf of the LEA	X					
12099	Other State Revenue	X	X	X	X	X	X
NOTE: Any other major aid program will be separately identified and included in the User Guide Appendix at the Annual Financial Report and Grant Reporting System website.							
130	Federal Revenue		X	X		X	
13001	Unrestricted-Impact Aid	X					
13002	Restricted Through MSDE	X			X		X

Revenue by Fund		Current Expense	School Construc- tion	Debt Service	Food Service	Student Activities	Trust/ Agency
13002	Restricted Through MSDE	X			X		X
13003	Restricted Direct	X			X		X
13004	Restricted-Pass Through Other Agency	X					X
13050	USDA Commodities				X		
13098	Federal Revenue For/On-Behalf of the LEA	X					
199 Other Resources							
19901	Sale of Equipment (Assets)	X	X		X		
19902	Net Insurance Recovery	X			X		
19903	Sale of Bonds		X				
19904	State Loans		X				
19905	Prior Year Balance	X	X		X	X	X
19910	Transfers In-Maryland LEAs	X					
19911	Transfers In-OOS LEAs	X					
19920	Interfund Transfers	X	X	X	X	X	
19999	Other Nonrevenue	X	X	X	X	X	X

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Expenditure by Fund Matrix

Expenditure coding by category and program area is required for Fund 1 – the Current Expense Fund and Fund 3 – School Construction Fund. Category and Program details are also required for restricted grants reported in Fund 7 – Trust/Agency Fund. Other Fund types have no category or program levels of detail and require only object/subobject details.

Expenditure by Fund	Current Expense	School Construction	Debt Service	Food Service	Student Activities	Trust/Agency
200 Expenditures			X	X	X	X
201 Administration	X					
20121 General Support	X					
20122 Business Support	X					
20123 Centralized Support	X					
202 Mid-Level Administration						
20215 Office of the Principal						
2021501 Basic/Supplemental Programs	X					
2021502 Career & Technology Programs	X					
20216 Instructional Admin & Supervision						
2021601 Basic/Supplemental Programs	X					
2021602 Career & Technology Programs	X					
2021604 Professional Media Support	X					
203 Instructional Salaries and Wages						
20301 Regular Programs	X					
20302 Special Programs	X					
20303 Career & Technology Programs	X					
20304 Gifted and Talented Programs	X					
20308 School Library Media Programs	X					
20309 Instructional Staff/Curriculum Development	X					
20310 Guidance Services	X					
20311 Psychological Services	X					
20312 Adult Education	X					
204 Textbooks and Instructional Supplies						
20401 Regular Programs	X					
20402 Special Programs	X					
20403 Career & Technology Programs	X					
20404 Gifted and Talented Programs	X					
20408 School Library Media Programs	X					
20409 Instructional Staff/Curriculum Development	X					

Expenditure by Fund		Current Expense	School Construc- tion	Debt Service	Food Service	Student Activities	Trust/ Agency
20410	Guidance Services	X					
20411	Psychological Services	X					
20412	Adult Education	X					
205	Other Instructional Costs						
20501	Regular Programs	X					
20502	Special Programs	X					
20503	Career & Technology Programs	X					
20504	Gifted and Talented Programs	X					
20508	School Library Media Programs	X					
20509	Instructional Staff/Curriculum Development	X					
20510	Guidance Services	X					
20511	Psychological Services	X					
20512	Adult Education	X					
206	Special Education						
20604	Public School Instruction	X					
20606	Programs in State Institutions	X					
20607	Nonpublic School Programs	X					
20609	Instructional Staff/Curriculum Development	X					
20616	Instructional Admin & Supervision	X					X
20615	Office of the Principal	X					X
20615	Office of the Principal	X					X
207	Student Personnel Services	X					X
208	Student Health Services	X					X
209	Student Transportation	X					X
210	Operation of Plant						
20130	Warehousing and Distribution	X					X
20131	Other Operation of Plant	X					X
211	Maintenance of Plant	X					X
212	Fixed Charges	X					X
213	Food Services	X					X
214	Community Services	X					X
215	Capital Outlay						
21534	Land & Land Improvements	X					X
21535	Buildings & Additions	X					X
21536	Remodeling	X					X

Object-Subject by Fund		Current Expense	School Construc- tion	Debt Service	Food Service	Student Activities	Trust/ Agency
100	Salaries and Wages	X	X		X	X	X
101	Salaries for Temporary/Substitute Teachers	X					X
102	Other Salaries -- Teachers and Other	X					X
103	Teachers -- Certified	X					X
104	Aides and Assistants	X					X
200	Contracted Services						
205	Rent (including operating leases)	X			X		X
206	Outside Food Service				X		
207	Independent Audit Cost	X			X		X
209	Other Contracted Services (cleaning services, repair/maintenance, construction, student transportation, food service management, and other)	X	X		X	X	X
300	Supplies and Materials						
321	Textbooks	X	X				X
322	Library Media	X	X				X
325	Food				X		
327	Other Donated Commodities				X		
328	Food Supplies				X		
329	Other Supplies	X			X	X	X
400	Other Charges		X			X	X
408	Other Purchased Services (includes non-employee insurance, communications, travel, non-energy utilities water and sewer services, other)	X			X		X
412	Employee Retirement	X			X		X
413	Security Security	X			X		X
414	Other Employee Benefits (tuition reimbursement, unemployment insurance, workers compensation, group insurance)	X			X		X
424	Energy Services	X		X			X
499	Miscellaneous (judgments, dues, fees, subscriptions, short-term interest)	X			X		
500	Land, Buildings, and Equipment						
551	Land		X	X			
552	Buildings	X	X				
554	Equipment	X	X		X	X	X

Object-Subobject by Fund		Current Expense	School Construc- tion	Debt Service	Food Service	Student Activities	Trust/ Agency
555	Depreciation				X		
556	Depreciation (memo only)				X		
600	Principal						
661	Long-Term Bonds			X			
662	State Loans			X			
700	Interest						
761	Long-Term Bonds			X			
762	State Loans			X			
800	Transfers						X
881	Maryland LEAs	X					X
882	Other LEAs	X					X
885	Other	X					X
886	Interfund	X	X		X	X	X
890	Indirect Cost Recovery	X					

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Object-Subobject by Fund/Category

Current Expense Fund

Administration

		General Support	Business Support	Central Support
100	Salaries			
101	Temporary/Substitute Teachers	X	X	X
102	Other Salaries	X	X	X
103	Teachers -- Certified			
104	Aides and Assistants			
200	Contracted Services			
205	Rent & Operating Leases	X	X	X
206	Outside Food Service			
207	Independent Audit	X		
209	Other Contracted Cleaning Services Repair/Maintenance Construction Student Transportation Food Service Management Other	X	X	X
300	Supplies and Materials			
321	Textbooks			
322	Library			
325	Food			
327	Other Donated Commodities			
328	Food Supplies			
329	Other Supplies	X	X	X
400	Other Charges			
408	Other Purchased Services:			
	Travel	X	X	X
	Liability/Fidelity Insurance	X		
	Property/Casualty Insurance			
	Communication			
	Utilities (not energy)			
	Other	X	X	X
412	Employee Retirement			
413	Social Security			
414	Other Employee Benefits			
424	Miscellaneous			
	Judgments	X		

Current Expense Fund

Mid-Level Administration		Instructional Salaries								
Office of the Principal	Inst. Admin. and Supervisor	Regular Programs	Gifted and Talented	ESOL	Career and Tech	Adult Educ	School Media	Staff Devel	Guidance	Psych Services
X	X	X	X	X	X	X	X	X	X	X
X	X	X	X	X	X	X	X	X	X	X
X	X									
X	X									
X	X									
X	X									
X										
X	X									

Object-Subobject by Fund/Category		Current Expense Fund		
		Administration		
		General Support	Business Support	Central Support
	Short-Term Interest			
	Other	X	X	X
500	Land, Buildings, Equipment			
551	Land			
552	Buildings			
554	Equipment--new & replacement	X	X	X
555	Depreciation			
556	Depreciation (memo)			
600	Principal			
661	Long-Term Bonds			
662	State Loans			
700	Interest			
761	Long-Term Bonds			
762	State Loans			
800	Transfers			
881	Maryland LEAs			
882	Other LEAs			
885	Other			
886	Interfund			
890	Indirect Cost Recovery		X	X

Current Expense Fund

Mid-Level Administration		Instructional Salaries								
Office of the Principal	Inst. Admin. and Supervisor	Regular Programs	Gifted and Talented	ESOL	Career and Tech	Adult Educ	School Media	Staff Devel	Guidance	Psych Services
X	X									
X	X									
X	X									

Object-Subobject by Fund/Category		Current Expense Fund							
		Instructional Textbooks and Supplies							
		Regular Programs	Special Programs	Career & Tech	School Media	Staff Devel	Gui-dance	Psych Services	Adult Ed
300	Supplies and Materials								
321	Textbooks	X	X	X					
322	Library Media				X				
325	Food	X	X	X	X	X	X	X	X
327	Other Donated Commodities								
328	Food Supplies								
329	Other Supplies								

Object-Subject by Fund/Category	Current Expense Fund							
	Other Instructional Costs							
	Regular Programs	Special Programs	Career & Tech	School Media	Staff Devel	Gui- dance	Psych Services	Adult Ed
200 Contracted Services								
205 Rent	X	X	X	X	X	X	X	X
206 Outside Food Service								
207 Independent Audit								
209 Other Contracted, Clean- ing Services, Repair/Main- tenance, Construction, Student Transportation, Food Service Management, Other								
400 Other Charges								
408 Other Purchased Services:								
Travel	X	X	X	X	X	X	X	X
Liability/Fidelity Insurance								
Property/Casualty Insurance								
Communication	X	X	X	X	X	X	X	X
Utilities (not energy)								
Other	X	X	X	X	X	X	X	X
500 Land, Buildings, Equipment								
551 Land								
552 Buildings								
554 Equipment--new & replace- ment	X	X	X	X	X	X	X	X
555 Depreciation								
556 Depreciation (memo)								
800 Transfers								
881 Maryland LEAs	X							
882 Other LEAs	X							

Object-Subobject by Fund/Category		Current Expense Fund		
		Student Personnel Services	Student Health Services	Student Transportation
100	Salaries	X	X	X
101	Temporary/Substitute Teachers	X	X	X
102	Other Salaries	X	X	X
103	Teachers Certified	X	X	X
104	Aid and Assistance	X	X	X
200	Contracted Services			
205	Rent	X	X	X
206	Outside Food Service			
207	Independent Audit			
209	Other Contracted			
	Cleaning Services			
	Repair/Maintenance			X
	Construction			
	Student Transportation			X
	Food Service			
	Management			
	Other	X	X	X
300	Supplies and Materials			
321	Textbooks			
322	Library Media			
325	Food			
327	Other Donated Commodities			
328	Food Supplies			
329	Other Supplies	X	X	X
400	Other Charges			
408	Other Purchased Services:			
	Travel	X	X	X
	Liability/Fidelity Insurance			
	Property/Casualty Insurance			X
	Communications			
	Utilities (not energy)			
	Other	X	X	X
412	Employee Retirement			
413	Social Security			
414	Other Employee Benefits			
424	Energy Services			X
450	State Payment for On-Behalf	X	X	X
451	Other Than State Payments for On-Behalf	X	X	X

Current Expense Fund

Special Education						Operation of Plant		Main- tenance of Plant
Class Inst	State Inst	Nonpub Prog	Staff Devel	Office of the Principal	Admin Superv	Warehs & Distrib	Other	
X			X	X	X	X	X	X
X			X	X	X			
X			X	X	X			
X			X	X	X	X	X	X
							X	
							X	X
X			X	X	X	X	X	X
X								
X			X	X	X			
							X	
				X			X	
						X		
X			X	X	X	X	X	X
								X

Object-Subobject by Fund/Category		Current Expense Fund		
		Student Personnel Services	Student Health Services	Student Transportation
499	Miscellaneous			
	Judgments			
	Short-Term Interest			
	Other	X	X	X
500	Land, Buildings, Equipment			
551	Land			
552	Buildings			
554	Equipment--new & replacement	X	X	X
555	Depreciation			
556	Depreciation (memo)			
600	Principal			
661	Long-Term Bonds			
662	State Loans			
700	Interest			
761	Long-Term Bonds			
762	State Loans			
800	Transfers			
881	Maryland LEAs			
882	Other LEAs			
885	Other			
886	Interfund			
890	Indirect Cost Recovery			

Current Expense Fund

Special Education						Operation of Plant		Main- tenance of Plant
Class Inst	State Inst	Nonpub Prog	Staff Devel	Office of the Principal	Admin Superv	Warehs & Distrib	Other	
X			X	X	X	X	X	X
X			X	X	X	X	X	X
X								
X								
	X	X						

Object-Subobject by Fund/Category		Current Expense Fund		
		Fixed Charges	Food Service	Community Service
100	Salaries			X
101	Temporary/Substitute Teachers			
102	Other Salaries			
200	Contracted Services			
205	Rent			X
206	Outside Food Service			
207	Independent Audit			
209	Other Contracted			
	Cleaning Services			
	Repair/Maintenance			
	Construction			
	Student Transportation			X
	Food Service			
	Other			X
300	Supplies and Materials			
321	Textbooks			
322	Library Media			
325	Food			
327	Other Donated Commodities			
328	Food Supplies			
329	Other Supplies			X
400	Other Charges			
408	Other Purchased Services:			
	Travel			X
	Liability/Fidelity Insurance	X		
	Property/Casualty Insurance			
	Communications			
	Utilities (not energy)			
	Other			X
412	Employee Retirement	X		
413	Social Security	X		
414	Other Employee Benefits	X		
424	Energy Services			
499	Miscellaneous			
	Judgments			
	Short-Term Interest	X		
	Other			X

Current Expense Fund

Capital Outlay		School Const Fund	Debt Service Fund	Food Service Fund	Student Activity Fund	Trust & Agency Fund
Bldgs & Additions	Remod-eling					
X	X	X		X	X	X
					X	X
X	X	X		X		
				X		
				X		
X	X	X				
				X		
X	X	X		X	X	X
					X	X
				X		
				X		
				X		
				X		
X	X	X		X	X	X
				X		
				X		
				X		
				X		
X	X	X		X	X	X

Object-Subobject by Fund/Category	Current Expense Fund		
	Fixed Charges	Food Service	Community Service
500 Land, Buildings, Equipment			
551 Land			
552 Buildings			
554 Equipment--new & replacement			X
555 Depreciation			
556 Depreciation (memo)			
600 Principal			
661 Long-Term Bonds			
662 State Loans			
700 Interest			
761 Long-Term Bonds			
762 State Loans			
800 Transfers			
881 Maryland LEAs			
882 Other LEAs	X		
885 Other	X		
886 Interfund		X	X
890 Indirect Cost Recovery	X		

Current Expense Fund

Capital Outlay		School Const Fund	Debt Service Fund	Food Service Fund	Student Activity Fund	Trust & Agency Fund
Bldgs & Additions	Remod- eling					
					X	X
				X		
				X		
			X			
			X			
			X			
			X			
	X					



Fund source codes are used to identify the funding source of restricted program expenditures. Every federally-funded grant issued by MSDE or other non-federal agency, most direct federal revenue, and many state-funded programs are restricted. For these programs, expenditures must be reported independently on Restricted Expenditure Reports (see Appendix A, Instructions for Completing the Annual Financial Report Forms, and Appendix C, Annual Financial Reporting System).

Revenue Source Codes

On grants received from MSDE, the fund source code will be shown on the Notice of Grant Award document. Fund source codes for federal programs funded directly from the federal government or through another agency must be identified before reporting to MSDE. Fund source codes will be updated annually in the Appendix to the User Guide at the Annual Financial Report and Grant Reporting System website including codes for new revenue sources.



The Assets, Liabilities, and Fund Balance accounts are balance sheet accounts. Those that are required to be reported on the Annual Financial Report to the Maryland State Department of Education are defined below.

Financial
Statement
Account Definitions

- 300 Assets.** Assets and other debits include what is owned and what is not owned (as of the date of the balance sheet) but is expected to become fully owned at some future date. Assets may be current or fixed (long-term).

Current Assets are cash or anything that can be readily converted into cash and include the following:

- 301 Cash and Cash Equivalents.** Include all funds on deposit with a bank or savings and loan institution, currency, coin, checks, postal and express money orders, bankers drafts on hand or on deposit, petty cash, and cash on deposit with fiscal agents. Also included are liquid investments that are both readily convertible to a known amount of cash and so near maturity that insignificant risk of change in value is present.
- 302 Temporary Investments.** Include securities held for the production of interest income, such as treasury notes and certificates of deposit, with maturity dates of less than one year.
- 320 Accounts Receivable.** Amounts owed on open accounts from private persons, firms, or corporations for goods and services furnished by an LEA.
- 370 Inventories.** Include cost of supplies and equipment on hand not yet distributed, and value of goods held by an LEA for resale rather than for use in its own operations.
- 399 Other Assets.** Include all current assets other than those mentioned above. Examples are long-term investments, prepaid expenses, and deposits.

Fixed Assets (long-term) are assets that are held or used over a long period of time. After the implementation of GASB Statement Number 34, fixed assets are no longer reported on the Balance Sheet, only on the Statement of Net Assets.

- 383 Land and Land Improvements.** Include the acquisition value of land and permanent improvements to land, such as sidewalks, retaining walls, gutters, pavement, etc. Include the purchase price and additional purchase costs. If land or improvements are acquired by gift, the value shall reflect the appraised value at the time of ownership transfer.
- 384 Buildings and Additions.** Include the acquisition value of permanent structures used to house persons or property. If buildings are purchased or constructed, this account includes the purchase or contract price of all permanent buildings and the fixtures attached to and forming a permanent part of such buildings. If

buildings are acquired by gift, the value shall reflect the appraised value at the time of ownership transfer.

- 385 **Furniture and Equipment.** Include tangible property of more or less permanent nature, other than land, buildings, and improvements. Examples are machinery, tools, trucks, cars, buses, furniture, furnishings, and all other items meeting the criteria for equipment.
- 389 **Construction in Progress.** Includes the cost of construction work undertaken but not yet completed.
- 400 **Liabilities.** LEA debts or legal obligations that arise out of past transactions and are payable but not necessarily due. Liabilities may be current or long-term and include the following:
 - 450 **Payroll Deductions/Withholding.** Include amounts deducted from employee salaries for withholding taxes and other purposes. District-paid benefits payable also are included here.
 - 473 **Deferred Revenue - Transportation.** Includes State aid for transportation received but not yet expended.
 - 474 **Deferred Revenue - Other.** Includes all revenue that are collected before earned except state aid transportation.
 - 499 **Other Liabilities.** Include all other LEA debts not listed above. Examples are accounts payable, deposits payable, loans payable, lease obligations, and unamortized premiums.
- 700 **Fund Balance.** Fund balance is the excess of assets over liabilities and reserves.
 - 701 **Opening Fund Balance.** A restatement of the fund balance as reported at the end of the preceding fiscal year.
 - 710 **Closing Fund Balance - Unreserved.** The excess of assets over liabilities and reserves at the end of the fiscal year.
 - 712 **Closing Fund Balance - Reserved.** The portion of the excess of assets over liabilities that is reserved for a specific purpose.
 - 760 **Prior Years' Adjustments.** An account to record money received as the result of an abatement of prior year expenditures. The refund of expenditures made in the same fiscal year may be recorded in the appropriate expenditure account as a reduction of the expenditure.

LEAs receive funding from many sources. Revenue may be restricted or unrestricted. Unrestricted revenues are those received without restriction other than the general restrictions imposed by the parent government. Most local revenue and State revenue sources are unrestricted.

Restricted revenues are those for which expenditure authority is maintained by the grantor. Expenditure authority requires an approved budget, expenditures are restricted to specific expenditure areas, and additional reporting requirements may be imposed by the funding organization.

Revenue sources are to be reported as follows:

- 100 Revenues.** Revenues are additions to assets that do not increase any liability, do not represent the recovery of an expenditure, and do not represent the cancellation of certain liabilities without a corresponding increase in liabilities or a decrease in assets. Revenues are classified by category, program, and activity for state revenue only. The two-digit code in the activity field corresponds to the middle two digits of the Fund Number code provided on all Notice of Grant Award documents issued by MSDE.

- 101 Local Appropriations.** Money received from funds set aside periodically by the appropriating body (city council, county commissioners, or county council) for school purposes.

- 105 Other Revenue.** Funds received from non-government sources that meet the definition of revenue. Other revenue is reportable to the following areas:
 - 10502 Tuition - Nonresident Students.** Payments by nonresident students, welfare agencies, or private sources for elementary and secondary education provided by the LEA.

 - 10503 Tuition - Adult Education.** Payments received as tuition for adult continuing and adult basic education provided by the LEA.

 - 10505 Tuition - Summer School.** Payments received as tuition for summer school programs serving elementary and secondary students.

 - 10509 Other Tuition.** Payments received from students as tuition for instruction programs not classified elsewhere.

 - 10511 Student Payments/Fees.** Payments by students for meals, admission to school-sponsored activities, usage of school equipment, purchase of supplies and materials, membership in school clubs or organizations, etc.

 - 10512 Other Sales.** Payments by persons other than students for meals or other items.

 - 10520 Transportation Payments.** Revenue from individuals, welfare agencies, or private sources for transporting students to and from school or school activities.

- 10530 Earnings on Investments.** Revenue from holdings invested for earnings purposes, such as certificates of deposit, treasury investments, money markets, etc.
- 10535 Rent.** Revenue from the rental of either real or personal LEA property.
- 10598 Local Revenue For/On-Behalf of the LEA.** Commitments or payments made by the local governmental unit or a third party for the benefit of the LEA, or contributions of equipment or supplies.
- 10599 Other Miscellaneous Revenue.** Other revenue from local sources not included elsewhere; e.g., gifts, bequests, or gains on the sale of investments or assets.

120 State Revenue. Revenue from any agency of the State that originated within the state, whether restricted or unrestricted. Restricted State revenues require individual revenue/expenditure reporting annually. Restricted state revenues will be identified as such on the notice of grant award. Unrestricted state revenue must be identified in the revenue accounts by source, but the expenditures of these funds are reportable along with other unrestricted funds.

State revenue accounts change as new programs are identified and funded. Beginning in FY 2004, the Bridge to Excellence in Public Schools Act significantly changed the structure of state funding for public education. Numerous programs have been consolidated into five major funding programs. A few restricted state programs still remain.

Shown below are the State revenue sources identified to the Major State Aid program.

12001 State Share of Foundation. Funded under the Bridge to Excellence in Public Schools Act through Section 5-202 of the *Education Article of the Annotated Code of Maryland*.

- 1200131 Formula**
- 1200191 Supplemental Grant**

12002 Compensatory Education. Funded under the Bridge to Excellence in Public Schools Act through Section 5-207 of the *Education Article of the Annotated Code of Maryland*.

- 1200237 Formula**

12005 Formula Grants for Specific Populations. Sections 4-121 and 4-122 of the *Education Article of the Annotated Code of Maryland*.

- 1200532 Schools Near County Lines (Tuition Bylaw)**
- 1200534 Out-of-County Living Arrangements (Foster Care)**

12007 Students with Disabilities. Sections 5-209, 8-414 and 8-415 of the *Education Article of the Annotated Code of Maryland* provide a minimum guarantee for

special education funding levels; and for the State and local educational agencies to fund nonpublic special education programs for students with disabilities for whom neither the State nor local educational agencies can provide an appropriate program. Additionally, funding is available for the Maryland Infants and Toddlers program.

