

FINANCE

NEWSLETTER



JANUARY-FEBRUARY 2014

KENTUCKY DEPARTMENT OF EDUCATION

Bond of Depository

The Kentucky Department of Education’s Division of District Support has posted a worksheet on the Bonds Web page under Bond of Depository. This file is called Bond of Depository Penal Sum Worksheet & Example. The worksheet can help the district figure the penal sum for the Bond of Depository. An example also is included in the worksheet. This is for district use only and is to be maintained in the district.

Please refer to the Bonds Web page, Bond of Depository section for all forms, instructions and reports at <http://education.ky.gov/districts/FinRept/Pages/Bonds.aspx>.

If you have any questions, please contact Gail Cox at (502) 564-3846, ext. 4462, or gail.cox@education.ky.gov.

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Affordable Care Act (ACA) – Compliance regarding non-discrimination rules

For those Kentucky school districts that pay the employee portion of health insurance premiums as part of the fringe benefits package to superintendents or other highly compensated employees (HCE), there is a potential risk of non-compliance regarding the non-discrimination rules under the Affordable Care Act (ACA).

While districts may continue to pay the premiums on behalf of the superintendent or HCE, this benefit should be taxed to meet the existing compliance measures for self-funded plans, like the Kentucky Employees’ Health Plan (KEHP). Although the IRS has not finalized the rules and timing for non-discrimination compliance under the ACA, the Kentucky Department of Education (KDE) strongly encourages all districts to prepare now, as the penalties for non-compliance are quite harsh.

For those districts looking to become compliant, KDE would like to offer the following suggestion:

Only the incremental benefit amount (the amount of employee premiums paid for the HCE that is not paid for other employees) is subject to taxation. The employer portion that the state pays on behalf of all Kentucky school district employees does not constitute a non-discrimina-

tion issue.

So districts may:

- create a new pay type or use one that currently exists – KDE suggests calling this pay type “reimburse”
- add the incremental benefit to wages using that pay type
- Process the pay type as a post-tax deduction

These steps allow the benefit to be

added to wages for taxing purposes, but then are deducted so the employee is essentially not paying the premium. Depending on the amount of the incremental benefit, the district may choose to add these amounts in each payroll or can choose to do so in the last payroll of

The Kentucky Department of Education strongly encourages all districts to prepare now, as the penalties ... are quite harsh.

the year.

If the district chooses to add the benefit to wages only in the last paycheck of the year, please advise the superintendent or other HCE that their net pay will be adversely affected for that particular payroll cycle.

For additional information on ACA, reference the Implementation Guide at <http://education.ky.gov/districts/FinRept/Pages/Health-and-Life-Insurance-Benefits-and-Flexible-Spending-Accounts.aspx>.

Questions regarding ACA can be directed to Melissa Sullivan at melissa.sullivan@education.ky.gov

Residual Funds – New BG-5 Project Closeout Form Required from Districts

Revisions to 702 KAR 4:160 – Capital Construction Process became effective Sept. 6, 2013. Section 12 – Construction Contract Closeout Process has been modified to include a new form, the BG-5 Project Closeout Form. Districts are required to submit this form after completing all construction contracts (including owner direct purchases, if used) and submitting all required BG-4 Contract Closeout Forms.

The purpose of the BG-5 form is to reconcile the final project costs and funds sources to identify any residual funds that might be used on future capital construction projects, depending upon the fund source restrictions and project priorities.

Please forward any questions pertaining to this new process to Greg Dunbar at (502) 564-4326, ext. 4429, or greg.dunbar@education.ky.gov.

FY 2013 Audit Analysis Review

The Division of District Support, District Financial Management Branch is reviewing the FY 2013 Financial Audit Reports and audited Annual Financial Reports (AFRs). The audit reviews are using a two-tiered approach again this year, with Tier 1 being a more general overview and Tier 2 involving a more-detailed examination of the comparison of the audited AFR and the audit report.

The plan is for each district to

receive a Tier 2 audit review once every four years, excluding Fayette and Jefferson counties that will receive the Tier 2 review every year. The remaining districts will receive a Tier 1 audit review.

If a Tier 1 review reveals a problem, the review will expand to a Tier 2 review. KDE staff will contact district superintendents, finance officers and/or auditors as needed for more information during the review process.