1200749 Formula (including Medicaid [State] IGT payments)

1200750 Nonpublic Placement

1200777 Maryland Infants and Toddlers

12009 Gifted and Talented. Funding for summer programs offering economics, humanities, social sciences, leadership, science, visual and performing arts, creative writing, mathematics, foreign languages, environmental studies, and international studies at summer centers for gifted and talented students from each of Maryland's public school systems.

1200954 Gifted and Talented Grants

12013 Innovative Programs. Funding for projects to explore new ways of addressing education issues and problems.

1201395 Smith Island Boat

12014 Adult Continuing Education. Funding to enable adults to acquire skills and knowledge leading to a high school credential.

1201466 Formula

1201467 External Diploma

1201469 Literacy Works

12024 Limited English Proficient. Funding in accordance with the Bridge to Excellence in Public Schools Act, funded through Education Article 5-208 of the *Education Article of the Annotated Code of Maryland*.

1202435 Formula

12025 Guaranteed Tax Base. Funding in accordance with the Bridge to Excellence in Public Schools Act, funded through Education Article 5-210 of the *Education Article of the Annotated Code of Maryland*.

1202586 Formula

12027 Food Service. State funds to supplement currently available federal and local funds that expand and extend food and nutrition programs to needy children throughout the State.

1202717 State Program

1202759 Maryland Meals for Achievement Program

- 12039 Student Transportation.** Sections 5-205 and 8-410 of the *Education Article of the Annotated Code of Maryland* provides transportation funding for public school children and disabled children in nonpublic schools or state institutions.
- 1203978 Formula**
1203979 Students with Disabilities
- 12052 Science/Math Education.** Funding to strengthen science and mathematics programs through activities such as summer sessions for teachers and equipment incentive funds.
- 1205284 Grants**
- 12054 School Quality, Accountability, and Recognition of Excellence.** State Grants for school improvement initiatives and the Challenge Grant program.
- 1205407 Schools in Improvement – Baltimore City**
1205443 Schools in Improvement – Prince George’s County
1205493 Schools in Improvement – Other
- 12055 Teacher Development.** State funding for teacher stipends and bonuses as set forth in Section 6-306 of the Education Article of the Annotated Code of Maryland
- 1205555 Stipends for NBPTS Certification**
1205558 Stipends for High Poverty Schools
1205560 Signing Bonuses
- 12057 Transitional Education Program.** This program provides funding under the Judith P. Hoyer Early Child Care and Education Enhancement Program.
- 1205780 Judith P. Hoyer Grants**
- 12058 Head Start.** The focus area is the expansion and improvement of Head Start services in Maryland. Current grantees received funding under a formula since FY 2000. Grantees are eligible to receive continuation funds by meeting the programmatic criteria.
- 1205881 Head Start State Grants**
- 12098 State Revenue For/On-Behalf of the LEA.** Commitments or payments made by the state for the benefit of the LEA or contributions of equipment or supplies. This represents the State Teachers Retirement and Pension System payments made on behalf of the LEA to the State Retirement Agency.
- 12099 Other State Revenue.** Other funding from MSDE headquarters budget or other state agencies.
- 130 Federal Revenue.** Revenue from any agency that originated as a federal program and was either received direct from the federal government or was passed through another agency to the LEA. Federal revenue shall be differentiated as follows:

- 13001 Unrestricted Grants-In-Aid** (for example, Impact Aid). Revenue received directly from the federal government as a grant to an LEA that can be used for any legal purpose desired by the LEA without restriction.
- 13002 Restricted Through MSDE.** Revenue from the federal government passed through MSDE as a grant to the LEA which must be used for a categorical purpose. All restricted federal grants passed to LEAs through MSDE require Restricted Expenditure Reports.
- 13003 Restricted - Direct.** Revenue direct from the federal government as a grant to the LEA that must be used for a categorical or specific purpose. All restricted federal grants received direct from the federal government require Restricted Expenditure Reports.
- 13004 Restricted Through Other Agency.** Revenue from the federal government passed through an agency other than MSDE to the LEA that must be used for a categorical purpose. All restricted federal grants passed to LEAs through any agency require Restricted Expenditure Reports.
- 13050 USDA Commodities.** The value of commodities received from the federal government and used during the year.
- 13098 Federal Revenue For/On-Behalf of the LEA.** Commitments or payments made by the federal government for the benefit of the LEA, or contributions of equipment or supplies.
- 199 Other Resources (Nonrevenue).** Other sources of funds to the LEA that represent exchanges of property for cash, transfers between funds, compensation for loss of property and equipment, or funds that must be repaid. Included are:
- 19901 Sale of Property/Equipment.** Funds from the sale of fixed assets.
- 19902 Net Insurance Recovery.** Proceeds from insurance reimbursement for losses to LEA property.
- 19903 Sale of Bonds.** The proceeds from the sale of bonds.
- 19904 State Loans.** Money received or due from the state as a loan to the LEA.
- 19910 Transfers In - Maryland LEAs.** Money received from another LEA for services rendered. Include tuition payments made by Maryland LEAs.
- 19911 Transfers In - Out-of-State LEAs.** Money received from a school district in another state for education services provided to students.
- 19920 Interfund Transfers.** Amounts available from another fund that will not be repaid. Excess self insurance receipts may be treated as interfund operating transfers.
- 19999 Other Nonrevenue.** Any other financing source that does not meet one of the definitions given above.



Expenditure details provide information about the use of LEA resources. All funds require expenditures to be reported by expenditure object. The Current Expense Fund must also be reported by expenditure Category/Program/Service Area. The level of detail required (program activity level and subobject) is dependent upon federal and state reporting requirements.

Expenditure Account Definitions

Category/Program/Activity Dimension

Section 5-101(b) of the *Education Article* requires a local school board to prepare a budget that includes revenue and expenditure categories. LEAs must track expenditures according to the purpose of the expenditure and in sufficient detail to meet all reporting requirements. The accounts shown below include levels of detail that would not be required on MSDE Annual Financial Reports. Account codes indicate which accounts will be reportable to MSDE. All areas without a code are given to further explain the categories/programs/activities and may be needed by LEAs for other reporting purposes. LEAs should review the types of financial information that they have been asked to provide and design accounting systems that facilitate all reporting requirements.

The Category/Program/Activity accounts are required for reporting restricted and unrestricted expenditures in the Current Expense Fund and restricted expenditures in the Trust/Agency Fund. Expenditures are also reportable to the program areas identified in Category 15 - Capital Outlay for the School Construction Fund.

Category 201 - Administration

201 Administration. Administration includes the activities associated with the general regulations, direction, and control of the LEA. Such activities as establishing and administering LEA operating policy, providing fiscal and internal services necessary for operating the LEA, supporting each of the other instructional and supporting services programs, and assisting the instructional staff with the content and process of providing learning experiences for students are included in Administration. Administrative expenditures affect the LEA as a whole and are not confined to a single school building.

20121 General Support Services. The activities concerned with establishing and administering policy for LEA operations. Included are:

Board of Education Services. Activities of the elected or appointed body that is created according to state law and vested with the responsibility of directing, planning, and making policy for the LEA, including but not limited to directing and managing the general operation of the LEA and attending school district meetings. Included are:

- services of the Secretary or Clerk of the Board of Education;
- legal services (legal services directly related to Special Education may be charged to Special Education), including general liability situations;
- external audit services;
- treasurer services;
- election services; and
- other services directly performed by the elected or appointed Board.

Executive Administration. Activities associated with the overall general administration of or executive responsibility for the entire LEA. Examples are:

- the office of the superintendent including activities of deputy, associate, and assistant superintendents unless the activities can be placed in another category, program, or activity;
- community relations operated systemwide for bettering school/community relations, including system promotion and support of school/business partnerships;
- state and federal relations associated with the development and maintenance of good federal/state relationships;
- grant procurement; and
- other associated activities.

20122 Business Support Services. Activities concerned with paying, transporting, exchanging, and maintaining goods and services for the LEA. Included are the fiscal and internal services necessary for LEA operations. Business services provided by central office staff for an individual school or for any of the other categories defined in this Manual are to be reported here. These expenditures are not distributable to any other expenditure category. Do not include school bookkeepers or school business managers here; they should be charged to 20206 or 20606 - Office of the Principal. Included are the following services:

Fiscal Services. Activities concerned with the fiscal operations of the LEA. Examples are:

- directing, managing, and supervising fiscal services;
- budgeting;
- receiving and disbursing funds;
- payroll;
- financial accounting;
- internal auditing;
- property accounting; and
- other fiscal services.

Purchasing Services. Activities concerned with purchasing supplies, furniture, equipment, and materials used in school or school system operations.

Printing, Publishing, and Duplicating Services. The activities of printing and publishing administrative publications such as annual reports, school directories, and manuals. Activities here also include centralized services for duplicating school materials such as school bulletins, newsletters, and notices. Record the total cost of staff and equipment; materials may be charged to the category for which the service was provided.

20123 Centralized Support Services. Activities that, whether contracted out or performed within an internal service fund, support each of the other instructional and supporting services programs. Planning, research, development, and evaluation services are included. Activities of a systemwide nature associated with selecting or identifying the overall, long-range goals and priorities of the organization or a program; researching, developing, and improving education programs; and evaluating or appraising the success

of a particular previously-established goal or program. Include costs associated with administering the standardized and criterion reference tests.

Information Services. Activities concerned with dissemination of educational and administrative information to the public through various news media, personal contacts, reports, brochures, or other means. Examples are:

- directing, managing, and supervising information services;
- collecting, editing, and publishing information needed about the operation of the LEA; and
- writing, editing, and providing administrative information to students and staff.

Human Resource Services. Activities concerned with providing staff services. Sabbaticals for non-instructional staff should be charged here. Tuition reimbursement for non-instructional staff should be charged to category 212 - Fixed Charges and distributed to this account in the Fixed Charges supplemental report group (Fund 9):

- directing managing, and supervising staff services;
- recruiting and placing LEA personnel;
- providing in-processing programs for personnel;
- providing systemwide staff relations and negotiations services for all personnel;
- administering the employee benefits programs, such as employee wellness programs;
- operating staff health programs, such as physical examinations, emergency care, and referral services;
- recording and summarizing staff-related information; and
- providing in-service training for non-instructional personnel.

Data Processing Services. All activities concerned with directing, managing, and supervising centralized data processing services, including systems analysis, programming, data entry, and data processing operations. Include all costs associated with the data processing staff, equipment, and supplies as well as any data processing services that are contracted out. Data processing related to the Student Transportation program may be charged to 209 - Student Transportation. Software, in general should be charged to the program that the expenditures supports.

Category 202 - Mid-level Administration. Administration and supervision of district-wide and school-level instructional programs and activities identified in categories 203 - Instructional Salaries, 204 - Textbooks and Instructional Supplies, and 205 - Other Instructional Costs. Included are the following programs:

20215 Office of the Principal (School Administration) - Activities concerned with managing the operation of a particular school or schools, including duties performed by the principal, assistant principals, non-teaching school-based department chairpersons assigned full-time to individual schools, school business managers, school clerical staff, and others in the general supervision of individual school administrative services. Evaluation of the school staff, assignment of duties to staff, supervision and maintenance of school records, and coordination of school instructional activities with LEA instructional activities are examples of school administration. Include the cost of school building

communications and graduation expenses here. Includes school telephones, facsimile machines, and cell phones.

2021501 Basic/Supplemental Programs. Activities in the office of the principal concerned with managing the operation of schools other than special education and Career and Technology education schools or centers.

2021502 Career and Technology Programs (Career and Technology School or Center). Activities in the office of the principal concerned with managing Career and Technology education schools or centers.

20216 Instructional Administration and Supervision. Activities that enhance instruction and assist instructional staff in planning, developing, and evaluating the process of providing learning experiences for students. Included are:

2021601 Instructional Program Direction and Improvement. Activities associated with directing, managing, supervising, and evaluating the non-career and technology instructional program to improve instructional services. Examples are:

- curriculum development activities performed by central office personnel including management and supervision of curriculum development;
- supervision of guidance and psychological services; and
- development of instructional techniques.

2021602 Career & Technology Program Direction and Improvement. Activities associated with directing, managing, supervising, and evaluating the career and technology instructional program to improve instructional services. Examples are:

- curriculum development activities performed by central office personnel, including management and supervision of curriculum development; and
- development of instructional techniques.

2021604 Professional Media Support Services. Activities associated with directing, managing, and supervising educational media services. Services provided can include professional libraries, the review and evaluation of instructional materials, and services for the schools. In addition, professional media support services can include the following:

Audiovisual Services. Activities such as selecting, preparing, caring for, servicing, and making available to members of the instructional staff the equipment, films, filmstrips, transparencies, tapes, TV programs, and similar materials.

Educational Television Services. Activities involving planning, programming, writing, and presenting educational programs or segments of programs by closed-circuit or broadcast.

Instructional Categories:

The following three categories are subsets of Instruction as defined below. These categories are also reportable to the instructional program/activity levels defined later in this section. These

categories have limited expenditure object details and are separated to give greater budgetary control to county governments in approving school system budgets:

Category 203 - Instructional Salaries and Wages (Object 1 only)

Category 204 - Instructional Textbooks/Supplies (Object 3 only)

Category 205 - Other Instructional Costs (Objects 2, 4, 5, 8 only)

Instruction. Activities that directly or adjunctly deal with teaching students in non-special education settings. Teaching may be provided in a school classroom via direct delivery, instructional television, computer-assisted instruction, on-line services, or through correspondence; in another location such as a home or hospital; or in other settings where students are instructed, presented with learning experiences, or participate in extra- or co-curricular activities. Instruction also includes most activities that occur on a regular basis at the school level or for the benefit of the instructional program, such as school media services, guidance and psychological services for all students, instructional staff development, and salaries of school department chairpersons who also teach. Do not include the costs associated with hard-wiring a classroom for electronic media capability or repairing and maintaining instructional equipment. These expenditures should be charged to 210- Operation of Plant or 215- Capital Outlay, as appropriate. Also excluded are expenditures related to maintenance of instructional equipment; these are to be charged to 210- Operation of Plant. Costs associated with the delivery of special education services, excluding guidance and psychological services, are not to be reported here but are to be recorded in Category 206- Special Education.

Category 203 – Instructional Salaries and Wages (Object 1 only). Salaries and wages for Instruction (as defined above), reportable to the program areas described on pages 52 - 54. Instructional salaries are those for staff whose responsibilities include interaction with students in the delivery of instructional programs and related student instructional support services as defined above. Included are salaries for the following position types employed by the board of education, including those staff supported by federal funding if they are receiving wages and are considered as employees according to the Internal Revenue Service:

- teachers and instructors (e.g., classroom, resource, instructional television, home and hospital, outdoor education);
- teaching assistants;
- teacher aides (classroom, lunchroom, etc.);
- teacher trainers (master teachers);
- teaching interns;
- tutors;
- reading specialists;
- school librarians/media specialists;
- school department chairpersons who also teach (non-teaching department chairpersons should be charged to 20215 - office of the principal);
- guidance counselors and assistants;
- school psychologists;
- coaches;
- classroom technical support staff;
- substitutes; and
- library aides.

Category 204 – Instructional Textbooks/Supplies (Object 3 only). All supplies and materials used in support of Instruction are reportable to the program areas described on pages 52-58.

Category 205 -Other Instructional Costs (Objects 2, 4, 5, 8 only). All other expenditures for Instruction reportable to the program areas described on pages 52-58.

Instructional Programs. Instruction expenditures are reportable to the following instructional program areas: Regular Programs – 01, Special Programs – 02, Career and Technology Education Programs – 03, Gifted and Talented Programs – 04, Nonpublic School Transfer Programs – 07, School Library Media Programs – 08, Instructional Staff Development – 09, Guidance Services – 10, Psychological Services – 11, and Adult Education Programs – 12. Instructional programs in association to relevant expenditures categories are defined below.

20301

20401

20501 Regular Programs. Activities that deal with teaching and coaching elementary and secondary students during the regular school day or during the hours of school-sponsored activities as part of the regular non-special, non-exemplary educational program. Include teachers, teacher aides, and school-level department chairpersons who teach if it is not possible to prorate the percentage of time between program 20215 - Office of the Principal and this program. Examples are:

Art. One of the fine arts, art instruction provides activities involving primarily visual, tactile, and kinesthetic expression. Included in art instruction are drawing, painting, print making, sculpture, pottery, art history and theory, and spatial concepts such as architecture and design for the performing arts.

Business. Non-Career and Technology activities designed to develop attitudes, knowledge, skills, and understanding of business principles and practices to use in the business world, in personal situations, or both.

Computer Science. Instructional programs that are designed to provide students with basic knowledge and understanding of the electronic processing, storage, retrieval, and transmission of data.

Dance. One of the fine arts, dance uses the human body as its expressive instrument and movement as the mechanism for communication. Dance is represented by structured, rhythmic movement in space and time resulting in communication of an idea, mood, or situation.

Drama/Theater. A fine art involving a collaborative artistic expression by actors before an audience to create and examine experiences that imitate and symbolize human behavior and actions. Basic components of drama/theater are text, actors, directors, designers, and technicians.

Driver Education and Safety. Learning experiences designed to help students become good traffic-conscious citizens who operate motor vehicles safely and respond appropriately when driving or walking in traffic.

English Language Arts. Activities concerned with developing an understanding of the language system, proficiency and control in the use of the English language, appreciation of a variety of literary forms, including theater and drama, understanding and appreciating aspects of past and present cultures as expressed in literature, and interests that will motivate lifelong learning. Included are reading teachers, reading specialists, speech and language teachers, English teachers, journalism teachers, and aides.

Foreign Language. Learning experiences designed to provide skills in speaking, writing, and understanding languages other than English. Included are various classical and modern foreign languages when taught as a second language such as French, German, Japanese, Latin, Russian, and Spanish.

Health. Learning experiences designed to provide students with knowledge and skills that lead to an understanding about self and one's relationship with others; provide knowledge of tobacco, alcohol, and other drugs; provide information about sound personal health practices; provide information about the value of achieving a healthy lifestyle through responsible nutritional and fitness behaviors; provide knowledge of disease and methods for prevention and control; and provide understanding of behavior and skills that promote safe living.

Physical Education/Recreation. Includes the body of related subject matter and activities in physical education and recreation. These areas are organized for carrying on learning experiences concerned with physical and mental growth and fitness through activities designed to improve the muscles, motor skills, and attitudes.

Junior ROTC. Activities organized into programs of instruction to provide opportunities for students to prepare for and achieve careers in selected branches of the military.

Mathematics. Activities concerned with the science of relations existing between quantities (magnitude) and operations, and with the science of methods used for deducing from other quantities, known or supposed, the quantities sought. Examples are arithmetic, algebra, geometry, calculus, differential equations, statistics, and consumer math.

Music. Subject matter designed to impart the skills and knowledge necessary for the understanding, appreciation, creation, performance, and enjoyment of music. Included are both instrumental and vocal music.

Outdoor Education. Learning experiences included in the curriculum, in any subject area and at any grade level, that can best be taught outside the classroom.

Science. Activities concerned with knowledge of the physical and biological world and the processes of discovering and validating this knowledge. Examples are astronomy, biology, chemistry, general science, geology, natural science, and physics.

Social Science. Interrelated subject matter organized to impart knowledge, develop skills, and identify goals concerning elements and institutions of human society.

Examples are anthropology, economics, geography, history, philosophy, political science, psychology, and sociology.

Other Classroom Activities. Any other formal presentation of subject matter not defined above.

Extra-curricular/Cocurricular Activities. School-sponsored activities under the guidance of qualified adults designed to provide opportunities for students to participate on an individual basis, in small groups, or in large groups at school events, public events, or a combination of these for purposes such as motivation, enjoyment, and improvement of skills. Cocurricular activities normally supplement the regular instructional program and include such activities as band, chorus, choir, speech, debate, and school sponsored athletics. Participation usually is not required, and credit is not given.

Title I, Part A LEA 1% Parent Involvement Reservation of Funds. LEA programs, activities, protocols, and procedures contained in Section 1118 of the Federal Elementary and Secondary Education Act (ESEA) as amended.

20302

20402

20502 - Special Programs. Activities designed for students with exceptional abilities or cultural differences, including:

Programs for the Linguistically and Culturally Diverse. Special English-language learning experiences for students who require additional educational opportunities beyond those provided in the usual school program to achieve at their level of ability. Included here are English Language Learners (ELL) and bilingual education programs.

Other Special Programs. Programs such as migrant education, compensatory education, and others that cannot be included in any of the above classifications.

20303

20403

20503 - Career and Technology Education Programs. Organized educational programs that are directly related to the preparation of individuals for paid or unpaid employment, including:

Agriculture Science and Technology. Activities that enable students to acquire the background, knowledge, and skills necessary to enter a wide range of agriculturally-related occupations. The instruction emphasizes the functions of agriculture production, supplies, mechanization, and products; ornamental horticulture; forestry; agricultural resources; and the services related thereto.

Marketing Education. Activities concerned with directing the flow of goods and services, including their appropriate utilization, from the producer to the consumer. These activities include selling, buying, transporting, storing, promoting, financing, marketing research, and management.

Cooperative Education. Programs employing the school-employer cooperative method in which a major portion of the skill development occurs with a participating employer.

Allied Health Occupations. Activities designed to impart knowledge and develop understanding and skills required by occupations that support the health professions. Instruction is organized to prepare students for occupational objectives concerned with assisting qualified personnel in providing diagnostic, therapeutic, preventive, restorative, and rehabilitative services to people. Instruction also includes understanding and skills essential to provide care and health services to patients.

Home Economics. Activities organized to enable students to acquire knowledge and develop understanding, attitudes, and skills relevant to personal, home, and family life and to home economics occupations.

Technology Education. Activities organized to develop understanding about all aspects of industry and technology. Included are experimenting, designing, constructing, and evaluating; using tools, machines, materials; and using processes which may help individuals make informed and meaningful occupational choices.

Business and Office Occupations. Activities organized into programs of instruction to provide opportunities for students to prepare for, upgrade skills, or retrain for selected office occupations. Learning experiences are designed to lead to individual employment or advancement in occupations in public and private enterprises.

Career and Technology Support Services. Career and technology education programs that provide extra help for students enrolled in occupational instruction. This program is designed to provide support services for students who would not succeed in regular programs without these services.

Technical Education. Classroom and laboratory experiences to prepare students for a cluster of job opportunities in specialized fields of technology. A planned sequence of study and extensive knowledge in a field of specialization is required in technical education, including competency in the basic communication skills and related general education. Technical education prepares for the occupational area between the skilled craftsman and the professional person.

Trades and Industrial Occupations. Subject matter organized to prepare students for initial employment or to upgrade or retain workers in a wide range of skilled or semi-skilled trade and industrial occupations.

20304

20404

20504 – **Gifted and Talented Programs.** Special learning experiences for students from all cultural groups, across economic strata, and in all areas of human endeavor identified with outstanding talent and ability. Gifted and talented students perform or demonstrate the potential for performing at remarkably high levels of accomplishment when compared with their chronological peers in such areas as intellectual abilities, leadership abilities,

creative abilities, artistic abilities, or abilities in specific academics. Prior to fiscal year 2004, reporting these programs was embedded in the special programs classification. They are separately identified here because the U. S. Department of Education requested that they be classified as Special Education for reporting purposes.

20307

20407

20507 – Nonpublic Schools Transfer Programs. Educational programs for eligible students in nonpublic schools can be financed with the transfer of the federal funds that have been allocated in the budget of the local school system.

20308

20408

20508 – School Library Media Programs. Activities concerned with the selection, organization, management, and use of all school instructional materials, supplies, and equipment that are processed and/or inventoried by the school media center. Included are books, periodical subscriptions, licensing agreements for online subscriptions, and audiovisual and computer equipment with appropriate software and peripherals. Examples include filmstrip projectors and filmstrips; videocassette recorders/players, cameras, videotapes, and projectors; audio cassette recorders/players; computers, CD-ROM players and disks; telephone, telephone lines and modems; printers; and television monitors/receivers, antennas, satellite dishes, cables, closed circuit, etc.

20309

20409

20509 – Instructional Staff Development. Activities that contribute to the professional or occupational growth and competence of members of school-based instructional staff (teachers, instructional aides, psychological personnel, guidance counselors, and library personnel) during the time of their service to the school system or school. Included are the exceptional costs incurred for workshops, demonstrations, school visits, and teacher mentoring programs, such as salaries for substitutes while teachers attend staff development activities or extra pay for school-based instructional staff attending summer workgroups to enhance the instructional program. **Do not include curriculum development activities performed by central office personnel here. These costs are to be recorded in 20216- Administration and Supervision - Instructional Programs.** Sabbaticals for instructional staff should be charged here. Courses for college credit should be charged to category 212- Fixed Charges and distributed to Instructional Staff Development on the Fixed Charges Supplemental report group.

20310

20410

20510 – Guidance Services. Activities of counseling students and parents, consultation with other staff members on learning problems, assisting students in personal social development, assessing the abilities of students, assisting students as they make their own educational and career plans, providing referral assistance, and working with other staff members in planning and conducting guidance programs for students. Guidance includes the following:

Counseling Services. Activities concerned with the relationship between one or more counselors and one or more students as counselee, between students and students, and between counselors and other staff members. These activities help the student understand

his or her educational, personal, and occupational strengths and limitations; relate his or her abilities, emotions, and aptitudes to educational and career opportunities; utilize his or her abilities in formulating realistic plans; and achieve satisfying personal and social development.

Appraisal Services. Activities that assess student characteristics; are used in administration, instruction, and guidance; and assist the student in assessing his or her purposes and progress in career and personality development.

Information Services. Activities for disseminating educational, occupational, and social information to help acquaint students with the curriculum and with educational and Career and Technology opportunities and requirements.

Record Maintenance Services. Activities for compiling, maintaining, and interpreting cumulative records of individual students, including systematic consideration of such factors as home and family background, physical and medical status, standardized test results, personal and social development, and school performance.

Placement Services. Activities that help place students in appropriate situations while they are in school. These could be educational situations, part-time employment while they are in school, and appropriate educational and occupational situations after they leave school. These activities also help ease the student's transition from one educational experience to another. The transition may require, for example, admissions counseling, referral services, assistance with records, and follow-up communication with employers.

20311

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Psychological Services. Activities concerned with administering psychological tests and interpreting the results; gathering and interpreting information about student behavior; working with other staff members in planning school programs to meet the special needs of students as indicated by psychological tests; behavioral evaluation; planning and managing psychological services, including psychological counseling for counseling students, staff, and parents. Include all the following activities:

Psychological Testing Services. Activities concerned with administering psychological tests, standardized tests, and inventory assessments. These tests measure ability, aptitude, achievement, interests, and personality. Activities also include the interpretation of these tests for students, school personnel, and parents.

Psychological Counseling Services. Activities in which a school psychologist or other qualified person is the counselor to one or more students being counseled. These services help students to perceive, clarify, and solve problems of adjustment and interpersonal relationships.

Psychotherapy Services. Activities that provide a therapeutic relationship between a qualified mental health professional and one or more students, in which the students are helped to perceive, clarify, and solve emotional problems.

20312

20412

20512 - Adult Education. Instructional programs offered for adults who are pursuing their basic or continuing education objectives.

Category 206 – Special Education. Activities designed for students who, through appropriate assessment, have been determined to have temporary or long-term special education needs arising from cognitive, emotional, and/or physical factors, as defined in the State Board of Education’s Special Education Bylaw. Only direct special education-related expenditures are to be charged here.

Guidance services should be charged to Program 10- Guidance within the Instruction categories, and psychological services should be charged to Program 11 within the Instruction categories. Nursing and health-related costs should be charged to 208-Health Services.

20604 Public School Instruction Programs. Instructional activities for students with disabilities in the public schools of the LEA.

20606 Education Programs in State Institutions. Day and residential programs for students with disabilities who receive their special education services in a state institution such as the School for the Blind or the School for the Deaf.

20607 Nonpublic School Programs. Special education day or residential programs provided to students placed in State-approved nonpublic schools.

20609 Instructional Staff Development. Activities that contribute to the professional or occupational growth and competence of members of school-based instructional staff (teachers, instructional aides, psychological personnel, guidance counselors, and library personnel) during the time of their service to the school system or school. Included are the exceptional costs incurred for workshops, demonstrations, school visits, and teacher mentoring programs, such as salaries for substitutes while teachers attend staff development activities or extra pay for school-based instructional staff attending summer workgroups to enhance the instructional program. **Do not include curriculum development activities performed by central office personnel here. These costs are to be recorded in 20616- Instructional Administration and Supervision.** Sabbaticals for instructional staff should be charged here. Courses for college credit should be charged to category 212 - Fixed Charges and distributed to Instructional Staff Development on the Fixed Charges supplemental report group.

20615 Office of the Principal (School Administration). Activities concerned with managing the operation of a particular school or schools, including duties performed by the principal, assistant principals, non-teaching school-based department chairpersons assigned full-time to individual schools, school business managers, school clerical staff, and others in the general supervision of individual school administrative services. Evaluation of the school staff, assignment of duties to staff, supervision and maintenance of school records, and coordination of school instructional activities with LEA instructional activities are examples of school administration. Include the cost of school building communications and graduation expenses here.

20616 Instructional Administration and Supervision. Activities associated with directing, managing, supervising, and evaluating the instructional program to improve instructional services. Examples are:

- curriculum development activities performed by central office personnel, including management and supervision of curriculum development; and
- development of instructional techniques.

Category 207 – Student Personnel Services. Activities designed to improve student attendance at school and to prevent or solve student problems in the home, the school, and the community. Pupil personnel workers and school social workers should be charged here. Examples of student personnel services are:

- directing, managing, and supervising attendance and social work services;
- identifying non-attendance patterns, analyzing causes of non-attendance, promoting improved attitudes toward attendance, and enforcing the compulsory attendance law;
- investigating and diagnosing student problems arising out of the home, school, or community;
- casework and group work services for the child, parent, or both;
- interpreting the problems of students for other staff members;
- promoting modification of the circumstances surrounding the individual student that are related to his or her problem;
- acquiring and maintaining records of school attendance, home location, family characteristics, and census data; and
- preparing pertinent statistical reports.

Category 208 – Student Health Services. Physical and mental health activities that are not instructional and that provide students with appropriate medical, dental, and nursing services. Examples are:

- directing and managing health services;
- activities concerned with the physical and mental health of students, including health appraisal, physical and mental health screening, periodic health examinations, emergency injury and illness care, nursing services, dental services, and other health-related services for students; and
- nursing services, such as health inspection, treatment of minor injuries, and referrals for other health services.

Expenditures for defibrillators are to be charged to the area where they are budgeted.

Category 209 – Student Transportation Services. Activities concerned with the conveyance of students between home, school, and school activities. Included are vehicle operation services, monitoring services, vehicle servicing and maintenance services, and other pupil transportation services such as:

Regular Transportation Programs. Transportation for students who do not require special equipment or personnel to be transported and/or do not require transportation to special schools. Activities in this program include the transportation of students

between established school bus stops and the schools that they attend; transportation of students to the closest LEA-owned, leased, or rented facility that provides necessary services; and transportation of students to outdoor education school sites for two or more days.

Special Transportation Programs. Transportation services for public and nonpublic students who have physical, mental and/or emotional disabilities and are transported on a “handicap vehicle,” “regular vehicle on a handicap run,” private car, or taxicab. A “handicap vehicle” is a contracted or publicly-owned vehicle that exclusively transports students with disabilities. These vehicles require special equipment and/or bus aides, or are routed to special education schools.

School Activities Transportation. Transportation services to students for field trips, to sports, and interscholastic activities, to cooperative education programs, for Career and Technology purposes, for special programs, and to summer school programs and day camps.

Do not include the cost of transporting regular students to nonpublic schools, transportation of the elderly to schools for senior citizen feeding programs, or services for the community to recreation programs. These costs are to be reported in 214 - Community Services.

The cost of leased school bus lots should be reported under Rent -- Transportation. If the lots are owned by the county, the lots should be reported as fixed assets.

Category 210 – Operation of Plant. Activities concerned with keeping the physical plant open, comfortable, and safe for use. Activities include:

21030 Warehousing and Distributing Services. Activities concerned with receiving, storing, and distributing supplies, furniture, equipment, materials, and mail. Included are managing and supervising warehousing and distribution services.

21031 Operating Services. Activities concerned with keeping the physical plant clean and ready for daily use, including operating the heating, lighting, and ventilating systems (utility costs) and keeping the buildings clean. Costs of building rental and property insurance (asset coverage) should be charged here. Examples of operating services are:

- supervision of Operation of Plant Services; and
- directing, managing, and supervising the operation of plant facilities.

Care and Upkeep of Grounds and Buildings. Activities involved in maintaining the condition of the grounds and facilities, such as snow removal, landscaping, grounds maintenance, routine maintenance on furniture and movable equipment, utility services, and custodial services. **Include service technicians assigned to repair and maintain instructional and non-instructional equipment and cost of all service contracts on movable equipment here.**

Security Services. Activities concerned with maintaining order and safety in school buildings, on the grounds, and in the vicinity of schools. Included are police activities

for school functions, traffic control on grounds and in the vicinity of schools, building alarm systems, and hall monitoring services.

Category 211 – Maintenance of Plant. Activities concerned with keeping the grounds, buildings and fixed equipment (other than student transportation assets, which is to be included in category 209 - Student Transportation, and furniture and movable equipment, which is to be included in category 210 - Operation of Plant), in their original condition of completeness or efficiency through repair, scheduled and preventive maintenance, or replacement of property. Included are:

Supervision of Maintenance of Plant Services. Directing, managing, and supervising the maintenance of plant services and automated management systems.

Upkeep of Grounds, Buildings, and Fixed Equipment. Activities concerned with preventive maintenance when such maintenance is on a regular schedule, repair maintenance for unpredictable circumstances, and minor modernizations and alterations to change the original condition or original function of equipment. Included are costs of bringing a building into compliance with changing code requirements relating to accessibility, safety, health, pollution, and fire code regulations. Examples are asbestos removal, blacktop replacement, floor finishes, roof repair and replacement, and repair and maintenance of fixed equipment. **When the asset value of a building is increased, charge the expenditure to 215 - Capital Outlay. Include cost of repair/maintenance of movable equipment in 210 - Operation of Plant.**

Vehicle Maintenance Services (other than Student Transportation Vehicles). Activities involved in maintaining general purpose vehicles such as trucks, tractors, graders, and staff vehicles. Included are safety inspections, vehicle repair and maintenance, painting, greasing, and fueling.

Category 212 – Fixed Charges. Charges of a generally recurrent nature which are not readily allocable to other expenditure categories. Included are:

- local school board contributions to employee retirement and social security;
- employee insurance benefits (health, life, accident, disability, etc.);
- fidelity insurance, personal liability insurance, and judgements (distribute to General Support Services on the Fixed Charges supplemental report group);
- interest on current loans; and
- personnel tuition reimbursements for all staff (distribute to the proper category on the Fixed Charges supplemental report group).

Do not include building rental or property insurance (asset coverage) here; include these costs in 210 - Operation of Plant. Do not include salaries, supplies, or equipment in this category.

Category 213 – Food Service. Activities concerned with providing food to students and staff in school or the LEA as well as a Senior Feeding Program. Only that portion of expenditures that is not reimbursable are recorded in the Current Expense Fund and reported as an Interfund Transfer to the Food Service Fund. The Food Service Fund

shall show all Food Service Interfund Transfers as an Interfund Transfer in the Revenue account and as expenditures to the appropriate objects/subobjects.

Category 214 – Community Services. Activities that are provided by the LEA for the community or some segment of the community other than for public school activities and adult education programs, including all expenditures other than insurance and contributions to retirement funds for current expense items that are directly related to community services. Three types of salaries that fall into community services are the prorated portion of the normal salaries of regular day school employees, additional salaries paid to regular day school employees for community services, and salaries of personnel employed specifically for some community service activity.

Regular Community Services. Activities that are not directly related to the provision of education for students of the LEA, including community recreation programs, civic activities, public libraries, programs of custody and care of children, and community welfare activities provided by the LEA for the community.

Nonpublic Non-disabled Student Transportation Services. Transportation services to regular students who attend nonpublic schools.

Community Transportation Programs. Transportation services for the community to recreation programs and civic activities, for example, the transportation of the elderly to schools for senior citizens feeding programs.

Category 215 – Capital Outlay. Activities concerned with the cost of directing and managing the acquisition, construction, and renovations of land, buildings, and equipment. Include expenditures for land, buildings, improvement of grounds and buildings, construction or remodeling of buildings and additions, and initial installation and extension of service systems and other built-in equipment. Included here are site acquisition and improvement services; architecture and engineering services; educational specifications development services; and building acquisition, construction, and improvement services. Only expenditures paid for out of current funds are recorded in the Current Expense Fund. All other capital outlay expenditures are to be recorded in the School Construction Fund.

NOTE: Expenditures for all repairs to building structures that do not add to the existing asset value of the facility are to be recorded in 211- Maintenance of Plant.

21534 Land and Land Improvements. Expenditures for the purchase of land and improvements of new and old sites and adjacent ways. Include grading; landscaping; seeding and planting; constructing new sidewalks, roadways, retaining walls, sewers and storm drains; surfacing and treating athletic fields and tennis courts; furnishing and installing for the first time fixed playground apparatus, flagpoles, gateways, fences and underground storage tanks that are not part of building service systems; and demolition work.

21535 Buildings and Additions. Construction costs for buildings and additions consisting of all expenditures for general construction; advertising for contracts; payments on contracts for construction; installation of plumbing, heating, lighting, ventilating, and

electrical systems; built-in lockers, elevators, and other built-in equipment; architectural and engineering services; legal services; travel expenses incurred in connection with construction; paint and other interior and exterior decorating; and any other costs connected with planning and constructing buildings or building additions.

21536 Remodeling. Expenditures for major permanent structural alterations including the initial or additional installation of heating and ventilating systems, electrical systems and other service systems in existing buildings (including the capital costs of wiring of classrooms for electronic media capability). Remodeling or improvement of buildings usually takes place within the existing floor area.

200 Non-Categorized Expenditures. Expenditures in the Debt Service Fund, Food Service Fund, and the Student Activities Fund are not reported to the category/program/activity level. These expenditures are reported to the expenditure object only.

Trust/Agency Fund expenditures are reported to the expenditure object only except for Restricted Programs, which require detailed reporting by category/program/activity and object/subobject.

The School Construction Fund has three categories. Since these are identical to the program area designations in 215- Capital Outlay, they will not be repeated here.



The Objects classification is used to describe the service or commodity obtained as the result of a specific expenditure. The Subobject is a further refinement of the Object. The first digit of the three-digit expenditure code represents the Object, and the remaining two digits represent the Subobject.

Object/
Subobject
Dimension

Expenditures are to be reported as follows:

- 100 Salaries and Wages.** Expenditures incurred for personnel on the LEA payroll. This object may not be used with Categories 204 - Textbooks and Instructional Supplies, 205-Other Instructional Costs, 212-Fixed Charges, or 213-Food Services
 - 101 Substitutes.** Salaries paid to teacher substitutes or non-teaching temporary staff. A distinction between teaching and non-teaching positions should be made when recording payroll expenditures to the appropriate Category, Program, Service Area, or Activity. Non-teaching temporary staff supporting instructional programs should be reported under 102-Other Salaries and Wages.
 - 102 Other Salaries and Wages.** Expenditures incurred for all other substitute personnel on the LEA payroll and recorded to the appropriate Category, Program, Service Area, or Activity (include all stipends, salaries for overtime, and sabbaticals here). Include all non-teaching temporary help. As a rule of thumb, if an expenditure is not for a teacher substitute, it should be here.
 - 103 Teachers – Certified.** Salaries and stipends paid to teachers duly certified by MSDE.
 - 104 Aides and Assistants.** Salaries paid to aides and assistant teachers. Payroll expenditures of non-instructional staff should be reported under Other Salaries and Wages.
- 200 Contracted Services.** Expenditures for services performed by persons who are not on the LEA payroll, including equipment repair.
 - 205 Rent.** Costs for renting land, buildings, equipment, and vehicles. Rental of buildings should normally be charged to Category 210-Operation of Plant, rental of student transportation equipment should be charged to Category 209-Student Transportation, and rental of equipment should be charged to the category in which the charge would be made if the equipment were being purchased. Expenditures for operating leases are charged here.
 - 206 Outside Food Service.** Expenditures for outside contracted food services (i.e., catering) hired to provide meals in schools. (Used with Fund 5 - Food Service Fund only).
 - 207 Independent Audit Cost.** Expenditures for an independent accounting firm to perform an annual audit on the LEA.

209 Other Contracted Services. All other contracted services that cannot be included above. Include the following here:

Purchased Professional/Technical Services. Services which by their nature can be performed only by persons with specialized skills and knowledge. Included are professional and technical services of auditors, architects, engineers, dentists, medical doctors, lawyers, consultants, teachers, accountants, systems analysts, technical services programmers, graphic artists, caterers, etc.

Repairs and Maintenance Services. Expenditures for repairs and maintenance services not provided by LEA personnel. This includes contracts and agreements covering the upkeep of buildings and equipment. (Used with categories 209 - Student Transportation, 210-Operation of Plant, and 211-Maintenance of Plant only).

Cleaning Services. The cost of trash removal, disposal, snow removal, lawn care, and custodial services. (Used with category 210- Operation of Plant only).

Construction Services. Amounts for constructing, renovating, and remodeling paid to contractors. (Used with category 215- Capital Outlay, or Fund 3- School Construction only).

Student Transportation Services. Amounts paid to other persons or agencies (except LEAs) for transporting children to and from school and other activities. (Used with category 209 - Student Transportation and 214 - Community Services only).

Advertising. Expenditures for announcements in professional publications, newspapers or broadcasts over radio and television.

Printing and Binding. Expenditures for job printing and binding, usually according to specifications of the LEA. This includes designing and printing forms and posters as well as printing and binding LEA publications. (Do not include the cost of purchasing standard forms; these costs are to be recorded in object 329 - Other Supplies and Materials.)

Food Service Management. Expenditures for the **operation** of a local food service facility by other than employees of the LEA, including contracted services, but excluding direct expenditures for food, supplies, labor, and equipment that should be charged to the appropriate object. (Used with Fund 5 - Food Service Fund only.)

300 Supplies and Materials. Articles or materials which meet any one or more of the following conditions: (1) lasts for less than one year, (2) better to replace than repair, (3) is not an independent unit, (4) loses its identity through incorporation into a different or more complex unit, (5) does not exceed a minimum dollars value, (6) is consumed in use, (7) is expendable, and/or (8) is inexpensive.

321 Textbooks. Expenditures for textbooks, workbooks, manuals, trade books, reference materials, and other printed forms of communication intended for the classroom use only. (Used with the 20401 - Regular Programs, 20402 - Special Programs, 20403 - Career and Technology Education Programs, 20604 - Special Education Public School Instruction Programs, and 20412 - Adult Education.)

- 322 Library Media.** Expenditures for library media collections that are cataloged, processed, and organized by the professional library or school media center. Include printed and audiovisual forms of information such as books, films, magazines, etc.; and electronic forms of information, such as computer software and manuals, prerecorded VHS tapes, compact disks, laser disks, etc.; and other supplies such as computer cables, connectors, etc. (Used with program/activity area 2021604- Professional Media Support, and 20408- School Library Media Services).
- 325 Food.** Expenditures for food purchased and used. Include all costs for USDA commodities used including storage, transportation, and processing. (Used with Fund 5-Food Service Fund only).
- 328 Food Related Supplies.** Expendable supplies used in the preparation of food, such as disposable cups, plates, spoons, forks, etc. (Used with the Fund 5-Food Service Fund only).
- 329 Other Supplies and Materials.** Expenditures for all supplies (other than those listed above) for the LEA. Examples include paper, pencils, pens, chalk, film, classroom manipulatives, blank tapes and diskettes, and other consumables. Include freight, cartage, and postage here.
- 400 Other Charges.** Expenditures for employee benefits and other miscellaneous expenditures that cannot be classified elsewhere.
- 408 Other Purchased Services.** Expenditures for purchased services not included in Object 2 - Contracted services, including the following:
- **Travel.** Expenditures for transportation, meals, hotel, and other expenses associated with travel for LEA personnel. Payments for per diem in lieu of reimbursements for subsistence (room and board) are also charged here.
 - **Insurance (other than employee benefits).** Expenditures for all types of non-employee insurance coverage, including property, liability, and fidelity. (Used with category 212 - Fixed Charges, category 210 - Operation of Plant, or fund 5 - Food Service only) .
 - **Communications.** Expenditures for services provided by persons or businesses to assist in transmitting and receiving messages or information, including telephone and modem. (Used with programs 20215 and 20615 - Office of the Principal or category 210 - Operation of Plant only).
 - **Non-energy utility services.** Expenditures for water/sewage from private or public utility companies. (Used with category 210 - Operation of Plant).
- 412 Employee Retirement.** Employer's share of payments to the state, county, or city retirement system that provide payments to those who retire from service by reason of age, disability, or length of service. (Used with category 212 - Fixed Charges and Fund 5 - Food Service, only. These expenditures are pro-ratable to all other category/program/activity areas in Fund 9 - Fixed Charges Supplement).

- 413 Social Security.** Expenditures for employer's share of employee social security payments. (Used with category 212 - Fixed Charges and Fund 5-Food Service, only. These expenditures are pro-ratable to all other category/program/activity areas in Fund 9 - Fixed Charges Supplement)
- 414 Other Employee Benefits.** Expenditures for group insurance plans such as life insurance, health insurance, accident insurance, unemployment compensation plans, workmen's compensation, tuition reimbursement, and other employee benefits (used with category 212 - Fixed Charges and Fund 5 - Food Service only. These expenditures are pro-ratable to all other category/program/activity areas in Fund 9 - Fixed Charges Supplement.). Do not include dues and fees here, but include these in 499 - Miscellaneous Other Charges.
- 424 Energy Services.** Expenditures for energy, including gas, oil, coal, gasoline, and services received from private or public utility companies for energy services. (Expenditures for building operations are used with category 210 - Operation of Plant).
- 450 State Payment On-Behalf of the LEA for Teachers/Employees Retirement.**
- 451 Payments by Other than the State On-Behalf of the LEA.** Expenditures incurred by third parties on behalf of the LEA, but not recorded in LEA accounts ledgers; this amount must agree with the revenue reported as payments by others on behalf of the LEA.
- 499 Other Miscellaneous Charges.** Other miscellaneous expenditures that cannot be classified elsewhere. Included are:
- Dues and Fees.** Expenditures or assessments for membership in professional or other organizations or payments to a paying agent for services rendered.
- Judgements.** Expenditures from current funds for all judgements against the LEA determined by court decisions that are not covered by liability insurance but are of a type that might have been covered by insurance. (Used with program 20101-General Support Services only.)
- Miscellaneous Expenditures.** Expenditures for interest on short-term notes, refunds or prior year's expenditures, and amounts paid for goods or services not properly classified elsewhere.
- 500 Property.** Expenditures for the acquisition of new or replacement fixed assets including equipment, vehicles, buildings, school sites, and other property.
- 551 Land.** Purchase costs of land, including expenditures for drawings, specifications, and other fees to contractors directly related to the acquisition and improvement of sites, such as landscaping, architect fees, appraisal fees, search and title, insurance, site surveys, and condemnation proceedings. (Used with Category 215 - Capital Outlay and Fund 3 - School Construction only.)