New Executive Director for SFCC

The School Facilities Construction Commission (SFCC) would like to welcome its new executive director, Kristi Culpepper. Culpepper comes to the SFCC from the legislative branch of government, where she was the committee staff advisor for the Capital Projects and Bond Oversight Committee. She has a deep mechanical understanding of government finance and the municipal bond market. She is regarded as an authority on capital projects and debt by the legislative

body. She has worked with legislators, lobbyists and attorneys to draft legislation and effect policy changes related to the state's bonded indebtedness.

Culpepper received her bachelor's and master's degrees from Baylor University. Her community commitments include being an active member of the Junior League of Louisville and she serves on the board of directors of the St. John Center for Homeless Men in Louisville. She is married and has a 2-year-old daughter.

Update School District Finance Contacts

Please e-mail changes about districts finance officers and additional finance contacts that are listed on the Global All State MUNIS Finance Contacts e-mail distribution list and School and District Contact Information, Other Roles Information, Director of Finance and Business listing (<http://applications.education.ky.gov/sdci/>) to Brenda Withrow at brenda.withrow@education.ky.gov.

This will ensure these individuals receive timely financial and operational updates and information. Please include the following information in the e-mail:

- district name
- new finance officer name
- new finance officer employment start date
- former finance officer name to be deleted from district's finance contact information
- additional district finance contact names to be added to the district's finance contact information
- additional district finance contact names to be deleted from the district's finance contact information

The All State MUNIS Finance Contacts e-mail distribution list includes district finance officers and additional finance contact names.

Changes will be made in the Global Address List All State MUNIS Finance Contacts within a week of receipt.

Any changes for the School and District Contact Information, Other Roles Information, Director of Finance and Business section need to be submitted by the 15th of each month and will be updated by the end of each month.

Please forward school district finance contact questions to Brenda Withrow at (502) 564-3846 or brenda.withrow@education.ky.gov.

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<i>District Funding and Reporting Chay Ritter – Manager Staff Karen Conway, Carol Buell, Sarah Aitken, Debra Vaughan, Jana Cox, Renee Thomas</i>	<i>District Financial Management LaTonya Bell – Manager Staff Ken Smith, Jeffrey Coulter, Gail Cox, Debbie Landrum, Brenda Withrow, Melissa Sullivan</i>
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Chart of Accounts Update Coming July 1, 2014

KDE plans to implement some revisions to the Chart of Accounts effective July 1, 2014. Please review the proposed revisions (below) and submit any questions or concerns by Feb. 1, 2014.

Final changes will be publicized in February via the Commissioner Terry Holliday's e-mail correspondence, and an updated chart of accounts will be posted to the KDE website at that time.

Two new special revenue funds will be available to account for district activity funds that meet the criteria to be special revenue funds. The use of the funds is optional.

Please see the article in this edition of the *Finance Newsletter* regarding Fund 21 and Fund 22 for more information.

The National Center for Education Statistics (NCES) has issued an update to its chart of accounts with which KDE is required to crosswalk district annual financial report data. Many of the proposed changes reflect NCES changes made in response to standards issued by the Governmental Accounting Standards Board (GASB) in recent years.

Direct your questions or concerns regarding any of the upcoming revisions to Susan Barkley at susan.barkley@education.ky.gov.

Chart of Accounts Potential Revisions

To be Effective July 1, 2014 (early implementation permitted)

Funds

21 Special Revenue Fund – District Activity Funds (annual-year)–ADD

22 Special Revenue Fund – District Activity Funds (multi-year)–ADD

Program Codes

450 Alternative (At Risk) Education Programs –Delete

Objects

0838 KISTA principal –ADD

0839 –Change name to “KISTA interest”

0892 Parent Involvement –Delete

Revenues

5233 NCLB Transfer from Title V –Delete

5244 NCLB Transfer to Title V –Delete

Balance Sheet

6115 Accrued Interest in Investments Purchased –ADD

6134 District Activity (Spec. Rev. annual-year) –ADD

6135 District Activity (Spec. Rev. multi-year) –ADD

6192 Deferred Expenditures –Delete

6193 Capitalized Bond Cost –Delete

6281 Intangible Assets –ADD

6282 Accumulated Amortization on Intangible Assets –ADD

6291 Site Improvements –ADD

6292 Accumulated Depreciation on Site Improvements –ADD

6400 Deferred Outflows of Resources –ADD

7476 Accrued Annual Requirement Contribution Liability –ADD

7477 Compensated Absences Current –ADD

7481 –Change name to Unearned Revenues

7522 Long Term Loan Payable –ADD

7533 Special Termination Benefits –ADD

7561 Arbitrage Rebate Liability – ADD

7700 Deferred Inflow of Resources –ADD

8732 –Change name to “Restricted – Sick Leave”