- 552 Buildings and Additions.** Expenditures to acquire existing buildings. Included are expenditures for installment or lease payments that have a terminal date and result in the acquisition of buildings. Include expenditures for built-in items that become an integral part of the building when added. Do not charge expenditures for contracted construction of buildings, major permanent structural alterations, and initial or additional installation of heating and ventilating systems, fire protection systems, and other service systems in existing buildings here. These are charged to object 2 - Contracted Services. (Used with Category 215 - Capital Outlay and Fund 3 - School Construction only.)
- 554 Other Equipment.** Expenditures for initial or additional purchase of equipment. Include expenditures for machinery, vehicles, furniture and fixtures, and other furnishings. (Equipment that is an integral part of the building or building service is included under subobject 552 - Buildings and Additions.)
- 555 Depreciation - Proprietary Funds.** The portion of the cost of a fixed asset that is charged as an expense during the reporting period (fiscal year). The method used to record depreciation must be in accordance with GAAP. (Used with proprietary funds only.)
- 556 Depreciation - Governmental Funds.** A memo only item to report the portion of the cost of fixed assets that would be charged as an expense during a particular period in a proprietary fund.
- 600 Principal.** Payments for the retirement of debt, other than current loans, excluding the amount of interest payment. (Used only with Fund 4 - Debt Service.)
- 661 Long-Term Bonds.** Expenditures for the redemption of long-term county bonds.
- 662 State Loans.** Expenditures for the redemption of state loans.
- 700 Interest.** Expenditures for the payment of interest on bonded indebtedness, other than current loans, excluding the amount of principal payments. (Used only with Fund 4 - Debt Service.)
- 761 Long-Term Bonds.** Expenditures for interest on long-term county bonds.
- 762 State Loans.** Expenditures for interest on state loans.
- 800 Transfers.** Payments to other LEAs or transfers between major fund types within the LEA. Transfer accounts represent the release of funds from one account to another account where the expenditure will be reported.
- 881 Transfers to Maryland LEAs.** Payments to other Maryland LEAs for tuition and transportation services.
- 882 Transfers to Other LEAs.** Payments to LEAs in other states for tuition or transportation fees. Include the portion of any MSDE grants awarded to one LEA which will be acting as an agent for several LEAs. (Report the entire grant as a general fund revenue, but report only the portion of the expenditures which directly

benefit the LEA in the appropriate expenditure category in the Current Expense Fund. Report the balance of the expenditures as a transfer to the Trust/Agency Fund, and record that portion as a Revenue and Expenditure within that Fund.)

- 885 Transfers to Others.** Payments to state institutions, nonpublic schools, and other non-LEAs for tuition, or pass-through expenditures to other agencies. (Do not include payments to the parent government here; they are to be charged to the appropriate expenditure category/program/activity by object/subobject.)
- 886 Interfund Transfers.** Transfers of financial resources between the major Fund types of the LEA. (Report Food Service revenues that are appropriated to the general fund as a transfer out of category 213 - Food Service)
- 888 Internal Service Fund Transfers.** Transfers of expenditures from one cost center in the LEA to the Internal Service Fund (ISF). This account is suggested as a means of eliminating the duplication of expenditures when reporting total current expenditures in accordance with the budget categories requirements of Section 5-101 of the *Education Article of the Annotated Code of Maryland* that makes no provision for ISFs. This account is for LEA use only, is not to be reported to the Maryland State Department of Education, and is not referenced in other sections of this Manual. Expenditures in this account should duplicate expenditures in the ISF where expenditures shall be captured in the categories and objects outlined in this Manual. Example:

Instructional supervisors need 1,000 twenty-page manuals printed. The print shop operates as an ISF (enterprise operation) and charges 5 cents per copy to cover all operating and production costs. The print shop records an Interfund Transfer of \$1,000 and the supervisor records an expenditure of \$1,000, charged to ISF Transfers. The print shop records the cost of supplies, materials, equipment, contracted services, etc. to cover operating expenses. Both the Current Expense Fund (CE Fund) and the ISF have recorded the revenue and the expenditure, but the duplicated revenue and expenditures are eliminated because they appear as transfer accounts.

When reporting to MSDE, the expenditures in the ISF need to be reported as part of the CE Fund. This can be accomplished by reporting the ISF on a separate Restricted or Unrestricted Expenditure Report and reporting revenue and expenditures as outlined above.

Preferably, the IS Fund should be rolled up into the CE Fund prior to submitting the report to MSDE thereby eliminating the necessity of reporting the Interfund Transfer (In) account or the Internal Service Fund Transfer (Out) account.

- 890 Indirect Cost Recovery.** Transfers between the General Fund (Unrestricted Current Expense Fund) and the Special Funds (Restricted Current Expense Fund). Expenditures in this subobject are to be reported as a negative amount on the Unrestricted Expenditures Report where the actual expenditures are recorded under the appropriate object/subobject and a debit on the individual Restricted Program Reports. The negative amount to this line item will offset the positive amount of the line item for which the expenditure was made (salaries, supplies, etc.) and, therefore, will net to zero on the Consolidated Current Expense Fund report.

Background

The Maryland Public Charter School Act authorizes the establishment of public charter schools in Maryland. The Maryland statute, Title 9, *Education Article, Annotate Code of Maryland*, invites the creation of public charter schools to help introduce an alternative means within a public school system to provide innovative learning opportunities and creative educational approaches to improve the education of all students.

Charter Schools

Maryland defines a public charter school as a public school that is nonsectarian, is chosen by parents for their children, and is open to all students on a space available basis. A public charter school can be either a newly created school or a conversion of an operating public school. A public charter school operates with the approval of a local board of education in accordance with a written Charter Agreement executed between the local board of education and the administrative entity operating the public charter school. As a public school, a public charter school is subject to federal, state and local laws prohibiting discrimination and must comply with all applicable health and safety laws.

Each local board of education establishes policies and procedures that describe the process to be used by public charter school applicants in that school system. Public charter school operators must follow those procedures and use the application process established by the local board of education in the jurisdiction where the public charter school will operate. Public charter schools operate under the supervision of the public chartering authority from which its Charter Agreement is granted. Detailed information on current charter school policies and procedures may be obtained from the Director – Office of School Innovations, that operates under the Deputy State Superintendent for Instruction and Academic Acceleration, Maryland State Department of Education (MSDE). Information is also available on the MSDE website at www.marylandpublicschools.org/MSDE.

Fiscal Issues

There are three potential sources of funding for charter schools:

- federal start-up funds that are sub-granted by MSDE via a competitive application process;
- local education agency (LEA) funds (federal, state, local) that are allocated on the same basis as other public schools in the school system; and
- funds, managed by the private non-profit chartering school operator, that are obtained from either private sources or federal sub-grants (other than federal start-up funds).

Federal start-up funds sub-granted by MSDE are issued as:

- planning and Design Grants directly to the non-profit chartering school operator (these grants are awarded after local boards of education approve the chartering group's plans); and
- implementation Grants to the applicable LEA in support of the specific chartering school. These one-time start-up grants are for chartering schools that are either in operation or are fully approved for operation.

Federal, State and Local Funds

A local board of education will disburse to public charter schools an amount of county, State and federal money that is commensurate with the amount disbursed to other public schools in the local jurisdiction. Additionally, surplus educational materials, supplies, furniture and other equipment may be given to the public charter school by the state or the local board of education. Charter school federal regulations concerning Special Education, Title I, Part A, and other formula grants under the No Child Left Behind (NCLB) Act make it clear that LEAs must allocate these resources to charter schools in a fair and timely manner. Details on these rules and regulation may be obtained at the MSDE website or by contacting the MSDE Charter Schools Office.

A private, non-profit chartering school operator may raise private funds to help support the school. These fund raising activities are governed by applicable federal and state regulations. An LEA does not have control over these funds, but may as a part of its oversight role, ensure that these activities conform to Internal Revenue Service and state regulations governing non-profit organizations.

Financial Reporting

As a public school, a public charter school must comply with all laws and regulations governing public schools in Maryland. This includes meeting audit regulations. An LEA may integrate charter school audits with its regular external audit process. If the charter school has an independent performance audit, which is allowable if the school's charter so provides, the LEA should review that audit.

Charter school expenditures and revenues are to be reported using the guidelines in the *Financial Reporting Manual for Maryland Public Schools* and expenditures and revenues are to be integrated with the LEA's financial reporting system. They also are to be included in the Consolidated Report and any other required financial reports.

Maryland's State Superintendent of Schools is required to monitor the financial status of each local school system and report their findings on a bi-annual basis to the Governor and the General Assembly. Section 5-114 of the *Education Article, Annotated Code of Maryland* requires each local school superintendent or chief executive officer to file a bi-annual report on the financial status of their local school system with the State Superintendent and attest to the accuracy of each report when the report is submitted. The bi-annual reports shall be filed with the Maryland State Department of Education (MSDE) by December 31 and April 30 of each fiscal year. The required reporting periods required are July 1-November 30 (due December 31) and July 1- March 31 (due April 30).

The information required in the report is for General Fund operations (the General Fund may be different from the Current Expense Fund classification as currently defined by MSDE). A local school system could have one fund that includes both unrestricted and restricted funds (for example, grants). This school system would report all the revenues and expenses of these classifications. Another system could have separate funds for unrestricted and restricted funds and would include only the General Fund data in the report.

The forms for the Bi-Annual Report (SB-894) are available on the MSDE website www.marylandpublicschools.org. The form is in Excel format and includes embedded formulas. Additionally, the Superintendent's Certification form is provided and may be printed from the site for signatures. Complete the blank areas of the form by providing the requested information. The percent of fiscal year elapsed would be 42% for the July through November reporting period, and 75% for the July through March reporting period. The approved budget columns would be the adopted budget, adjusted for any approved transfers and/or supplements as of the close of the reporting period.

Completed forms and certification should be mailed by the due date to:

Maryland State Department of Education
Audit Office
200 W. Baltimore Street
Baltimore, Maryland 21201

Revenues:

1. Year-to-Date Revenues - Revenues actually received as of the close of the reporting period.
2. Anticipated Revenues - The best estimate of additional revenues to be received between the report period and year-end.
3. Projected Total Revenues – Total of revenues to be received by year-end (year-to-date plus anticipated revenues).
4. Percent of Budget – Year-to-date revenue/approved budget.
5. Variance from the Percentage of Year Elapsed – Compare the percentage of revenue budget received with the percentage of the year elapsed, and record the difference in this column (negative amounts should be preceded by a minus sign). An explanation is required for any variance in excess of 10 percentage points of the percentage of the year elapsed.

Example: the percentage of year elapsed is 42%, local appropriation received is 55%, federal revenue received is 20%, and all other revenue categories are 40%. An explanation would be required for the local appropriation excess percentage of 13% and the deficit percentage in federal revenue of -22%. No explanation would be required for the other sources of revenues because they are all within 10 percentage points of the lapsed year percentage.

Expenditures:

1. Year-to-Date Actual – Expenditures through the end of the reporting period.
2. Encumbrances – Amount at the end of the reporting period.
3. Available Balance – Approved budget amount less expenditure and encumbrance amounts.
4. Percent of Budget Spent – Total of expenditures and encumbrances divided by the total approved budget.
5. Variance from Percentage of Year Elapsed – Compare the percentage of expenditure budget (expenditures and encumbrances) spent with the percentage of the year elapsed and record the difference in this column. Provide an explanation as required in example number 5 above (Revenues).

Superintendent’s Certification:

1. Complete the form by filling in the required information.
2. If no cash flow or deficit spending problems are anticipated, check the spaces in the two areas that say “do not” anticipate.
3. If cash flow or deficit spending problems are anticipated, check the space “do” anticipate. A deficit is defined as a negative fund balance in the General Fund of 1% or more of General Fund revenue at the end of the fiscal year.
4. When the “I do anticipate deficit spending” line is checked, the bi-annual report **must** include a description of the problem(s) causing the cash flow and/or deficit spending concerns, and a Corrective Action Plan meeting the requirements of Section 5-114(e) of the *Education Article, Annotated Code of Maryland*.
5. The Superintendent’s Certification form is to be completed with the required signatures.

**Bi-Annual Reporting Requirements Under Senate Bill 894
Superintendent's Certification**

Local School System: _____

_____ Period Ending November 30, 2008 (report due to MSDE by December 31, 2008)

_____ Period Ending March 31, 2009 (report due to MSDE by April 30, 2009)

This report reflects the financial status of the system's Current Expense Fund (General Fund).

Required elements:

- ✓ Revenues, by source (local, state, federal, other);
- ✓ Expenditures, by category (as defined in the Financial Reporting Manual)
 - o Current approved budget;
 - o Year-to-date actual;
 - o Encumbered or obligated expenditures;
 - o Percent of budget spent or encumbered; and
- ✓ Explanations, as necessary, if there is a variance of more than ten percentage points in any category between percent of budget obligated or received to date and percent of fiscal year elapsed.

(Each system may submit the attached template or a similar document that contains all of the required elements listed above.)

Check all that apply:

_____ The attached schedule of year-to-date revenues and expenditures accurately reflects the financial position of the _____ Public Schools.

_____ Based on my knowledge of the system's financial position, I **do not** anticipate any issues or problems associated with cash flow during this fiscal year.

_____ Based on my knowledge of the system's financial position, I **do not** anticipate any issues or problems associated our ability to operate within our budgeted resources and avoid a deficit situation at the end of the fiscal year.

_____ Based on my knowledge of the system's financial position, I **do** anticipate an issue or problem related to cash flow and/or deficit spending. I have attached a description of the possible problem(s) and a corrective action plan.

Superintendent's Signature

Date

Chair/President, Board of Education's Signature

Date

Chief Finance Officer's Signature

Date

Please submit certification and report to MSDE Audit Office, 200 West Baltimore Street, Baltimore, Maryland 21201



The Annotated Code of Maryland Education Article Section 5-202 requires each county governing body to maintain fiscal effort in local funding for elementary and secondary public education. This section of the law defines the eligibility criteria for the county government and its Local Education Agency (LEA) to receive state aid provided under the section.

Maintenance of Effort (MOE)

Under this statute, local funding is required to be provided at the greater of the local share of the Foundation Program or the product of the county's full time equivalent enrollment used for the current fiscal year and the local appropriation on a per pupil basis from the prior fiscal year.

Certification Statement

On or before March 15 of each year, the Maryland State Department of Education's (MSDE) Division of Business Service sends the current fiscal year Certification Statement - State Share of the Foundation Program form to each Local School Superintendent to attest whether his/her school system received at least the amount calculated as the required Maintenance of Effort (MOE) level. The form is pre-filled with the enrollment data, approved nonrecurring costs, and the local share of the Foundation Program amounts. It is due back to MSDE no later than April 21 of the same year. It acts as the reconciliation between the Appropriation reported to the MSDE Division of Business Services, and the Highest Local Appropriation to the School Operating Budget.

The term highest local appropriation means the highest amount of public funds designated for a school operating budget at any point during the fiscal year. In-kind services provided by the county government may not be included in the appropriation figures toward the calculation of maintenance of effort.

The statute provides that program shifts between the county and school system operating budgets cannot be used to satisfy the MOE requirement.

Additionally, section 5-202(d)(3) provides that "the calculation of the county's highest local appropriation to its school operating budget shall exclude:

- (i) a nonrecurring cost that is supplemental to the regular school operating budget, if the exclusion qualifies under regulations adopted by the State Board; and
- (ii) a cost of a program that has been shifted from the county school operating budget to the county operating budget."

The Exhibit A is the sample of the Certification Statement form.

Any LEA not complying with the requirements of local MOE will be subject to the withholding or suspended payment of State funds under the Education Article section 5-213.

A county may request a temporary waiver or partial waiver of the MOE provisions under the guidance of COMAR 13A.02.05.04 when its fiscal condition significantly impedes the county's ability to fund the MOE requirement.

Exhibit - A Page 1

**CERTIFICATION STATEMENT
STATE SHARE OF THE FOUNDATION PROGRAM
FOR FISCAL YEAR 2008**

Education Article Section 5-202 (b) through (d) requires that to be eligible to receive State Share of the Foundation Program the following must be met:

A. **Minimum Share (local wealth x local contribution rate)
from Foundation Program Calculation for Fiscal Year 2008** (MSDE Prefilled)

B **The product of Enrollment for the current fiscal year and the
local appropriation on a per pupil basis for the prior fiscal year**

Fiscal Year 2007 Highest Local Appropriation * to the School
Operating Budget - from page 2 (LEA input)

Divided by

FTE Enrollment as of 9-30-2005 for Fiscal Year 2007 (as adjusted
per Audit) (MSDE Prefilled)

Fiscal Year 2007 Appropriation Per Student (LEA Calculation)

Multiplied by

FTE Enrollment as of 9-30-2006 for Fiscal Year 2008 (as adjusted
per Audit) (MSDE Prefilled)

Equals

Maintenance of Effort Level \$ (LEA Calculation)

**In accordance with the above requirements of the Acts of the General Assembly,
I hereby certify that the above information is correct and that \$ (LEA input Amount)
is the Net Local Appropriation* that will be provided to the (LEA's Name)
County Board of Education from County sources beginning
July1, 2007.**

Signature of the Superintendent of Schools

Date

This Certification is to be submitted to the Maryland State Department of Education no later than
April 21, 2008

* See other page - amounts shown on line G, for instructions to meet this requirement.

Exhibit - A Page 2

ADJUSTMENTS TO LOCAL APPROPRIATION

LEA's NAME

	<u>FY 2007</u>	<u>FY 2008</u>
A. Operating Budget Appropriation	<i>LEA input</i>	<i>LEA input</i>
Plus:		
B. Supplemental Appropriations *	<i>LEA input</i>	<i>LEA input</i>
		<u>\$(LEA</u>
C. Total Appropriation (A+ B)	<u>\$(LEA Calculation)</u>	<u>Calculation)</u>
Less:		
D. Approved** Nonrecurring Costs		<i>(MSDE</i>
1 Qualifying Exclusion - Initial Request	<i>(MSDE Prefilled)</i>	<i>Prefilled)</i>
2 Qualifying Exclusion - Supplemental Request	<i>(MSDE Prefilled)</i>	<i>(MSDE</i>
3 Qualifying Exclusion - Supplemental Request	<i>(MSDE Prefilled)</i>	<i>Prefilled)</i>
4 Qualifying Exclusion - Supplemental Request	<i>(MSDE Prefilled)</i>	<i>(MSDE</i>
		<i>Prefilled)</i>
		<i>(LEA</i>
Total Approved Nonrecurring Costs (D)	<u><i>(LEA Calculation)</i></u>	<u><i>Calculation)</i></u>
		<u>\$(LEA</u>
Total Supplemental & Nonrecurring Costs (C-D)	<u>\$(LEA Calculation)</u>	<u>Calculation)</u>
E. Program Shifts Between County and Board Budgets *		
1 Item 1	<i>LEA input</i>	<i>LEA input</i>
2 Item 2	<i>LEA input</i>	<i>LEA input</i>
3 Item 3	<i>LEA input</i>	<i>LEA input</i>
		<u>\$(LEA</u>
Total Program Shifts (E)	<u>\$(LEA Calculation)</u>	<u>Calculation)</u>
F. Other Reconciling Items*		
1 Qualifying Exclusion (Initial in-kind services)	<i>LEA input</i>	<i>LEA input</i>
2 Qualifying Exclusion (Supplemental in-kind services)	<i>LEA input</i>	<i>LEA input</i>
		<u>\$(LEA</u>
Total Other Reconciling Items* (F)	<u>\$(LEA Calculation)</u>	<u>Calculation)</u>
		<u>\$(LEA</u>
G. Net Local Appropriation (C-D-E-F)	<u>\$(LEA Calculation)</u>	<u>Calculation)</u>

* Provide detail separately

** Allowable to the extent that the Appropriation exceeds the minimum local share from Foundation Program Calculation.



In conjunction with the calculation of the required level of local maintenance of effort, Education Article Section 5-202 (d)(3) provides that “the calculation of the county’s highest local appropriation to its school operating budget shall exclude a nonrecurring cost that is supplemental to the regular school operating budget, if the exclusion qualifies under regulations adopted by the State Board.” The Maryland State Board of Education adopted the Code of Maryland Regulation (COMAR) Title 13A.02.05 to administer the process of filing the local maintenance of effort that encompasses the approval of the county* request for nonrecurring cost exclusion.

*Non-Recurring
Cost Waiver Request*

COMAR chapter 13A.02.05.03 defines qualifying nonrecurring costs categories eligible for exclusion from the calculation of the local maintenance of effort. The Maryland State Department of Education (MSDE) reflects those categories in a set of forms to be used by the county when submitting its request for approval of nonrecurring cost items.

The county government may request the exclusion of nonrecurring costs between January 1 and March 31 of the fiscal year prior to the applicable fiscal year. No later than March 1 of each year, the MSDE Division of Business Services sends letters to each county administrator and local school superintendent transmitting the set of forms to be used as the written request to exclude qualifying nonrecurring costs. Before submitting the written request, the county shall confer with their respective local board. The county shall send a copy of the written request to their respective local board. The deadline for submission of requests is March 31 of the fiscal year preceding the applicable fiscal year.

The county may decide to appropriate additional funds to its school operating budget during a fiscal year. The county shall obtain written approval from the Department to classify any additional appropriation as a nonrecurring cost.

Exhibit B is a sample of the nonrecurring cost forms by qualifying categories. Each form provides columns to indicate whether the school system and the county government are in agreement with regard to each specified item. The last form is to be used to indicate other unique one-time qualifying nonrecurring costs upon which the local school board and county government mutually agree. In addition, the certification statement on this form covers the items checked as “agreed” on all forms.

The county’s submission to MSDE should include the complete set of forms, including those that do not carry a requested item. Those forms should be marked “not applicable” or otherwise indicate that no request is being made for items in that category.

The Department of Education shall inform the local board of education and the county whether the qualifying nonrecurring costs that are supplemental to the regular school operating budget are approved for exclusion from the calculation of the county's highest local appropriation to its school operating budget. This notification shall be within 30 days from receipt of the written request, but no later than May 1 of the fiscal year preceding the applicable fiscal year.

The county or the local board may appeal to the State Board within 15 days of the date of a decision to approve or reject a cost as nonrecurring.

* County refers to any or all of Maryland’s 23 Counties and Baltimore City.



The State Board of Education expressed a strong interest in support that is received by school systems; i.e., support that does not represent actual funds appropriated to the school system. Because such support is not reflected in a school system's budget, there exists a belief that a budget does not fully portray the level of support provided to LEAs.

This support has been dubbed “on-behalf” payments and recently was the subject of study by the State Board of Education’s Commission to Study Local Maintenance of Effort. The Commission reported that “these services are made available by local governments and various agencies to **support** schools and school systems, and should be identified in audits. Examples of on-behalf payments believed to qualify are police and nursing staff on school campuses who are paid by the local department of safety and the local department of health, respectively. Equally important to consider is that some school systems offer services to local governments; for example, facilities may be used for community meetings and recreational activities. Reporting on-behalf support would provide a more comprehensive look at both budgets and local spending for education.”

The Commission chairs recommended that:

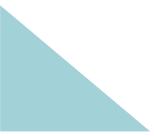
- MSDE should develop definitions and provide training to school system and local government finance officers to achieve consistency in reporting and interpreting on-behalf payments; and
- local support, including on-behalf payments, will be reported as a supplement to the required maintenance of effort in MSDE’s annual *Fact Book*.”

It is the position of MSDE that, regardless of the source, on-behalf payments that are considered material to the financial statements should be disclosed or booked in accordance with Generally Accepted Accounting Principals (GAAP).



Instructions for Completing the
Annual Financial Report Forms

Appendix A



The Annual Financial Report (AFR) is divided in three sections as follows:

Section	Due Date
A - Consolidated Report	November 15
B - Unrestricted Grants	November 15
C - Restricted Grants	
• Locally restricted grants	November 15
• MSDE grants ending June 30th or later	September 30
• MSDE grants ending before June 30th	60 days after ending

The Consolidated Report is the complete picture of revenues and expenditure by fund type for the state fiscal year beginning July 1 and ending June 30 of each year. The foregoing requirements and instructions pertaining to the filing of Annual Financial Report for Restricted Grants, Unrestricted Grants, Consolidated Current Expense Fund, School Construction Fund, Debt Service, Food Service Fund, Student Activity Fund, and Trust and Agency Fund. The term “Annual” applies to the period covered by the state fiscal year.

The Financial Reporting Manual for Maryland Public Schools adopts the Budgetary Basis of Accounting for the presentation of the Consolidated Report and the collection of the underlying data. As stated earlier, this Manual presumes adherence to GAAP but dictates a unique structure for Maryland LEAs based on federal and state reporting requirements. LEAs must use the accrual basis of accounting for proprietary funds and nonexpendable trust funds and, the modified accrual basis of accounting for all other funds with a notable variation in the Current Expense Fund.

The Current Expense Fund is subdivided into Unrestricted Grants (Programs) and Restricted Grants (Programs). The modified accrual basis accounting rules for recognizing revenue and expenditures applies in full to the reporting of unrestricted grants. Unrestricted grants generate the fund balance for the current expense fund.

For restricted grants, expenditures are recognized when the liability is incurred and, revenue can be recognized only to the extent of the expenditures. The particular features of the Budgetary Basis of accounting allow the treatment of encumbrances outstanding at the end of the grant period as grant expenditures as long as their liquidations are within 90 days following the grant ending date.

At the ending date of a restricted grant the reporting scheme should be:

Revenue = Expenditures

Expenditures = Cash Outlays + Accounts Payable + Outstanding Encumbrances.

Restricted grants do not carry any fund balance.

On the 90th day following the ending date of the grant, the above equation should change to:

Revenue = Expenditures

Expenditures = Cash Outlays + Accounts Payable.

Ideally, the full amount of encumbrances should have been converted to either cash outlays or accounts payable without altering the corresponding recognized revenue and expenditures. Often, encumbrances are liquidated at lesser amounts requiring adjustments to revenue, expenditures, and balance sheet items as they are interrelated.

REQUIREMENTS FOR RESTRICTED GRANTS REPORTING

The following procedures for fiscal year reporting apply to all restricted grants awarded by the Maryland State Department of Education (MSDE) and locally restricted grants, which are not specifically exempted by state or federal law.

Definitions

The definitions below provide guidance toward the preparation of the financial data to be submitted electronically via the Web Based Grants Annual Financial Report (AFR) System.

Restricted Grant. A grant that must be used for specific categorical purposes as determined by the grantor. Restricted grants require the filing of Restricted Annual Financial Reports.

Restricted Grant Annual Financial Report. This financial report is required annually for each restricted grant as part of the Annual Financial Report, which contains program expenditure information and matching revenue recognized in the reporting fiscal year. Restricted grant expenditures must equal restricted grant recognized revenue.

Restricted Grant Annual Financial Report Due Date. MSDE Grants: The due date of Annual Financial Report for Restricted Grants issued by the Maryland State Department of Education with period ending on June 30th is September 30th of the same calendar year. For a grant ending on a calendar year day other than June 30th, the due date is the 60th day following the grant ending date.

Restricted Grant Annual Financial Report Due Date. LEA Grants: The due date of a LEA restricted grant is November 15th, the same date for filing the Consolidated Annual Financial Report.

Restricted Grant Annual /Final Report. Restricted Grant Annual Financial Reports submitted for a grant at the completion of the grant period showing no encumbrances outstanding. To be an Annual/Final Report, the following conditions must be true:

- the grant period must not exceed one fiscal year; or
- the grant period has expired and all payables and encumbrances have been liquidated by the due date for reporting.

All restricted grants ending on June 30th must file Annual/Final Restricted Program Report on September 30th of the same calendar year.

Final Restricted Grant Annual Financial Report. All Restricted Grant must be finalized within 120 days of the grant ending date. The Grants AFR System compiles cumulative grant expenditures up to the reporting date; it is the LEA's responsibility to remove all encumbrances and to mark the Type of Report of the grant master record as "Final." The Annual Restricted Financial Report may be marked "Final" report if the grant period did not exceed one fiscal year and encumbrances were not outstanding as of the input date of the report.

Date of Completion. The earlier of the date when all grant activities are completed or the date when assistance ends (grant ending date), as stated on the Notice of Grant Award document or any amendments thereto.

Encumbrances. They are approved purchase orders or other commitments for goods, which (orders and/or goods) have not yet been received. To be a valid encumbrance, a contractual agreement must exist.

Liquidation of Encumbrances. Conversion of encumbrances to cash payments or payables upon the receipt of goods and invoice. A grantee must liquidate all encumbrances incurred under the award not later than 90 days after the end of the grant period.

Accounts Payable. Goods and/or services rendered received within the accounting period for which invoices have been received; accounts payable are recorded as liabilities on the Balance Sheet against expenditures reported in the Annual Financial Report.

Accrued Charges. Expenses incurred during the accounting period for services received but which are not payable until the subsequent fiscal period.

Expenditures at the closing of the grant period of a Restricted Annual Financial Report. Cash outlays plus Accounts Payable, Accrued Charges, and Encumbrances outstanding at the end of the grant period.

Expenditures as of the Due Date of the Final Restricted Annual Financial Report. Cash outlays plus Accounts Payable and Accrued Charges.

Certification Statement. A signed statement attesting to the validity of the financial information being submitted on the Restricted Annual Financial Reports.

Instruction for Reporting Indirect Cost Charged to Restricted Grants

Indirect costs associated with accounting, auditing, budgeting, disbursement services, management information systems, and purchasing are allowable to the extent of the Restricted Indirect Cost Rate approved for federal programs; for state restricted grant, the allowable rate must be the Restricted Indirect Cost Rate for federal grant or 2 percent, whichever the lower rate. Grantees obtain approvals to use the rate by including indirect costs on the award budget. To calculate the indirect cost amount, grantees must apply the approved rate to the total direct costs minus equipment costs.

The formula for allocating the budgeted indirect cost amount without exceeding the total grant amount is the following:

(Total grant expenditures - equipment) x Indirect Cost Rate x (1 + Indirect Cost Rate) Example:

A \$50,000 grant is awarded; \$10,000 is the expenditure for equipment. The LEA Restricted Indirect Cost Rate is 2.5%

$$\begin{array}{r}
 \$50,000 \\
 - 10,000 \\
 \hline
 \$40,000
 \end{array}
 \times (.025 \times 1.025) = \$976$$

Amount to be recovered in Business Support Services and Centralized Support Services

$$\text{Check: } \$976 \times (\$40,000 - \$976) = .025$$

$$\$10,000 + \$976 + \$39,024 = \$50,000 \quad \text{Direct expenditures before Equipment} = \$39,024$$

LEA must report the calculated indirect cost amount under Administration Category as a positive amount of transfer of indirect cost recovery to the restricted grant and as a negative amount to the Unrestricted Current Expense Grant. This reporting is necessary for eliminating intra-fund transfers within the Current Expense Fund when compiling the Consolidated Current Expense Fund Report.

Special Instructions for filing Restricted Grant Ending at a date other than June 30th.

MSDE restricted grants carrying ending dates after June 30th, of a given calendar year are subject to multi fiscal years reporting.

Using fiscal year 2006 reporting as example, an LEA having a restricted grant beginning on July 1, 2005 and ending on September 30, 2006, must use the Web Based Grants AFR System to file the restricted grant annual financial report for fiscal year 2006 on September 30, 2006.

The revenue arising from encumbrances outstanding as of June 30, 2006 must be adjusted to the actual liquidated amount on September 28, 2006 for the annual financial reporting on September 30, 2006. Encumbrances not liquidated by September 28, 2006 should be carried for annual reporting in the following fiscal year 2007.

An LEA must file on November 29, 2006 another annual report for the period covering July 1 to September 30, 2006 of the fiscal year 2007. Then, it is appropriate to input the amount of encumbrances outstanding as of September 30, 2006, if any, to the corresponding grant master record as memorandum entry; otherwise, the grant should be filed as Restricted Grant Annual /Final Report. If there are encumbrances outstanding on September 30, 2006, the LEA must file the final report for fiscal year 2007 on December 29, 2006.

Filing Restricted Grant Annual Financial Report

By September 30th of each calendar year, LEAs must have input to the Grants AFR System all financial data pertaining to economic events incurred within the state fiscal year ending on June 30th of the same year for all MSDE issued awards requiring Annual Restricted Grant Report.

On September 30th, each LEA should print the LEA's Restricted Program Report Summary by Fiscal Year and the AFR By LEA reports out of the Grants AFR system. The LEA's Chief Financial Officer or the designee by LEA's Superintendent should review both reports and attest to their accuracy and completeness with a dated signature and title in the provided spaces of the Certification Statement at the bottom of the last page of the LEA's Restricted Program Report Summary by Fiscal Year.

This signed certification report should be faxed to 410-333-3953 **and** mailed to:

Maryland State Department of Education
Office of Local Financial Reporting
Division of Business Services
200 West Baltimore Street
Baltimore MD 21201

Filing the Consolidated Report

The Grants AFR System collects from each LEA the financial data on grant-by-grant basis and consolidates them into the LEA Summary by Fund Report. The following are required forms for filing:

1. Certification Statement Page A-2-1;
2. Statement of Liabilities and Fund Balances Page A-2-2;
3. Statement of Changes in Fund Balance – All Fund and Account Groups Page A-2-3;
4. Annual Financial Report – Debt Service Fund Page A-2-4; and
5. Summary By Fund for Fiscal Year 20__ Printed out from the AFR Grant System.

Certification Statement

The Consolidated Report in paper format is the representation of the LEA Superintendent (or Chief Executive Officer) asserting that the electronic data filed with the Maryland State Department of Education are true and accurate as they are summarized on the accompanying forms.

The LEA must use data from the Summary By Fund printout to complete items 2 through 4, except for the Supplement A-3 Status of School Debt on page A-2-4, which requires external data to be provided by the county government.

It must be noted that the Grant AFR system must carry the data in compliance with the following specification:

Statement Of Assets, Liabilities, And Fund Balances

Use the budgetary basis of accounting to report items on this statement for the following Funds:

- Current Expense, Schools Construction;
- Food Services; and
- General Fixed Assets are to be reported at the historical cost or estimated cost without regard to depreciation.

Statement Of Changes In Fund Balances

Use the budgetary basis of accounting and bring totals forward from revenue and expenditure totals reported by fund.

Beginning Balance = Prior year closing balance (as reported on prior year AFR)

Ending Balance = Beginning Balance + Revenue - Expenditures ± Prior Period Adjustments

The Ending Balances on the Statement of Change in Fund Balances must agree with the corresponding Fund Balances (or Investments in General Fixed Assets) total amounts on the Statement of Assets, Liability, and Fund Balances.

CURRENT EXPENSE FUND EXPENDITURES

Provide a summary of the Current Expense Fund expenditures by category and object. The totals reported here should agree with the summarization of the Unrestricted and Restricted Reports and with the information contained in the Audit Report. Where there are differences between categories of expenditure, reconciliations must be submitted to the MSDE Audit Office.

School Construction Fund

Report on a modified accrual basis of accounting, recognizing revenue when the expenditures are made. Report the proceeds of bonds under “Other Sources - Sale of Bonds” rather than as local appropriations.

Debt Service Fund

Use this page to report the amount of debt principal and interest repayment by the local government for LEA debt. Do not leave this page blank. If there is no LEA debt, write “NONE” on the page.

Status Of School Debt

Complete this page from information obtained from the local government. Indicate the original balance on July 1 in column 1, any additional amounts borrowed in column 2, all redemptions in column 3, and the June 30th balance outstanding in column 4.

Food Service Fund

The Grant AFR system is programmed to compile Food Service data under the government-type special revenue fund. LEA opting proprietary-type enterprise fund should provide converted data appropriate for special revenue fund with an explanation of the reconciling items.

Student Activity Fund

Report revenue and expenditures of student-operated or student-sponsored operations under Fiduciary Fund accounting basis using the following equations:

Revenue = Expenditures.

Because the student body has a direct claim against the collected assets, the LEA must not carry any fund balance in the balance sheet of the student activity fund; its presentation should be:

Assets = Liabilities.

It should be noted that the Annual Financial Reports use budgetary basis of accounting; therefore, the reported Fund Balance data must be different from GAAP basis of accounting as represented in the audited financial statements. The reconciliation between GAAP balance sheet and AFR balance sheet is always required.

The Consolidated Report

This report will be compared to information contained in the LEA Annual Audit Report and all discrepancies must be reconciled and submitted to MSDE by

December 31, after the close of the fiscal year. The Consolidated Report will also be compared to the summary report prepared by MSDE from the portions of the AFR verified against the Summary By Fund printed out of the Grant AFR web based system. All three reports must be in substantial agreement before the AFR is considered final.

Where To Send The Annual Financial Report

Send the signed certification statement accompanying by all AFR forms to:

Maryland State Department of Education
Division of Business Services
Office of Local Financial Reporting
200 West Baltimore Street
Baltimore, MD 21201-2595

Consolidated Annual Report

**Due Date:
November 15**

Local Education Agency

**ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDING June 30, 20 _____**

Authorized by Sections 2-205, 5-101, and 5-111 of the
Education Article of the Annotated Code of Maryland

Note: for descriptions of codes and definitions of terms, refer to the
Financial Reporting Manual for Maryland Public Schools, Revised 2009.

Certification Statement	
<p>I hereby certify that the figures reported in the FY 2009 Annual Report are true and correct to the best of my knowledge and belief, that they accurately reflect the revenues and expenditures in accordance with the definitions in the Financial Reporting Manual for Maryland Public Schools, Revised 2009, and that they can be verified from the financial records of</p> <p style="text-align: center;">_____</p> <p style="text-align: center;">(LEA)</p>	
Signature of Superintendent of Schools	Date

Name of Preparer Date Telephone Fax Number

Consolidated Annual Report

Local Unit
ANNUAL FINANCIAL REPORT
for the year Ending June 30, 2007
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES

	CODES	CURRENT EXPENSE 1	SCHOOL CONSTRUCTION 3	FOOD SERVICE 5	STUDENT ACTIVITIES 6	GENERAL FIXED ASSETS 8
CURRENT ASSETS						
Cash & Cash Equivalent	3.01					
Temporary Investments	3.02					
Accounts Receivable	3.20					
Inventories	3.70					
Other Current Assets	3.95					
TOTAL CURRENT ASSETS						
GENERAL FIXED ASSETS						
Land and Land Improvements	3.83					
Buildings and Additions	3.84					
Furniture and Equipment	3.85					
Construction in Progress	3.89					
TOTAL GENERAL FIXED ASSETS						
LIABILITIES						
Payroll Deductions/Withholdings	4.50					
Deferred Revenue--Transportation	4.73					
Other Deferred Revenue	4.74					
Other Liabilities	4.99					
TOTAL LIABILITIES						
Investments in General Fixed Assets	7.50					
Fund Balance -- Unreserved	7.10					
Fund Balance -- Reserved	7.12					

Local Unit
 ANNUAL FINANCIAL REPORT
 for the year Ending June 30, 2007
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES

	CODES	CURRENT EXPENSE 1	SCHOOL CONSTRUCTION 3	FOOD SERVICE 5	STUDENT ACTIVITIES 6	GENERAL FIXED ASSETS 8
Opening Balance July 1, 2009	7.01					
Revenue Increase						
Expenditure Decrease						
Prior Period Adjustments	7.00					
Ending Balance June 20, 2008						

Local Unit

ANNUAL FINANCIAL REPORT
for the Year Ending June 30, 2008
DEBT SERVICE FUND

SUMMARY OF REVENUES, EXPENDITURES, AND TRANSFERS

REVENUES		
LOCAL APPROPRIATION	4.1.01.00.00.0.00	\$
OTHER REVENUE		
	4.1.05.00.00.0.00	
STATE		
Construction Aid	4.1.20.45.00.0.00	
Other	95.00.0.00	
TOTAL STATE		
OTHER RESOURCES		
	4.1.20.20.00.0.00	
Interfund Transfers	99.00.0.00	
Other		
TOTAL OTHER RESOURCES		
TOTAL REVENUE		
EXPENDITURES		
OTHER CHARGES*	4.2.00.00.00.4.95	
PRINCIPAL		
County Long-term Bonds	6.61	
State Loan	6.62	
TOTAL EXPENDITURES		
INTEREST		
County Long-Term Bonds	7.61	
State Loan	7.62	
TOTAL INTEREST		
TOTAL DEBT SERVICE		\$

* Includes short-term charges incurred for long-term obligations.

CURRENT EXPENSE FUND
SUPPLEMENT A-3 STATUS OF SCHOOL DEBT
(This section is not from data entry, but to be filled out directly.)

TYPE OF DEBT	BALANCE OUTSTANDING JULY 1, 2006	TRANSACTION		BALANCE OUTSTANDING JUNE 30, 2008
		ADDITIONAL BORROWED	AMOUNT REPAID	
COUNTY LONG-TERM BONDS				
STATE LOANS				
SHORT-TERM LOANS				
TOTAL				



A teal-colored right-angled triangle pointing downwards and to the right, located in the top right corner of the page.

Appendix B

Instructions for Completing the
Annual Budget Forms





Section 5-101 of the *Education Article of the Annotated Code of Maryland* contains the provisions relating to the preparation and submission of an annual budget by each County Board of Education and the Board of School Commissioners of Baltimore City. The Annual Budget forms (MSDE 7521) are specifically authorized under §5-111 (a) (2).

Due Date Budgets must be submitted within 30 days of the county/city government approval under §5-102 (e) (2).

Acceptable Forms Budgets must be submitted on the following MSDE forms:

1. Certification Statement;
2. Current Expense Fund Revenue;
3. Current Expense Fund Expenditures – Summary by Category;
4. Full-Time Staff Employed;
5. School Construction Fund - Revenues and Expenditures;
6. Debt Service Fund – Revenues and Expenditures; and
7. Current Expense Fund Special Education Addendum.

Send Forms Send one copy of the completed and signed budget forms **and** one copy of the printed Operating Budget to:

Maryland State Department of Education
 Division of Business Services
 Office of Local Financial Reporting, 8th floor
 200 West Baltimore Street
 Baltimore MD 21201-2595

DO NOT SEND COPIES TO OTHER MSDE OFFICES

When preparing the local budget in conformance with Maryland law, refer to the definitions in the *Financial Reporting Manual for Maryland Public Schools*, Revised 2009 to assure the appropriate categorization of budget items. Include revenue from all sources, restricted or unrestricted, including federal funds that may not as yet have been allocated to a specific expenditure category. These funds must be included in revenue and identified in the expenditure section as “Undesignated Federal Funds.” Every effort should be made to allocated the “Undesignated Federal Funds” by Expenditure Object. Staffing for these programs should be listed under the suspense category “Undesignated Federal Funds.” However, these positions may not be excluded and must be reclassified to the appropriate budget category when reporting actual staff employed to MSDE’s Division of Accountability and Assessment for the November staff report.

When reporting revenue, the proper funding source must be identified. Money that is passed through from one government to another while retaining the original programmatic intent does not lose its identity in transfer. For example, if the federal government provides funds for the infants and toddlers program, and this money is distributed to the Office of Children and Youth who then redirects the funds to the LEAs for the infant and toddler’s program, the funding should be identified as federal revenue rather than state revenue.

Revenue Classifications

Local appropriations are monies received out of funds set aside periodically by the appropriating body (county or city government) for school purposes. Appropriations do not include funds received by the LEA from other sources, such as gifts and bequests or funds generated by the LEA through rental of LEA facilities, user fees, tuition, earnings from investments, loans, debt proceeds, or sale of assets. The local appropriation for Current Expense Recurring Cost should be presented separately along with the local appropriation for Current Expense Nonrecurring Cost as approved by MSDE.

State revenue is funding from any state agency that originated as a state program, such as Basic Current Expense Aid, State Handicapped Aid, Extended Elementary, etc.

Federal revenue is funding that originated as a federal program and is distributed directly to the LEA from the federal government or passed through another agency to the LEA while retaining programmatic intent.

Other Sources/Transfers are funds received from sources representing transfers from one agency to another, conversion of assets to cash, or other funds that occur an obligation for future repayment.

Expenditure categories/objects are defined in the *Financial Reporting Manual for Maryland Public Schools*, Revised 2009 and will not be elaborated here.

(Local Unit)

ANNUAL BUDGET

for the Fiscal Year Ending June 30, 20 ____

Authorized under §5-101, §5-102, and §5-111 of
Education Article of the Annotated Code of Maryland

Refer to the *Financial Reporting Manual for Maryland Public Schools*, Revised 2009
for definitions of accounts to be reported on this budget.

CERTIFICATION STATEMENT

To the Board of County Commissioners or the County/City Council:

In accordance with the requirements of the Acts of the General Assembly, and the rules and regulations of the State Board of Education, and on and with the advice of the State Superintendent of Schools, the Board of Education herewith submits the itemized school budget, showing the financial needs and estimated federal, state, local, and other revenue sources of the County/City for Current Expenses, School Construction, and Debt Service.

Agreeably, thereto you are hereby requested to provide from County/City sources the following appropriation, respectively:

Current Expense -- Recurring Appropriation	\$
Current Expense -- Nonrecurring Appropriation	\$
Total Appropriation	\$
School Construction	\$
Debt Service	\$

Duly submitted by: _____ Date: _____

_____, President
_____, Secretary

The above appropriations from County/City sources have been approved.

Signature of President or Chair of
the County/City Council or County
Commissioners

Preparer _____

Telephone _____

Date _____

ANNUAL BUDGET

Local Unit
20 ____ - 20 ____

CURRENT EXPENSE FUND REVENUE

REVENUES				
	LOCAL APPROPRIATIONS	1.1.01.00.00.0.00		\$
	OTHER REVENUE*	1.1.05.XX.XX.0.00		\$
	STATE REVENUE			
	Foundation	1.1.20.01.XX.X.XX	\$	
	Economically Disadvantaged (Comp Ed & EEEP)	1.1.20.02.XX.X.XX		
	Special Education**	1.1.20.07.XX.X.XX		
	LEP	1.1.20.24.XX.X.XX		
	Guaranteed Tax Base	1.1.20.25.XX.X.XX		
	Transportation	1.1.20.39.XX.X.XX		
	Governor's Teacher Salary Challenge	1.1.20.56.XX.X.XX		
	Other (specify)	1.1.20.99.XX.X.XX		
	TOTAL STATE REVENUE	1.1.20.XX.XX.X.XX		\$
	FEDERAL REVENUE			
	Title I-A - Local System Grants		\$	\$
	Title I-A - School Improvement			
	Title I-B1 - Reading First			
	Title I-B3 - Even Start			
	Title I-C - Migrant Education			
	Title I-D - Neglected and Delinquent			
	Title I-F - Comprehensive School Reform			
	Title II-A - Teacher Quality			
	Title II-D - Education Technology			
	Title III-A - Language Acquisition			
	Title IV-A - Safe & Drug-Free Schools			
	Title IV-B - 21st Century Learning Centers			
	Title V-A - Innovative Education			
	Title VI-B2 - Rural & Low-Income Schools Prog.			
	Title VIII - Impact Aid			
	Homeless Children and Youth			
	IDEA - Special Education			
	Perkins Career and Technology Education			
	Other (specify)***			
	TOTAL FEDERAL REVENUE	1.1.30.XX.XX.X.XX		\$
	OTHER RESOURCES/TRANSFERS****	1.1.99.99.XX.X.XX		\$
	TOTAL REVENUE			\$
	PRIOR BALANCE AVAILABLE	1.1.40.00.XX.X.XX		\$
	TOTAL REVENUE, TRANSFERS AND FUND BALANCE			\$

* Tuition, payments and fees, earnings on investments, rentals, gifts and other non-state, non-federal revenue sources.