8742 –Change name to “Committed – Sick Leave”

ORGS

Balance Sheet

21 Balance Sheet District Activity Funds (annual-year)

22 Balance Sheet District Activity Funds (multi-year)

Revenue

221 Revenue District Activity Funds (annual-year)

222 Revenue District Activity Funds (multi-year)

Expenditures	FUND	LOCATION	FUNCTION	PROGRAM	INSTR LEVEL	PROJECTS
###2818 Instruction	21	###	1900	470	##	7XXX
###2819 Transp. Field Trips	21	###	2790	490	##	7XXX
###2825 Athletics	21	###	1900	920	##	7XXX
###2826 Instruction	22	###	1900	470	##	7XXX
###2827 Transp. Field Trips	22	###	2790	490	##	7XXX
###2828 Athletics	22	###	1900	920	##	7XXX
###2859 Library	21	###	2222	470	##	7XXX
###2860 Library	22	###	2222	470	##	7XXX

Districts Request Optional Fund 21 or Fund 22

As a result of Redbook requirements, some districts are depositing district activity funds at the district level this year instead of depositing them in the school activity fund bank account. To facilitate the accounting of these funds, some finance officers requested a separate special revenue fund. The Kentucky Department of Education (KDE) has created Fund 21, Special Revenue District Activity Fund (annual-year) and Fund 22, Special Revenue District Activity Fund (multi-year), in response to those requests.

Fund 21 Special Revenue District Activity Fund (annual-year) is defined as:

Optional fund to account for district activity funds that are legally restricted to expenditure for specified purposes imposed by external parties, enabling legislation, or by board action. Project codes in the range of 7XXX shall be locally-assigned to distinguish specific revenue sources and expenditures. This fund shall be used as a single-year fund.

Balance Sheet

21 Balance Sheet District Activity Funds (annual-year)

22 Balance Sheet District Activity Funds (multi-year)

Fund 22 Special Revenue District Activity Fund (multi-year) is defined as:

Optional fund to account for district activity funds that are legally restricted to expenditure for specified purposes imposed by external parties, enabling legislation, or by board action.

Project codes in the range of 7XXX shall be locally-assigned to distinguish specific revenue sources and expenditures. This fund shall be used as a multi-year fund.

Districts may begin using this fund in the current fiscal year. Instructions to create the new multi-year fund are at <http://education.ky.gov/districts/Pages/MUNIS-Guides.aspx> under System and Cloud Administration. Instructions to create the new single-year fund are at the same Web page under Budgets & General Ledger-Miscellaneous. KDE also has added the following revenue, balance sheet and expenditure ORG codes needed for Fund 21 and Fund 22:

Revenue

221 Revenue District Activity Funds (annual-year)

222 Revenue District Activity Funds (multi-year)

Expenditures	FUND	LOCATION	FUNCTION	PROGRAM	INSTR	LEVEL	PROJECTS
###2818 Instruction	21	###	1900	470		##	7XXX
###2819 Transp. Field Trips	21	###	2790	490		##	7XXX
###2825 Athletics	21	###	1900	920		##	7XXX
###2826 Instruction	22	###	1900	470		##	7XXX
###2827 Transp. Field Trips	22	###	2790	490		##	7XXX
###2828 Athletics	22	###	1900	920		##	7XXX
###2859 Library	21	###	2222	470		##	7XXX
###2860 Library	22	###	2222	470		##	7XXX

Using Fund 21 or Fund 22 is strictly optional. KDE will aggregate data in funds 2, 21 and 22 when it receives the annual financial reports. If district activity funds do not meet the criteria to be recorded in a special revenue fund (legally restricted to expenditure for specified purposes imposed by external parties, enabling legislation or by board action), ac-

count for them in the general fund with an optional locally-assigned project code in the 7XXX range.

More information regarding district activity funds can be found in item 3 (Receipts) in the Redbook FAQs at <http://education.ky.gov/districts/FinRept/Pages/Accounting-Procedures-for-School-Activity-Funds.aspx>.