** Should include state revenues from formula funding as well as non-public placement funding.

*** Add lines as needed for all other fund sources in the Current Expense Fund.

****Nonrevenue and transfers.

NOTE:Do not include revenue for School Construction Fund, Debt Service Fund, or Food Service Fund.

ANNUAL BUDGET

Local Unit

20____ - 20____

CURRENT EXPENSE FUND EXPENDITURES

SUMMARY BY CATEGORY AND OBJECT

Category	Salaries and Wages 1.00	Contracted Services 2.00	Supplies and Materials 3.00	Other Charges 4.00	Equipment 5.00	Transfers 8.00	Total
1201 Administration	\$	\$	\$	\$	\$	\$	\$
1202 Mid-level Administration							
Office of the Principal							
Administration & Supervision							
1203 Instructional Salaries							
1204 Textbooks & Instructional Supplies							
1205 Other Instructional Costs							
1206 Special Education							
1207 Student Personnel Services							
1208 Health Services							
1209 Student Transportation							
1210 Operation of Plant							
1211 Maintenance of Plant							
1212 Fixed Charges							
1213 Food Service							
1214 Community Services							
1215 Capital Outlay							
Undistributed Federal Funds							
TOTAL EXPENDITURES	\$	\$	\$	\$	\$	\$	\$

Supplementary Information:

Expenditures for Adult Education	\$
Expenditures for Summer School	\$

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ANNUAL BUDGET

Local Unit
20____ - 20____

FULL-TIME EQUIVALENT STAFF EMPLOYED

POSITION TYPE	Total FTE	Adminis- tration 01	Mid-level Administration 02		Instructional Salaries & Wages 03	Special Education 06	Student Personnel Services 07
			Office of the Principal	Administration & Supervision			
Superintendent, Deputy, Assc, Asst							
Directors, Coord., Superv., Specialists							
Principal							
Vice Principal							
Teachers							
Therapists							
Guidance Counselor							
Librarian							
Psychologist							
PPW/SSW							
Nurse							
Other Professional Staff							
Secretaries and Clerks							
Bus Drivers							
Aides - Paraprofessionals							
Other Staff							
TOTAL FTE STAFF*							

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ANNUAL BUDGET

Local Unit

20____ - 20____

FULL-TIME EQUIVALENT STAFF EMPLOYED

POSITION TYPE	Health Services 08	Student Transportation 09	Operation of Plant 10	Maintenance of Plant 11	Food Service 13	Community Services 14	Capital Outlay 15
Superintendent, Deputy, Assc, Asst							
Directors, Coord., Superv., Specialists							
Principal							
Vice Principal							
Teachers							
Therapists							
Guidance Counselor							
Librarian							
Psychologist							
PPW/SSW							
Nurse							
Other Professional Staff							
Secretaries and Clerks							
Bus Drivers							
Aides - Paraprofessionals							
Other Staff							
TOTAL FTE STAFF*							

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MSDE-7521 5/97

ANNUAL BUDGET

Local Unit

20 ____ - 20 ____

SCHOOL CONSTRUCTION FUND REVENUES AND EXPENDITURES

ACCOUNT	AMOUNT
REVENUES	
LOCAL APPROPRIATIONS	3.1.01.00.00.0.00
OTHER REVENUE	
Earnings on Investments	3.1.05.30.00.0.00
Other	.99.00.0.00
TOTAL OTHER REVENUE	\$
STATE	
Construction Aid	3.1.20.45.00.0.00
Other	.99.00.0.00
TOTAL STATE	\$
OTHER RESOURCES	
Sale of Equipment	3.1.99.01.00.0.00
Sale of Bonds - Investments	.03.00.0.00
State Loans	.04.00.0.00
Interfund Transfers	.20.00.0.00
Other	.99.00.0.00
TOTAL OTHER RESOURCES	\$
TOTAL REVENUES / OTHER RESOURCES	\$
EXPENDITURES	
Land and Land Improvements	3.2.00.00.00.5.51
Buildings and Additions	5.52
Interfund Transfers	5.54
TOTAL EXPENDITURES	8.86

NOTE: Total Revenue must equal Total Expenditures.

ANNUAL BUDGET

Local Unit

20 ____ - 20 ____

DEBT SERVICE FUND REVENUES AND EXPENDITURES

ACCOUNT	AMOUNT	AMOUNT
REVENUES		
LOCAL APPROPRIATIONS	4.1.01.00.00.0.00	\$
OTHER REVENUE	4.1.05.99.00.0.00	\$
STATE		
Construction Aid	4.1.20.45.00.0.00	
Other	.99.00.0.00	
TOTAL STATE		\$
OTHER RESOURCES		
Interfund Transfers	4.1.99.20.00.0.00	
Other	.99.00.0.00	
TOTAL OTHER RESOURCES		\$
TOTAL REVENUE		\$
EXPENDITURES		
OTHER CHARGES	4.2.00.00.00.4.00	
PRINCIPAL		
County Long-Term Bonds	.6.61	
State Loan	.6.62	
TOTAL PRINCIPAL		
INTEREST		
County Long-Term Bonds	.7.61	
State Loan	.7.62	
TOTAL INTEREST		\$
TOTAL DEBT SERVICE EXPENDITURES		\$

NOTE: Total Revenue must equal Total Expenditures.

ANNUAL BUDGET

Local Unit

20 ____ - 20 ____

CURRENT EXPENSE FUND
SPECIAL EDUCATION ADDENDUM

ACCOUNT	AMOUNT
SPECIAL PROGRAMS FOR THE HANDICAPPED	
INSTRUCTIONAL PROGRAMS	
PUBLIC SCHOOL PROGRAMS 12.06.04.00.0.00	\$
STATE INSTITUTIONS .06.00.0.00	
NONPUBLIC SCHOOL PROGRAMS .07.00.0.00	
STAFF DEVELOPMENT .06.00.0.00	
SCHOOL ADMINISTRATION .15.00.0.00	
SCHOOL INSTRUCTIONAL SUPPORT .16.00.0.00	
NONDISTRIBUTED EXPENDITURES (Substitute Salaries)	\$
TOTAL SPECIAL EDUCATION EXPENDITURES	\$



Appendix C

The Annual Financial Reporting System





The Annual Financial Report (AFR) is authorized by Sections 2-205, 5-101, and 5-111 of the *Education Article of the Annotated Code of Maryland*. Information about revenues and expenditures of the Maryland Local Education Agencies (LEAs) is collected to meet the financial reporting requirements of both the state and the federal governments. From this annual data collection, an LEA financial data base from which statewide comparative statistics may be prepared is developed.

The Annual Financial Report is one of the reports the State Board and the State Superintendent required from LEAs within the parameter of the Section 5-111(a) of the *Annotated Code of Maryland*. It should be distinguished from the following reports:

1. Annual Audit Report due the Maryland State Department of Education (MSDE) by September 30th of each year under Section 5-109 of the Annotated Code of Maryland;
2. Annual Report under Section 5-111(b) of the Annotated Code of Maryland; and
3. Semi-Annual School System Operations Report under Section 5-111(d) of the Annotated Code of Maryland.

The Annual Financial Report is due in entirety by November 15 of each year. Discrepancies between this report and the Annual Audit Report, due to the Maryland State Department of Education (MSDE) Audit Office by September 30 of each year, require reconciliations to be sent to the MSDE Audit Office upon submission of the AFR.

Section 5-101 of the *Education Article of the Annotated Code of Maryland* specifies the budget and reporting requirements for Maryland LEAs. *The Financial Reporting Manual for Maryland Public Schools*, Revised 2009 (the Manual) contains the descriptions of the accounts that are required to be reported on the AFR.

The AFR forms outline the minimum details required to complete the AFR reporting requirements. These forms are formatted for electronic display as well as for printed output. LEAs must have mechanisms available to reconfigure financial information maintained locally to meet these minimum requirements.

The AFR data must be submitted electronically via the Web Based Grants Annual Financial Report System. User guides – LEA’s User Guide and MSDE Staff’s User Guide, are made available for each user group at the website home page <http://grantsafr.msde.state.md.us>.

The available data input options are: Key-in Data Menu Screen and electronic import of formatted AFR/Grant data file. Formatted data output reports must be reviewed by the responsible preparer and certified by the local schools superintendent to meet the MSDE reporting requirements.

The MSDE Office of Local Financial Reporting administers the data input and the report filing processes.

The Grant-Annual Financial Reporting system is designed to accomplish the following functions:

- a. maintain a system of accounts for periodic data collection;
- b. create grant master data records and grant detail data records for all grants either issued by MSDE or provided by other sources – direct state source, direct federal source, Local source, private funding etc.; and

- c. provide standard reports to meet various users' needs – payment generation and analysis, filing requirements, and indirect cost rate calculation.

The server dedicated to these functions is operated as an Online Transaction Processing (OLTP) Oracle database system. It supports grants creation, updates for data entry as well as report generation. This server interfaces with the Financial Data Warehouse (FDW) that maintains the financial accounting data of MSDE. Also it interfaces with the state Relational Standard Accounting and Reporting System – R*STARS triggers the scheduling and/or authorizing the grant remittance advices to LEAs.

Users access this system through Oracle Application Server Portal for data input and updates and run reports using Cognos Impromptu Web Reports through a Web browser.

Account Codes for Financial Data Collection

The structure of the Maryland State Department of Education (MSDE) account code is hierarchical. The design is multi-dimensional and allows the aggregation of financial data within any field. Expansion of the hierarchy will allow more finite accounting while facilitating extraction of details required by MSDE. The following Exhibits are published in Excel file format and downloadable at the website home page <http://grantsafr.msde.state.md.us>:

The Exhibit 1-A, Default Fund Source Revenue Account Table; and

The Exhibit 2-A, Default Detail Account Code Table.

Creation of Master Data Record for Grant issued by MSDE

Every grant issued by MSDE has been created in the state Relational Standard Accounting and Reporting System – R*STARS. During every weekend, the MSDE Financial Data Warehouse (FDW) system server interfaces with the R*STARS mainframe system to download refreshed financial data and/or new grant data. Subsequently, the MSDE Grant-AFR system server interfaces with the MSDE FDW system server to overwrite the old transaction data with the newly refreshed data and import the new R*STARS grant data in the form of grant master starting records.

The MSDE Grants AFR system user control group must update the Grant Master record with all required elements as contained in its corresponding Notice of Grant Award to enable the display of the grant record on the menu screen to LEA user.

The Data field elements of the Master Grant are:

1. LEA Code: assigned code for each of 23 counties (01 to 23) and Baltimore City (30);
2. Grant Number: eight digits number provided by MSDE or created by LEA;
3. Local ID: assigned by LEA, must be unique for each grant;
4. Grant Monitor: MSDE administrator of the grant;
5. Fund Source: Combination of revenue code and Fund source from pull down menu screen;
6. Begin Date: Start date per MSDE Notice of Grant Award or Locally assigned date;
7. End Date: End date per MSDE Notice of Grant Award or locally assigned date.;
8. Report Type: Annual or Final from pull down menu;
9. Approved Budget: amount of Award;

9. Approved Budget: amount of Award;
10. Cash Received to Date: cumulative amount remitted to LEA from FMIS automatic update;
11. AFR Required: Yes or No from pull down menu;
12. Expenditures: automatic update of reported expenditures cumulative across fiscal years from Grant Detail data file;
13. Encumbrances: Memorandum entry of Encumbrances outstanding as of the last report date;
14. Status Report: there are four payment options:
 - Manual Invoice – Invoice by LEA, MSDE assigned option;
 - Type I-Monthly – Finance Status Report, MSDE assigned option;
 - Type II- Bimonthly, MSDE assigned option; and
 - Not Applicable-Non MSDE Grant, LEA assigned option;
15. Received Date: Last Date of Data entry in Grant Detail Record;
16. Amount Due: automatic Calculation of difference between Cash Received to Date and Expenditures reported to date; positive amount is the refund due back to MSDE; negative amount is the payment owed to LEA;
17. Check Amount: amount to be refunded to MSDE;
18. Check Number: ordinal number of the LEA's Refund Check Voucher;
19. Administration – Federal: special disclosure of spending from Federal source;
20. Administration–Non-Federal: special disclosure of spending from Non-Federal source;
21. Local Contribution: local funding to meet the grant requirement for matching funds; and
22. Maintenance: state and local funds supporting the maintenance of effort required by the Carl D. Perkins Act.

In the background of the Fund Source input menu, lies the Default Fund Source Revenue Account Table. This Table carries the combination of the fund source (a 4 digit-code also known in the R*STARS environment as Agency Fund) with the matching revenue account code. Every time an Agency Fund is created in the R*STARS for MSDE, a new combination of fund source code and revenue account code must be also created to update the Default Fund Source Table in the Grant AFR system.

All grants issued by MSDE must be updated with the correct fund source and revenue account codes combination in accordance with their respective Notice of Grant Award. When creating non-MSDE grant master, the LEA must use the Fund Source input menu screen to pull down the appropriate combination of fund source and revenue account code.

Creation of Master Data Record for Non-MSDE Grant by the LEA

The LEA can create a local grant master record. In order to secure a unique number for each non-MSDE issued grant, the LEA must access the system “New Grant Data Form” menu screen and use the following numbering scheme:

- first two digits represent fiscal year; i.e., 09 for fiscal year 2009;
- next two digits represent LEA Code; i.e., 01 for Allegany County Public Schools;
- next four digits represent unique alphanumeric characters of LEA choice.

The LEA user must use the screen Edit Grant Master Information - LEA to update the grant master record of MSDE issued grant. To update the master record of non-MSDE issued grant LEA must use Edit Grant Master Data – Non MSDE menu screen.

Once a grant is created it cannot be deleted by the LEA user. The LEA must address its deletion request to the MSDE Office of Local Financial Reporting.

Creation of Grant Detail Data Record

For the purpose of reporting information on grant revenue and its relevant expenditures, the LEA must create Grant Detail Data record for each Grant Master Record. Its creation involves pulling down of selected identifying data from the corresponding grant master record and insertion of account code input lines via the system menu screen Enter New Grant Detail Data. In the background of the grant detail data input screen, lies the Default Grant Detail Table. This table carries the accounts coded in accordance with the reporting structures provided by the Financial Reporting Manual.

Once the grant detail data record is created one may use the Edit Grant Detail Data screen to enter data to the appropriate line accounts.

Data Collection via Electronic Import Of Formatted AFR/Grant Data File

The import process requires the preparation of the data file containing records according to the specified record layout in Text File format. Starting in fiscal year 1999, each line record must carry 143 characters in length.

The specification of the record layout is based on the combination of the grant master data elements and the account code data elements as shown below:

Column	Length	Data Element	Data type
1-2	2	LEA	Numeric
3	1	Fund	Numeric
4	1	Class	Numeric
5-6	2	Category	Numeric
7-8	2	Program	Numeric
9-10	2	Activity	Numeric
11	1	Object	Numeric
12-13	2	Sub-object	Numeric
14-25	12	Dollar Amount	Numeric
26-29	4	Fund (Revenue) source	Numeric
30-37	8	Grant Document number	Numeric
38-47	10	Local Grant Number	Alphanumeric
48-59	12	Original Grant Amount	Numeric
60-71	12	Cash Received	Numeric
72-83	12	Cash Expenditures	Numeric
84-91	8	Payables	Numeric
92-99	8	Encumbrances	Numeric
100-109	10	Administration-Federal	Numeric
110-119	10	Administration-Nonfederal	Numeric
120-129	10	Career & Tech. Maintenance of Effort	Numeric
130-133	4	Fiscal Year	Numeric
134-143	10	Local Contributions	Numeric

The data file import is a two-stage processing: converting the LEA submitted text file into the Oracle data base format and then uploading compatible data records to the server main data base files. In order to avoid massive errors from this mass processing procedure, LEA must ensure that the submitted text file carry the correct reporting Fiscal Year and correct LEA data elements.

The LEA must use the Exhibit 1-A, Default Fund Source Revenue Account Table, and the Exhibit 2-A, Default Detail Account Code Table, as references for combining the account code data element into each grant record. The incorrect combination of data elements into a record causes the import processing to ignore and reject that record.

Financial Status Report – Grant Payment Generation

The MSDE Accounting Branch uses the Grant Turn-Around Report as a basis for approving monthly payments of restricted grants issued to LEAs. The required data is the cumulative amount of expenditures from the beginning of the grant period to the end of the month reported, excluding outstanding encumbrances. It is important to adhere to the deadline set by the MSDE Accounting Branch for each month reporting. For example, the remittances to LEAs in early February 2009 are based on cumulative expenditures incurred through December 31, 2008 of the fiscal year 2009; in this case the MSDE Accounting Branch set the deadline for data input as January 13, 2009. LEAs are usually notified of the deadline by e-mail at the start of each month. Any data entered after the deadline will be considered for payment in the following month.

Payment Generation

The Grant-Annual Financial Reporting system provides the following function applications to the MSDE Accounting Branch for processing the remittance of grant fund to LEA:

- Generate Payments;
- View Payment Reports;
- Edit Payments;
- Create R*STARS Interface (input) File;
- Payment Type Override;
- Edit Payment Customized; and
- View Payment Archives.

Published Reports

There are 17 reports published via the Cognos Web Portal in the report section. The Upfront News Index contains standardized grants information in the form of reports. After logging on to Upfront, the user can explore the News Index and open Impromptu Web Reports (IWR) News Box entries under the Published Grants heading. Those published reports are classified into three groups: Required Reports for Annual Filing, Indirect Cost Rates Calculation Reports, and Other Look-up Reports.

Required Reports for Annual Filing

1. Grants Included in FY annual Financial Report LEA's Restricted Program Report Summary by Fiscal Year:

- This output form lists total expenditures of all grants that the LEA reported as incurred through June 30 in the reporting fiscal year. It contains the Certification Statement that the designated LEA's financial officer has confirmed the reported figures to be true and correct under his/her signature as of the filing date (on or before September 30th of the reporting calendar year) with MSDE.

2. Restricted Program Report by FY AFR by Grant by Fiscal Year :

- This output form has three reporting sections:
 - the top portion brings over the data recorded in the grant master file as the last date of the data entry to the grant detail record.
 - the middle portion provides revenue, detailed expenditures and related balance sheet items (when applicable) by accounts for each reported grant by fiscal year.
 - the bottom portion provides the reporting of supplemental data on the distribution of Fixed Charges (Fund 9) by program category. The total amount reported in Fund 9 must match the total reported fixed charge in Fund 1(or Fund 7 when appropriate).
- The user can retrieve either restricted or unrestricted grants according to their identification number and the specified fiscal year.
- In the case of a restricted grant report, a single line of revenue reported must equal the total of detail expenditures reported.
- In the case of an unrestricted grant report, multi-line revenues are allowed without the requirement for matching detail expenditures. Furthermore, the unrestricted grant

- report carries the reporting of revenue, expenditures, and balance sheet items by fund for the Funds 1, 3, 4, 5, 6, and 7.
3. **Cumulative Restricted Program Report:** This output form presents the total program revenue and expenditures by account for the entire grant period, which may overlap more than one fiscal year. The presentation has the same features of the AFR by Grant by Fiscal Year. This report is useful when one analyzes the revenues and expenditures for compliance with the MSDE approved budget (C-1-25) or the entire grant period.
 4. **AFR by LEA:** This output form provides the entire fiscal year financial data as each LEA reported to MSDE for all grants in sequential number basis. The document has the same features of the AFR by Grant by Fiscal Year and is appropriate for each LEA to keep as hard copy of the Annual Financial Report filing.
 5. **AFR for All LEAS:** This output form is the aggregation of the AFR by LEA from all 24 LEAs. This voluminous document is limited to MSDE staff users for monitoring review and analysis.
 6. **LEA Summary by Fund:** This output form presents the LEA's financial data summarized by category within each fund (Funds 1, 3, 4, 5, 6, 7, and 9). This printout must be used as basis for filing the Consolidated Annual Financial Report signed by the LEA's superintendent of schools or chief executive officer and due to the Maryland State Department of Education on November 15 of each year.

Indirect Cost Rates Calculation Reports

The **Maryland State Department of Education (MSDE)** has, in cooperation with the U.S. Department of Education (ED), developed an indirect cost proposal to be used by local educational agencies (LEAs) in the state. The **MSDE** as the state educational agency (SEA) has been delegated authority by ED to review and approve indirect cost rates submitted by LEAs. In order to recover indirect costs on federal awards, an LEA must have an approved federal indirect cost rate. A new indirect cost rate must be obtained for every fiscal year beginning on *July 1 of each calendar year*. The classification of expenditures will conform to the category object codes used in the **Financial Reporting Manual for Maryland Public Schools**.

Indirect Cost Rate Information

An indirect cost rate is a means of determining, in a reasonable manner, the percentage of allowable general management costs that benefit each federal program or activity. Indirect costs are generally administrative costs such as the salaries and expenses for staff engaged in organization-wide (general) activities.

The recovery of indirect costs on grants is subject to the availability of funds. Once a rate is approved, it is applied to the net direct costs expended or direct cost base. The direct cost base is defined as total direct costs less equipment purchases, alterations and renovations, the portion of individual subawards exceeding \$25,000, and pass-through funds.

According to the Code of Federal Regulations (CFR Title 34 Part 80-Subpart A, Section 80.3), Subaward or Subgrant means an award of financial assistance in the form of money, or property in

lieu of money, made under a grant to an eligible subgrantee. The term includes financial assistance when provided by contractual legal agreement, but does not include procurement purchases, nor does it include any form of assistance which is excluded from the definition of grant in this part.

The costs of a professional service for auxiliary expertise normally provided in-house would not be treated as a subaward and are not subject to the exclusion of amounts over \$25,000.

A contract with a software vendor to provide technical support and enhancement of existing business software would not be considered as a subaward.

For the purpose of Indirect Cost Rate Plan calculation, LEAs must notify MSDE when letting any subgrant in excess of \$25,000. The portion of the subgrant exceeding \$25,000 will be excluded from the distribution base.

Federal law or grant conditions may limit the amount of indirect costs or the indirect cost rate. For example, if a district has a restricted rate of five percent and the program legislation allows only a three percent rate of recovery, then it can recover only indirect costs equal to three percent of the appropriate base. Recovery of indirect costs on grants is subject to the availability of funds.

Approval Process

An indirect cost rate approval is issued by the SEA for a specific fiscal year. The rate is valid from **July 1st to June 30th** of the applicable fiscal year. Indirect costs are recovered only to the extent of direct costs incurred. The indirect cost rate is applied to the direct cost base as defined on page two, second paragraph of this plan, not to the grant award total.

The sources of information utilized to determine indirect cost rates are the LEA's **Annual Financial Report (AFR) and the detail accounts collected through the Computerized Grants – Annual Financial Application System**. Therefore, it is essential that LEAs classify expenditures uniformly and consistently. Types of expenditures, which are identified as indirect costs, shall not also be included as direct costs. All expenditures detailed on the **AFR** must have been incurred and records supporting the costs must be maintained by the LEA. An approved indirect cost rate is obtained by following the instructions provided to LEAs. Those instructions are contained in this Plan.

Classification of Cost

Direct Costs: Direct costs are those that can be identified specifically with a particular cost objective. These costs may be charged directly to grants, contracts, or to other programs against which costs are finally assigned. Typical direct costs chargeable to a grant include, but are not limited to:

1. Compensation of employees for the time devoted and identified specifically to the performance of those programs;
2. Cost of materials acquired, consumed, or expended specifically for the purpose of those programs;
3. Travel expenses incurred specifically to carry out the program; etc.

Indirect Costs: Indirect costs are those not readily identifiable with the activities of the grant but incurred for the joint benefit of those activities and other activities of the organization. In accordance with OMB Circular A-87, indirect costs are:

- Incurred for a common or joint purpose benefiting more than one cost objective; and
- Not readily assignable to the cost objective specifically benefited, without effort disproportionate to the results achieved.

A cost may not be allocated to a federal program as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a federal program as a direct cost. Typical examples of indirect costs may include: procurement, payroll, personnel functions, maintenance and operations of space, data processing, accounting, auditing, budgeting, communications (telephone, postage), etc.

Unallowable Costs: OMB Circular A-87 classifies certain items of cost as unallowable. Unallowable costs cannot be charged to federal awards. For rate computation purposes, unallowable costs should be included in the allocation base if such costs benefit from allowable indirect activities. Examples of unallowable are bad debts; contingencies; entertainment; fines/penalties; general governance; and contributions/donations to outside organizations.

Excluded Costs: Certain items of costs are classified as extraordinary or distorting expenditures and are excluded from the computation of the indirect cost rate. Excluded costs include subawards exceeding \$25,000, equipment, capital outlay (Building & Fixtures), debt service, judgments against the school district, certain transfers, and internal service fund expenditures. Indirect cost recoveries are also categorized as excluded costs.

Rate Types

1. Restricted Rates

As defined in the Education Department General and Administrative Regulations (EDGAR) at 34 CFR 75.563 and 76.563, restricted rates apply to grants that are made under federal programs with supplement-not-supplant requirements. This means that the funds are for support in addition to state and local funding. Such amounts are intended to supplement, but in no way replace local funds. Most of the federal grants that the LEA obtains through the department have supplement-not-supplant requirements and a restricted indirect cost rate must be used on the programs.

The restricted indirect cost rate pool (numerator) includes only expenditures of **general management costs** and **fixed charges** as defined below:

General Management Costs: Consist of the salaries and expenses for employees performing accounting, payroll preparation, or personnel management activities. Those activities that are limited to one school, subject, or phase of operation, are not general management costs such as the salaries and expenditures related to the direction and supervision of such functions as instruction, guidance, attendance, transportation, community services, and student services. The costs of these functions are considered direct costs.

Generally, salaries and expenses for auditing, budgeting, payroll, personnel, purchasing, and employee relations are examples of services which typically benefit several activities and programs

for which costs may be attributed by means of an indirect cost proposal. For LEAs this would include most of the costs recorded in Business and Other Support Services. In theory, all such costs can be charged directly. However, practical limitation and consideration of efficiency in accounting preclude such an approach and therefore these costs are considered indirect.

As stated in EDGAR 76.565, “general management costs mean the costs of activities that are for the direction and control of the grantee’s affairs that are organization-wide. An activity is not organization-wide if it is limited to one activity, one component of the grantee, one subject, one phase of operations, or other single responsibility. General management costs include the costs of performing a service function, such as accounting, payroll preparation, or personnel management, that is normally at the grantee’s level even if the function is physically located elsewhere for convenience or better management.”

When calculating a restricted indirect cost rate, the term “General Management Costs” does not include expenditures for:

1. The governing body (members of the board of education) of the grantee;
2. Compensation of the chief executive officer (Superintendent of a school district) of the grantee and heads of component offices; and
3. The operation of the immediate offices of these officers.

The superintendent’s and board of education’s salary, benefits, communications/ telephone charges and other expenditures related directly to the operation of the Superintendent’s and board of education offices, specifically, are not included in indirect costs and are considered, for rate computation purposes, to be disallowed costs in the calculation of the restricted indirect cost rate.

Charges for individuals whose time is divided between district-wide management responsibilities and specific program or administrative activities will be based on Personal Activity Reports prepared at least monthly in compliance with OMB Circular A-87. If the Superintendent is part-time, both Superintendent-time and non-Superintendent-time must be captured by time distribution records.

An individual principal’s salary, benefits and expenditures related to the operation of the principal’s immediate offices are also not considered indirect costs. These costs are unallowable and are considered to be direct costs for the restricted rate computation purposes.

Fixed charges: Fixed charges classified as indirect costs are limited to those amounts which are associated with general management costs. The fixed charges can be viewed as appended to those administrative functions, and the classification rules are the same as those applied to salaries.

These expenditures are exclusively identified as:

- a. Employee retirement
- b. Social Security
- c. Pension fund payments
- d. Premium expenditures for:
 - (1) employee insurance
 - (2) liability insurance
- e. Unemployment and workers compensation, and
- f. All similar costs normally considered being employee fringe benefits.

Note that per OMB Circular A-87, payments to separating employees for termination benefits and/or unused leave (“terminal leave costs”) are treated as indirect costs when computing the Restricted and Unrestricted indirect cost rate with one exception. When computing the Restricted indirect cost rate, unused leave costs to employees who are indirect for the Unrestricted Rate, but direct for the Restricted Rate (i.e. superintendent and their office), are considered direct cost payments for rate calculation purposes only. Payments to separating employees for unused leave are NOT charged as direct costs to any federal awards. All Post Retirement Health Benefits (“PRHB”) will be treated as indirect costs for both the Restricted and Unrestricted rate regardless of where the employees’ salary is recorded with one exception. For purposes of calculating the restricted rate, PRHB costs associated with Superintendent, Chief Executive Officer (CEO) of components (as defined by EDGAR 76.565(d)(2)) and their immediate offices will be treated as direct.

Direct occupancy and space maintenance costs cannot be charged directly to restricted programs unless approved in advance by the Secretary of The U.S. Department of Education (34 CFR 76.568 (c)).

The Maryland State Department of Education (MSDE) and Maryland’s 24 Local School Systems (LEAs) agree to adopt the Simplified Method as provided in the OMB Circular A-87.

The distribution base is computed as total direct costs less equipment purchases, alterations and renovations, the portion of individual subawards exceeding \$25,000, and pass-through funds.

The total expenditures used for the Federal Indirect Cost Restricted Rate calculation must be from the Current Expense Fund as provided in the *Financial Reporting Manual for Maryland Public Schools*. Local School Systems use the intra-fund transfer code to credit the unrestricted fund for the portion of indirect costs charged to the restricted fund. While the terms are similar, the Unrestricted Fund and Restricted Fund are not associated with the Restricted Indirect Cost Rate and Unrestricted Indirect Cost Rate.

The Maryland State Department of Education (MSDE) and Maryland’s 24 Local School Systems (LEAs) agree to adopt the Fixed Rate policy and procedures provided by OMB Circular A-87.

“**Fixed rate**” means an indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual, allowable costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.

For example, Maryland LEAs use the expenditures in the Current Expense Fund for fiscal year 2009 to calculate the Federal Indirect Cost Restricted Rate that becomes the fixed rate to be applied to the net direct cost expenditures of the Restricted Federal Grant in the fiscal year 2011. When actual costs are known for FY 2011, these will be used for carry-forward in determining the FY 2013 rates. Likewise the fixed rates for FY 2012 (based on FY 2010 actual expenditures) will be used for calculating the federal fixed carry forward rate for FY 2014. The Maryland State Department of Education (MSDE) and Maryland’s 24 Local School Systems (LEAs) are willing to renegotiate the Predetermined Fixed Rate with Carry Forward Plan every five years from fiscal year 2011.

2. Unrestricted Rates

The indirect cost unrestricted rate applies to grants not subject to **the supplement but not supplement** legislative restriction. It can also apply to Food Service Fund (Fund 5) which derives benefits from administrative services expenditures that are incurred and captured in Current Expense Fund (Fund 1).

A. Indirect Cost

In addition to the expenditures identified for the Restricted Rate calculation the following are allowable costs for the Unrestricted Rate computation:

- a. Expenditures for the General Administration - Executive Administration Services are classified as an indirect cost separately from the General Administration – Board of Education Services, which shall remain as unallowable costs in the direct cost base.
- b. Expenditures for Other Operation of Plant – 2103100XXX (unallowable for Restricted Rate calculation) are allowable indirect costs for Unrestricted Rate purpose.

B. Direct Cost Base

The following adjustments must be made to Direct Costs, Unallowable Costs, and Excluded Costs as classified in the Restricted Rate calculation:

- a. Include Food Service expenditures net of inter-fund transfer under object 886 and equipment exclusion;
- c. Reclassify Executive Administration Service by transferring the identified expenditures amount from direct cost base to allowable indirect cost pool;
- d. Reclassify Other Operation of Plan expenditures and related fixed charges from direct cost base to allowable indirect cost pool.

C. Clarification on the use of the General Administrative Account

In the Current Expense Fund – Fund 1, the account code 2012100XXX General Administration Services captures the combination of Board of Education Services and Executive Administration. For the purpose of calculating Indirect Cost Unrestricted Rates for FY 2011 (using FY 2009 data) and for FY 2012 (using FY 2010 data), we will work with each LEA to break up the Executive Administration Services as allowable indirect cost from the Board of Education Services which is unallowable and belongs in the distribution base.

For illustrative purpose and due to the fact that we are unable to differentiate the Board of Education Services from Executive Administration Services at the time of the negotiated agreement, we included the total amount of General Administration Services (excluding equipment) in the distribution base in the same manner we did when calculating the Indirect Cost Restricted Rate. Starting in FY 2011, we will assign the code 2012101XXX for General Administration Services-Board of Education Services, and the code 2012102XXX for General Administration Services-Executive Administration.

D. Clarification on the use of Contracted Services Object in Food Service Fund

The object 206 is to be used only in Food Service Fund- Fund 5, for Outside Food Services Contract expenditures. This item is included in Food Service Expenditures toward the calculation of Unrestricted Rate.

LEAs must use the object 209 to capture Food Service Management Contract in Food Service Fund - Fund 5. This item is included in Food Service Expenditures toward the calculation of Unrestricted Rate.

E. Clarification on the classification of Supplies and Materials in the Food Services Fund

The object code 325 is used only for capturing Food Service Fund – Fund 5 expenditures for food supplies purchased and used. USDA commodities used, including storage, transportation and processing, are to be reported under this object code. This item is included in Food Service Expenditures toward the calculation of Unrestricted Rate.

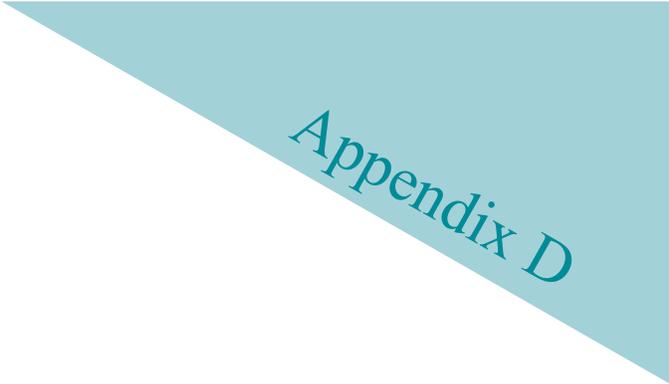
The object code 328 is only for capturing expenditures for food related supplies that are expendable and used in the preparation of food such as disposable cups, plates, spoons, forks, etc... in Food Service Fund – Fund 5. This item is included in Food Service Expenditures toward the calculation of Unrestricted Rate.

Profile of LEAs

Maryland State Department of Education

1. **Which basis of accounting is used by the LEAs?**
All Maryland LEAs use GAAP basis for local external reporting. However, MSDE required that LEAs use budgetary (modified accrual) basis when submitting their financial data through the Grant AFR System.
2. **Number of LEAs in the State:**
24
3. **Number of LEAs requesting indirect cost rates:**
24
4. **Describe Rates calculated:**
Restricted Rate and Unrestricted Rate
5. **Type of Rate calculated:**
Fixed Rate with Carry Forward Adjustment. The first year of carry-forward adjustment will be for the FY 2013 rates.
6. **Frequency of indirect cost rates calculated:**
Annually
7. **Are the salaries and related costs of Superintendents, Deputy Superintendents, and Heads of components, adjusted in the Restricted Rate calculation?:**
Yes
8. **Are unused leave payments charged directly to federal awards?:**
No
9. **Are all building related expenditures in the direct cost base for calculation of the restricted indirect cost rate?**
Yes. They are occupancy and maintenance costs.
10. **Does the base include only the first \$25,000 of subaward expenditures?**
Yes. The amount in excess of \$25,000 in each individual subaward is excluded from the base.
11. **Are any types of retirement incentives included in the proposal or planned in the next fiscal year?**
There is no retirement incentive included in the proposal or planned in the next fiscal year.





Appendix D

Supplies and Equipment





Distinguishing between supplies and equipment is important to an LEA for several reasons:

- The distinction can affect calculations of cost of operations and cost per student since equipment is not allowable as an expenditure item in many per pupil calculations.
- The distinction may assist in deciding how to control or keep track of an item (for example, all equipment may be annually inventoried).
- The distinction may bear on insurance decisions because supplies and moveable equipment are generally insured as part of the contents while built-in equipment is insured as part of the structure.
- The distinction can affect the amount of federal aid allocated to an LEA because many funding programs that use per student costs limit the ways in which funds may be spent and may exclude equipment.
- The distinction can affect indirect cost recovery. Equipment is a non-allowed cost for determining the rate and for determining the grant amount to which the rate can be applied.

Two basic approaches may be used to distinguish between supplies and equipment. The first is to develop a list of items with a classification of each item as either a supply item or an equipment item. The second is to develop a set of criteria to be used in making a determination about an item.

The first approach is not recommended. Lists require continuous maintenance, are inflexible, and may conflict with state or federal regulation. The second approach, however, provides flexibility and incorporates common sense in determining the designation of supplies and equipment.

Criteria For Distinguishing Supply And Equipment Items

Supplies

A supply is any article or material that meets one or more of the following conditions:

- it does not last more than one year;
- it is better to replace than to repair;
- it is not an independent unit; and/or
- it does not exceed a minimum dollar value (see Equipment definition in this Appendix).

Supplies are consumed in the normal course of business operations. Typical examples of supplies are paper, workbooks, tapes, cartridges, and fuel. Supplies may include small equipment and furniture that does not exceed a minimum dollar amount and would be replaced if defective, such as calculators, certain tools, and plastic chairs.

Equipment

An equipment item is a moveable or fixed unit of furniture or furnishings, an instrument, a machine, an apparatus, or a set of articles that meet all of the following conditions:

- it lasts longer than one year;
- it is better to repair than to replace;

- it retains its original shape, appearance, and character with use;
- it does not lose its identity through fabrication or incorporation into a different or more complex unit or substance;
- it exceeds a capitalization level equal to the lesser of a minimum dollar value established by the entity for financial statement purposes or \$5,000; and
- it is a sensitive item with an acquisition cost of \$500 or more.

Sensitive items are capital or non-capital items such as recording devices, portable tools, cameras, notebook computers, and other small items that are prone to theft and are concealable in a handbag or briefcase. Items that are too large for concealment in a handbag or briefcase (such as desktop computers, projectors, and printers) shall be considered sensitive items if there is a history of loss or theft.

A useful tool for determining whether an item is a supply or equipment is the following flowchart. At the first NO response, the item is identified as a supply, not as equipment.

Flow Chart for
Distinguishing Equipment from Supplies*

	YES	NO	
Lasts longer than one year	↓	→	Supply
Repair rather than replace	↓	→	Supply
Independent unit rather than being incorporated into another item	↓	→	Supply
Exceeds minimum dollar value	↓	→	Supply
			Equipment

* This diagram was conceived by James Bliss, Ph.D., Assistant Superintendent for Business Services, Grandview Consolidated School District, Grandview, Missouri; and Stuart Graf, CPA, of the American Institute for Certified Public Accountants (AICPA).



Appendix E

Fund Source Codes
and
Catalog Numbers





Fund (revenue) source codes must be provided for each Restricted Program Report included with the Annual Financial Report (AFR) submission. These codes provide the means by which expenditures are summarized by level of government and by major appropriation areas.

Grants received by LEAs from MSDE will contain a fund source code to identify the appropriation source. The four-digit code is provided on all MSDE Notice of Grant Awards (as shown on the example on the following page). It should be included on all Restricted Program Annual Financial Report cover sheets.

All other restricted program reports submitted to MSDE must also contain a fund source code. If a fund source code is not available, please contact the financial reporting specialist in the Division of Business Services for the proper code.

Shown below is a key for understanding the four-digit MSDE Fund Source:

First digit	level of government (local, state, federal) 1 = State 2 = State 3 = Special State 4 = (not used) 5 = Federal 6 = Federal 7 = (not used) 8 = Federal 9 = Reimbursable Funds – These could be any of the above – details would be provided with the grant award.
Second and third digits	These numbers were assigned sequentially as the funds were identified.
Fourth digit	This represents the appropriation year for the fund source. In the case of some funds, grants from multiple appropriation years might be available during the same time frame. This is used to differentiate them.

The Catalog of Federal Domestic Assistance (CFDA) code for a grant will be shown on all MSDE Notice of Grant Awards (as shown on the example on the following page). If you obtain the grant directly from the federal government or from another source, please check the grant document. If still unsure, you may find assistance at <http://12.46.245.173/cfda/cfda.html>.

**MARYLAND STATE DEPARTMENT OF EDUCATION
NOTICE OF GRANT AWARD**

Date _____ Vendor No. _____ MC _____ Grant No. _____ Date _____
 New _____ Amendment No. _____ Grant Period: From _____

Grant Name _____
 Recipient Agency Name _____
 Recipient Agency Address _____
 Program Manager's Name, Title, Phone _____
 MSDE Program Manager's Name, Division, Phone _____

Amount of Current Grant _____
Previously Awarded This Grant _____
Total _____

ADDITIONAL INFORMATION

- This grant award consists of and is subject to the mandatory Grant Provisions and acceptance of the Assurances on the attached sheet.

FOUR-DIGIT
FUND
NUMBER

FEDERAL
CFDA
NUMBER

MSDE ACCOUNT CODE INFORMATION

L I N E No.	PCA	AOBJ	AMOUNT	FUND	PMT SCHED CODE (o) Inv (1) Mo (2) Bi-Mo	REVENUE SOURCE Fed (F) or State (S)	CFDA No.	REVENUE SOURCE TITLE	GRANT END DATE	MATCHING FUNDS (%N)	AFR REQUIRED (Y/N)

APPROVAL

Assistant State Superintendent/Office Head _____ Date _____

MANDATORY GRANT PROVISIONS

- By accepting federal and/or state funds, the grantee shall comply with the Americans with Disabilities Act (ADA), Public Law 101-336, all requirements imposed by the applicable Code of Federal Regulations, and all guidelines and interpretations issued pursuant thereto. Grantee shall assure that its facilities are accessible to individuals with disabilities as required by the ADA and applicable regulations. The grantee's facilities, services, and programs will be accessible to persons with disabilities. The grantee shall not discriminate against individuals with disabilities in the provision of its services and programs unless to do so would be an undue burden or result in fundamental alteration in the program as those terms are used in the ADA and its implementing regulation. The State reserves the right to inspect the grantee's facilities at any time to determine if the grantee is in compliance with ADA. The grantee shall bear sole responsibility for assuring that its programs conform for the section 501© of the ADA (42 USC 12201) as a bona fide benefit plan.

The grantee shall indemnify and hold the State harmless in any administrative proceeding or action brought pursuant to the ADA for all damages, attorneys' fees, litigation expenses and costs, if such action or proceeding arises from the acts of grantee, grantee's employees, agents or subgrantees.

- By accepting federal funds, the recipient hereby agrees to establish and maintain fiscal control and fund accounting procedures, as Set forth in 34 CFR Part 74, in order to ensure proper disbursement of, and accounting for, federal funds for the program purpose.
- The recipient also agrees to establish and maintain fiscal control and fund accounting procedures as provided by State law and the Financial Reporting Manual for Maryland Public Schools, where applicable.
- By accepting federal and/or State funds, the recipient hereby agrees to repay any funds that have been finally determined through the federal or State audit resolution process to have been misapplied, misapplied or otherwise not properly accounted for, and further agrees to pay any collections fees that may subsequently be imposed by the federal and/or State Government.
- By accepting federal funds, the recipient agrees that the amount of the grant award is contingent upon the receipt of federal funds.
- By accepting federal funds, the recipients certify that they have complied with Federal Executive Order 12549, Debarment and Suspension set forth in 34 CFR Part 85, and that, a signed Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion form has been filed with Maryland State Department of Education Project Monitor.
- Grantee shall insure that programs and projects that offer web-based or technology based instructional products or programs which are funded in total or in part through this grant will operate in compliance with Section 508 of the Federal Rehabilitation Act of 1973 as amended and Section 7-910 of the Education Article, Annotated Code of Maryland.
- Vendors, subgrantees, and/or consultants; including officers and employees shall comply with the Family Education Rights and Privacy Act at all times (20 U.S.C. §123g).

Appendix E



Cost Principles
and
State-Funded Grants



Objective

This Appendix to the *Financial Reporting Manual for Maryland Public Schools* establishes principles for determining the allowable costs incurred by grantees under restricted state funded grant programs. The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of state or grantee participation in the financing of a particular program or project.

Policy

The application of these principles is based on the premises that:

- grantees are responsible for the efficient and effective administration of state awards through the application of sound management practices.
- grantees assume responsibility for administering state funds consistent with underlying agreements, program objectives, and the terms and conditions of the state award.
- each grantee, in recognition of its own unique combination of staff, facilities, and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration of state awards.

Application

These principles will be applied by all MSDE Divisions in determining costs incurred by grantees under restricted state-funded grant programs.

Definitions

Approved or Authorization of the Awarding Division - documentation evidencing consent prior to incurring a specific cost. If such costs are specifically identified in a State award document or budget, approval of the document constitutes approval of the costs.

Award - grants, cost reimbursement contracts, and other agreements between grantees and MSDE.

Cost Objective - a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred

Awarding Division - (a) with respect to a grant, cooperative agreement, or cost reimbursement contract, the MSDE Division, and (b) with respect to a subgrant, the party that awarded the subgrant.

Costs - an amount, as determined on a cash, accrual, or other basis acceptable to the awarding division. It does not include transfers to a general or similar fund, or encumbered amounts.

Grantee - the entity that is responsible for the performance or administration of all or some part of the State award; e.g., local school boards, library boards, community colleges, and nonprofit institutions.

Restricted Award - State funds provided to a grantee that are restricted to a particular use and require an approved budget, statement of assurances, and filing of a Restricted Annual Financial Report. The Bridge to Excellence in Public Schools Act eliminated most state restricted grants.

BASIC GUIDELINES

Factors Affecting Allowableness of Costs

To be allowable under state awards, costs must meet the following general criteria:

- They must be necessary and reasonable for proper and efficient performance and administration of state awards.
- They must be allocable to state awards under the provisions of this Attachment.
- They must be authorized or not prohibited under state or local laws or regulations.
- They must conform to any limitations or exclusions set forth in these principles, state laws, or other governing regulation as to type or amount of cost items.
- They must be consistent with policies, regulations, and procedures that apply uniformly to both state awards and other activities of the grantee.
- They must be accorded consistent treatment. A cost may be assigned only to a state award as a direct cost. There are no circumstances where other costs incurred for the same purpose in like circumstances will be allocable to the state award as an indirect cost.
- Except as otherwise provided for in this Appendix, they must be determined in accordance with generally accepted accounting principles (GAAP).
- They must not be included as a cost or used to meet cost sharing or matching requirements of any other state award in either the current or a prior period, except as specifically provided by state law or regulation.
- They must be net of all applicable credits.
- They must be adequately documented.

Reasonable Costs

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when grantees or their subdivisions are predominately state funded. In determining reasonableness of a given cost, consideration shall be given to:

- a. whether the cost is of a type generally recognized as ordinary and necessary for the operation of the grantee or the performance of the state award;
- b. the restraints or requirements imposed by such factors as:
 - sound business practices;
 - arms length bargaining;
 - state and other laws and regulations; and
 - terms and conditions of the state award;
- c. market prices for comparable goods or services;

- d. whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the grantee, its employees, the public at large, and the state government; and
- e. significant deviations from the established practices of the grantee that may unjustifiably increase the state award's cost.

Allocable Costs

A cost is allocable to a particular award if the goods or services involved are chargeable or assignable to such in accordance with relative benefits received. Any cost allocable to a particular state award under the principles provided for in this Appendix may not be charged to other state awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the state awards, or for other reasons. However, this prohibition would not preclude grantees from shifting costs that are allowable under two or more awards in accordance with existing program agreements.

Applicable Credits

Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to state awards as direct costs. Examples of such transactions are purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the grantee relate to allowable costs, they shall be credited to the state award either as a cost reduction or cash refund, as appropriate.

Composition of Cost

1. The total cost of State awards is comprised of the allowable direct cost of the program, plus indirect costs, less applicable credits.
2. No universal rule exists for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the state award or other final cost objective. Therefore, it is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost. Guidelines for determining direct and indirect costs charged to state awards are provided in the sections that follow.

Direct Costs

Direct costs can be identified specifically with a particular final cost objective. Typical direct costs chargeable to State awards are:

- compensation of employees for the time devoted and identified specifically to the performance of those awards;
- cost of materials acquired, consumed, or expended specifically for the purpose of those awards;
- equipment and other approved capital expenditures; and
- travel expenses incurred specifically to carry out the award.

Indirect Costs are those:

- incurred for a common or joint purposes benefitting more than one cost objective; and
- not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

The term “indirect costs,” as used herein, applies to costs of this type originating in the grantee department and those incurred by other departments in supplying goods and services.

Interagency Services

The cost of services provided by one division to another within the grantee, or agency of government to the grantee, may include allowable direct costs of the services plus a prorated share of indirect costs.

Selected Items of Cost

1. Administrative costs.

- a. Compensation for grant coordinators and their clerical support is an allowable cost.
- b. Indirect costs associated with accounting, auditing, budgeting, disbursement services, management information systems, and purchasing are allowable to the extent of the Restricted Indirect Cost Rate approved for federal programs, not to exceed a maximum of 2 percent. Grantees approved to use the rate, by including indirect costs on the award budget, must apply it to the total direct costs minus equipment costs.

2. Advertising and public relations costs.

- a. The term “advertising costs” means the cost of advertising media and associated costs. Advertising media include magazines, newspapers, radio and television programs, direct mail, exhibits, and the like.
- b. The term “public relations” includes community relations and means those activities dedicated to maintaining the image of the grantee or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.
- c. Advertising costs are allowable only when incurred for the recruitment of personnel, the procurement of goods and services, the disposal of surplus materials, and any other specific purposes necessary to meet the requirements of the state grant.

3. Advisory councils. Costs incurred by advisory councils or committees are allowable as a direct cost where authorized by MSDE.

4. Alcoholic beverages. Costs of alcoholic beverages are unallowable.

5. Bad debts. Any losses arising from uncollectible accounts other claims, and related costs, are unallowable.

6. Bonding costs. Costs of bonding employees and officials are allowable to the extent that such bonding is in accordance with sound business practice.

7. Communications. Costs of telephone, mail, messenger, and similar communication services are allowable.

8. Compensation for personnel services.

- a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under State awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this Appendix, and that the total compensation for individual employees:
 - (1) is reasonable for the services rendered and conforms to the established policy of the grantee consistently applied to both state and non-state activities;
 - (2) follows an appointment made in accordance with a grantee's rules and meets merit system or other requirements established by state law, where applicable; and
 - (3) is determined and supported as provided in subsection G.
- b. Reasonableness. Compensation for employees engaged in work on state awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the grantee. In cases where the kinds of employees required for state awards are not found in the other activities of the grantee, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the grantee competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.
- c. Unallowable costs. Costs that are unallowable under other sections of these principles shall not be allowable under this section solely on the basis that they constitute personnel compensation. Examples of unallowable costs are:
 - (1) the cost of severance payments, sabbatical leave, and bonuses; and
 - (2) payments for unused sick leave or annual leave except when an employee terminates or retires.
- d. Fringe benefits.
 - (1) Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, grantee-employee agreement, or an established policy of the grantee.
 - (2) The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the jobs such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits are allowable if:
 - (a) they are provided under established written leave policies;
 - (b) the costs are equitably allocated to all related activities, including state awards, and
 - (c) the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the grantee.

- (3) When a grantee uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment.
- (4) The accrual basis may be used only for those types of leave for which a liability as defined by Generally Accepted Accounting Principles (GAAP) exists when the leave is earned. When a grantee uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded.
- (5) The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance (except as indicated below in section 21- Insurance and Indemnification); pension plan costs (see subsection "e" below); and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits shall be allocated to state awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such State awards and other activities.

e. Pension plan costs.

- (1) Pension plan costs should be computed using the rates provided by the Maryland State Retirement Agency and/or other pension boards.
- (2) The state government shall receive an equitable share of any previously allowed pension costs (including earnings thereon) that revert or inure to the grantee in the form of a refund, withdrawal, or other credit.

f. Post-retirement health benefits. Post-retirement health benefits (PRHB) refers to costs of health insurance or health services not included in a pension plan covered by subsection e above for retirees and their spouses, dependents, and survivors. PRHB costs may be computed according to rates in the contract(s) between the grantee and the provider(s) of the benefits.

g. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

- (1) Charges to state awards for salaries and wages will be based on payrolls documented in accordance with generally accepted practice of the grantee and approved by a responsible official of the organization.
- (2) No further documentation is required for the salaries and wages of employees who work in a single cost objective.
- (3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation that meets the standards in subsection
- (4) Such documentary support will be required where employees work on:
 - (a) more than one state award; and
 - (b) a state award and a non-state award or activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
 - (a) they must reflect an after-the-fact distribution of the actual activity of each employee;

- (b) they must account for the total activity for which each employee is compensated;
 - (c) they must be prepared at least monthly and must coincide with one or more pay periods;
 - (d) they must be signed by the employee and supervisor; and
 - (e) budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to state awards, but may be used for interim accounting purposes, provided that:
 - (i) the grantee's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to state awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
 - (iii) the budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.
- (6) Salaries and wages of employees used in meeting cost sharing or matching requirements of state awards must be supported in the same manner as those claimed as allowable costs under state awards.
- h. Donated services.
- (1) Donated or volunteer services may be furnished to a grantee by professional and technical personnel, consultants, and other skilled and unskilled labor. The value of these services is not reimbursable. However, the value of donated services may be used to meet cost sharing or matching requirements.
 - (2) To the extent feasible, donated services will be supported by the same methods used by the grantee to support the regular personnel services.
- 9. Contingencies.** Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time or intensity, or with an assurance of their happening, are unallowable. The term "contingency reserve" excludes self-insurance reserves (see subsection 21.c.), and post-retirement health and other benefit reserves (see subsection 8.f.) computed using acceptable actuarial cost methods.
- 10. Contributions and donations.** Contributions and donations, including cash, property, and services by grantees to others, regardless of the recipient, are unallowable.
- 11. Cost sharing or matching.**
- a. All contributions, including cash and third party in-kind, shall be accepted as part of the grantee's cost sharing or matching when such contributions meet all of the following criteria:
 - (1) are verifiable from the grantee's records;
 - (2) are not included as contributions for any other state assisted project or program;
 - (3) are necessary and reasonable for proper and efficient accomplishment of project or program objectives;

- (4) are allowable under the applicable cost principles;
 - (5) are not paid by the state under another award, except where authorized by statute to be used for cost sharing or matching;
 - (6) are provided for in the approved budget when required by MSDE; and
 - (7) conform to other provisions of this Appendix, as applicable.
- b. Values for recipient contributions of services and property shall be established in accordance with the applicable cost principles. If MSDE authorizes recipients to donate buildings or land for construction or facilities acquisition projects or long-term use, the value of the donated property for cost sharing or matching shall be the lesser of:
- (1) the certified value of the remaining life of the property recorded in the recipient's accounting records at the time of donation; and
 - (2) the current fair market value. However, when there is sufficient justification, MSDE may approve the use of the current fair market value of the donated property, even if it exceeds the certified value at the time of donation to the project.
- c. Volunteer services furnished by professional and technical personnel, consultants, and other skilled and unskilled labor may be counted as cost sharing or matching if the service is an integral and necessary part of an approved project or program. Rates for volunteer services shall be consistent with those paid for similar work in the recipient's organization. In those instances in which the skills are not found in the grantee's organization, rates shall be consistent with those paid for similar work in the labor market in which the recipient competes for the kind of services involved. In either case, paid fringe benefits that are reasonable, allowable, and allocable may be included in the valuation.
- d. When an employer other than the recipient furnishes the services of an employee, these services shall be valued at the employee's regular rate of pay (plus an amount of fringe benefits that are reasonable, allowable, and allocable, but exclusive of overhead costs), provided these services are in the same skill for which the employee is normally paid.
- e. Donated supplies may include such items as expendable equipment, office supplies, laboratory supplies, or workshop and classroom supplies. Value assessed to donated supplies included in the cost sharing or matching share shall be reasonable and shall not exceed the fair market value of the property at the time of the donation.
- f. The method used to determine cost sharing or matching for donated equipment, buildings and land for which title passes to the recipient may differ according to the purpose of the award, if (1) or (2) apply.
- (1) If the purpose of the award is to assist the recipient in the acquisition of equipment, buildings or land, the total value of the donated property may be claimed as cost sharing or matching.
 - (2) If the purpose of the award is to support activities that require the use of equipment, buildings, or land, normally only depreciation or use charges for equipment and buildings may be made. However, the full value of equipment or other capital assets and fair rental charges for land may be allowed, provided that MSDE has approved the charges.
- g. The value of donated property shall be determined in accordance with the usual

accounting policies of the recipient, with the following qualifications.

- (1) The value of donated land and buildings shall not exceed its fair market value at the time of donation to the recipient as established by an independent appraiser (e.g., certified real property appraiser or General Services Administration representative) and certified by a responsible official of the grantee.
 - (2) The value of donated equipment shall not exceed the fair market value of equipment of the same age and condition at the time of donation.
 - (3) The value of donated space shall not exceed the fair rental value of comparable space as established by an independent appraisal of comparable space and facilities in a privately owned building in the same locality.
 - (4) The value of loaned equipment shall not exceed its fair rental value.
 - (5) The following requirements pertain to the recipient's supporting records for in-kind contributions from third parties.
 - (i) Volunteer services shall be documented and, to the extent feasible, supported by the same methods used by the recipient for its own employees.
 - (ii) The basis for determining the valuation for personal service, material, equipment, buildings and land shall be documented.
- 12. Defense and prosecution of criminal and civil proceedings, and claims.** Legal expenses required in the administration of state programs are allowable with the prior approval of MSDE. Legal expenses for prosecution of claims against the state government are unallowable.
- 13. Depreciation and use allowances.** Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefitting from asset use. These costs are unallowable.
- 14. Employee morale, health, and welfare costs.** The costs of health or first-aid clinics and/or infirmaries, recreational facilities, employee counseling services, employee information publications, and any related expenses incurred in accordance with a grantee's policy are unallowable.
- 15. Entertainment.** Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.
- 16. Equipment and other capital expenditures.**
- a. As used in this section the following terms have the meanings as set forth below:
 - (1) "Capital expenditure" means the cost of the asset including the cost to put it in place. Capital expenditure for equipment means the net invoice price of the equipment including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in, or excluded from, capital expenditure cost in accordance with the grantee's regular accounting practices.
 - (2) "Capital equipment" means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost that equals the lesser of:

- (a) the capitalization level established by the grantee for financial statement purposes,
or
- (b) \$1,000.

Capital equipment also includes sensitive items as defined in (5) below having a unit acquisition cost of \$500 or more and a useful life of one year or more.

- (3) “Other capital assets” mean buildings, land, and improvements to buildings or land that materially increase their value or useful life.
- (4) “non-capital equipment” is expendable, tangible personal property having unit acquisition cost less than the capitalization level defined in (2) above, sensitive items with an acquisition cost of less than \$500 or items with a useful life of less than one year.
- (5) Sensitive items are capital or non-capital equipment items such as recording devices, portable tools, cameras, and other small items that are prone to theft and concealable in a handbag or briefcase. Equipment items that are too large for concealment in a handbag or briefcase such as typewriters, projectors, printers and the like shall be considered sensitive items if there is a history of loss or theft.
 - a. Capital expenditures that are not charged directly to a state award may not be recovered through use allowances or depreciation on buildings, capital improvements, and equipment.
 - b. Capital expenditures for equipment, including replacement equipment, other capital assets, and improvements that materially increase the value or useful life of equipment or other capital assets are allowable as a direct cost when approved by MSDE.
 - c. When replacing equipment purchased in whole or in part with state funds, the grantee may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property.

17. Fines and penalties. Fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of, or failure of the grantee to comply with, state or local, laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the State award or written instructions by MSDE authorizing in advance such payments.

18. Fund raising and investment management costs.

- a. Costs of organized fund raising, including financial campaigns, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable, regardless of the purpose for which the funds will be used.
- b. Costs of investment counsel and staff and similar expenses incurred to enhance income from investments are unallowable.

19. Gains and losses on disposition of depreciable property and other capital assets.

- a. Grantees are not accountable for gains and losses on sale, retirement, or other disposition of capital or non-capital equipment that has been used for four years in the program funded with the state award.

- b. Grantees are accountable for gains and/or losses on the sale of homes built for resale using supplies, materials, and equipment charged to state awards.

20. General government expenses. The general costs of government are unallowable except as provided in section 36, travel costs.

21. Insurance and indemnification.

- a. Costs of insurance required or approved and maintained, pursuant to the state award, are allowable.
- b. Costs of other insurance in connection with the general conduct of activities are allowable subject to the following limitations:
 - (1) types and extent and cost of coverage are in accordance with the grantee's policy and sound business practice.
 - (2) costs of insurance or of contributions to any reserve covering the risk of loss of, or damage to, state government property are unallowable except to the extent that MSDE has specifically required or approved such costs.
- c. Actual losses that could have been covered by permissible insurance (through a self-insurance program or otherwise) are unallowable, unless expressly provided for in the state award or as described below. However, the state government will participate in actual losses of a self insurance fund that are in excess of reserves. Costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and minor losses not covered by insurance, such as spoilage, breakage, and disappearance of small hand tools, that occur in the ordinary course of operations, are allowable.
- d. Contributions to a reserve for certain self-insurance programs including workers compensation, and unemployment compensation are allowable subject to the following provisions:
 - (1) The type of coverage and the extent of coverage and the rates and premiums would have been allowed had insurance (including reinsurance) been purchased to cover the risks. However, provision for known or reasonably estimated self-insured liabilities, that do not become payable for more than one year after the provision is made, shall not exceed the discounted present value of the liability. The rate used for discounting the liability must be determined by giving consideration to such factors as the grantee's settlement rate for those liabilities and its investment rate of return.
 - (2) Earnings or investment income on reserves must be credited to those reserves.
 - (3) Contributions to reserves must be based on sound actuarial principles using historical experience and reasonable assumptions. Reserve levels must be analyzed and updated at least bi-ennially for each major risk being insured and take into account any reinsurance, coinsurance, etc. Reserve levels related to employee-related coverages will normally be limited to the value of claims
 - (a) submitted and adjudicated but not paid;
 - (b) submitted but not adjudicated; and
 - (c) incurred but not submitted.

- (4) Accounting records, actuarial studies, and cost allocations (or billings) must recognize any significant differences due to types of insured risk and losses generated by the various insured activities or agencies of the grantee. If individual departments or agencies of the grantee experience significantly different levels of claims for a particular risk, those differences are to be recognized by the use of separate allocations or other techniques resulting in an equitable allocation.
- (5) Whenever funds are transferred from a self insurance reserve to other accounts (e.g., general fund), refunds shall be made to the state government for its share of funds transferred, including earned or imputed interest from the date of transfer.
- e. Actual claims paid to or on behalf of employees or former employees for workers' compensation, unemployment compensation, and similar employee benefits (e.g., s u b - section 8.f. for post retirement health benefits), are allowable in the year of payment provided:
 - (1) the grantee follows a consistent costing policy; and
 - (2) they are allocated as a general administrative expense to all activities of the grantee.
- f. Insurance refunds shall be credited against insurance costs in the year the refund is received.
- g. Indemnification includes securing the grantee against liabilities to their persons and other losses not compensated by insurance or otherwise. The state government is obligated to indemnify the grantee only to the extent expressly provided for in the state award, except as provided in subsection "d," contributions to a reserve.

22. Interest.

- a. Costs incurred for interest on borrowed capital or the use of a grantee's own funds, however represented, are unallowable.
- b. Financing costs (including interest) paid or incurred on or after the effective date of this Appendix associated with the unallowable costs of building acquisition, construction, or fabrication, reconstruction or remodeling is unallowable.
- c. Financing costs (including interest) paid or incurred on or after the effective date of this Appendix associated with otherwise allowable costs of equipment is allowable, subject to the following conditions:
 - (1) The financing is provided (from other than tax or user fee sources) by a bona fide third party external to the grantee;
 - (2) The assets are used in support of state awards; and
 - (3) Earnings on debt service reserve funds or interest earned on borrowed funds pending payment of acquisition costs are used to offset the current period's cost or the capitalized interest, as appropriate.

- 23. **Lobbying.** The cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost.

- 24. Maintenance, operations and repairs.** Unless prohibited by law, the cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, necessary maintenance, normal repairs and alterations, and the like are allowable to the extent that they:
- (1) keep property (including State property, unless otherwise provided for) in an efficient operating condition;
 - (2) do not add to the permanent value of property or appreciably prolong its intended life; and
 - (3) are not otherwise included in rental or other charges for space. Costs that add to the permanent value of property or appreciably prolong its intended life shall be treated as capital expenditures (see sections 16.c).
- 25. Materials and supplies.** The cost of materials and supplies is allowable. Purchases should be charged at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received. Withdrawals from general stores or stockrooms should be charged at cost under any recognized method of pricing, consistently applied. Incoming transportation charges are a proper part of materials and supply costs.
- 26. Memberships, subscriptions, and professional activities.**
- a. Costs of the grantee's memberships in business, technical, and professional organizations are allowable.
 - b. Costs of the grantee's subscriptions to business, professional, and technical periodicals are allowable.
 - c. Costs of meetings and conferences where the primary purpose is the dissemination of technical information, including meals, transportation, rental of meeting facilities, and other incidental costs are allowable.
 - d. Costs of membership in civic and community, social organizations are allowable as a direct cost with the approval of the awarding division.
 - e. Costs of membership in lobbying organizations are unallowable.
- 27. Motor Pools.** The costs of a service organization that provides automobiles to users grantee units at a mileage or fixed rate and/or provides vehicle maintenance, inspection, and repair services are allowable.
- 28. Pre-award costs.** Pre-award costs are those incurred prior to the effective date of the award directly pursuant to the negotiation and in anticipation of the award where such costs are necessary to comply with the proposed delivery schedule or period of performance. Such costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of MSDE.
- 29. Professional service costs.**
- a. Cost of professional and consultant services rendered by persons or organizations that are members of a particular profession or possess a special skill, whether officers or employees of the grantee, are allowable, subject to section 12 when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the state government.

- b. Retainer fees supported by evidence of bona fide services available or rendered are allowable.
- 30. Publication and printing costs.** Publication costs, including the costs of printing (including the processes of composition, plate-making, press work, and binding, and the end products produced by such processes), distribution, promotion, mailing, and general handling are allowable.
- 31. Rearrangements and alterations.** Costs incurred for ordinary and normal rearrangement and alteration of facilities are unallowable. Special arrangements and alterations costs incurred specifically for a state award are allowable with the prior approval of MSDE.
- 32. Reconversion costs.** Costs incurred in the restoration or rehabilitation of the grantee's facilities to approximately the same condition existing immediately prior to commencement of state awards, less costs related to normal wear and tear, are allowable with prior approval of MSDE.
- 33. Rental costs.**
- a. Subject of the limitations described in subsections b. through d. of this section, rental costs are allowable to the extent that the rates are reasonable in light of such factors as:
- rental costs of comparable property, if any;
 - market conditions in the area;
 - alternatives available; and
 - the type, life expectancy, condition, and value of the property leased.
- b. Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the grantee continued to own the property.
- c. Rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the grantee. For this purpose, less-than-arms-length leases include, but are not limited to, those where:
- (1) one party to the lease is able to control or substantially influence the actions of the other;
 - (2) both parties are parts of the same grantee; or
 - (3) the grantee creates an authority or similar entity to acquire and lease the facilities to the grantee and other parties.
- d. Rental costs under leases that are required to be treated as capital leases under GAAP are allowable only up to the amount that would be allowed had the grantee purchased the property on the date the lease agreement was executed. This amount would include expenses such as depreciation or use allowance, maintenance, and insurance. The provisions of Financial Accounting Standards Statement 13 shall be used to determine whether a lease is a capital lease. Interest costs related to capital leases are allowable to the extent they meet the criteria in section 22, interest.
- 34. Taxes.** Taxes that a grantee is legally required to pay are allowable.
- 35. Training.** The cost of training provided for employee development is allowable.

36. Travel costs.

- a. General. Travel costs are allowable for expenses for transportation, lodging, subsistence, and related items incurred by employees traveling on official business. Such costs may be charged on an actual cost basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip, and results in charges consistent with those normally allowed in like circumstances in non-State-sponsored activities. Notwithstanding the provisions of section 20, general government, travel costs of officials covered by that section, when specifically related to state awards, are allowable with the prior approval of MSDE.
- b. Lodging and subsistence. Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the grantee in its regular operations as a result of the grantee's policy.
- c. Commercial air travel. Airfare costs in excess of the customary standard (coach or equivalent) airfare, are unallowable. However, in order for airfare costs in excess of the customary standard commercial airfare to be allowable; e.g., use of first-class airfare, the grantee must justify and document on a case-by-case basis.
- d. Air travel by other than commercial carrier. Cost of travel by grantee-owned, leased, or -chartered aircraft, as used in this section, includes the cost of lease, charter, operation (including personnel costs), maintenance, depreciation, interest, insurance, and other related costs. Costs of travel via grantee-owned, -leased, or -chartered aircraft are unallowable to the extent they exceed the cost of allowable commercial air travel, as provided for in subsection c.

37. Under recovery of costs under state agreements. Any excess costs over the state contribution under one award agreement are unallowable under other award agreements.





Financial Reporting Manual
for
Maryland Public Schools

Maryland State Department of Education
Nancy S. Grasmick State Education Building
Division of Business Services
200 West Baltimore Street
Baltimore, Maryland 21201

410.767.0011
410.333.2232 (fax)