STATE OF SOUTH CAROLINA
DEPARTMENT OF EDUCATION

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Financial Accounting Handbook 2020-21

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FOREWORD

We are pleased to provide you with the fiscal year 2020-21 edition of the SCDE Financial Accounting Handbook. This handbook is intended for use by Local Education Agencies (LEAs), charter schools, and other recipients of state and federal funding distributed through the SCDE. This handbook is based upon the *Financial Accounting for Local and State School Systems* handbook published by the National Center for Education Statistics (NCES). Every attempt has been made to include all data elements routinely required for state and federal education reporting. The rationale for this inclusion is that if these items are part of a comprehensive information system used for the daily management of schools and districts, they can be reported with minimal additional burden on school district management and staff.

As additional or revised information becomes available during the school year, we will update the version posted to our website. This manual can be found on the Department's website at https://ed.sc.gov/finance/auditing/manuals-handbooks-and-guidelines/financial-accounting-handbook/fy-2020-21/ under the title Financial Accounting Handbook 2020-21.

Section 1: Changes to the Fiscal Year 2020-21 Handbook

- Updates to Section 7 on **Revenue and Expenditure Function Codes**:

Subfund	***Fund Name***	***Revenue Code***	***Type of Change***
924	*GEER CERDEP Summer*	*3143*	*New Fund*
100	*Teacher Step*	*3189*	*New Fund*
217	*CRF Per Pupil Funding (Academic Recovery Camps - ARC)*	*3995*	*New Fund*
217	*CRF Per Pupil Funding (Learn, Evaluate, Analyze and Prepare - LEAP)*	*3995*	*New Fund*
217	*CRF Per Pupil Funding*	*3995*	*New Fund*
601	*CRF Per Pupil Funding (Additional Food Service Cost)*	*3995*	*New Fund*
224	*Nita M. Lowey 21st Century Community Learning Centers, Program (Title IV, 21st Century Schools)*	*4924*	*Change in Title*
218	*ESSER III*	*4974*	*New Fund*
225	*ESSER II*	*4977*	*New Fund*

Section 2: Financial Reporting at the State and Federal Level

This chapter describes useful applications of education information and identifies frequent users of education information.

The successful management of any entity requires effective use of information. A comprehensive education information system can provide benefits such as the following:

- **Using data in decision-making.** Good information helps drive good decisions.
- **Using data to target specific areas for improvement.** Timely and accurate data can help decision makers at all levels focus on improvement strategies.
- **Using disaggregated data to examine wide-ranging goals.** Disaggregating data for analysis helps identify programmatic and fiscal inequities and determine baselines for improvement.
- **Using data for budgetary control.** Greater budgetary control is possible when all of the costs of school operations are available.

Financial information obtained from SCDE Supplemental Schedules submitted by LEAs and charter schools is combined and reported at the state and federal level. The National Center for Education Statistics (NCES) collects public education finance data through the National Public Education Financial Survey (NPEFS) and the School District Finance Survey (F-33). The NPEFS began data collection in the 1981–82 school year. The F-33, which is part of the U.S. Census Bureau's Annual Survey of Local Governments, is also included in the Common Core of Data (CCD). NCES works with the Census Bureau to ensure that all districts are included in each year's collection. The data items in both the NPEFS and the F-33 are based on the account codes presented in thishandbook.

Finance data collected annually from state education agencies through the NPEFS are used in the formula for allocating Title I and other federal grants to school districts, as specified under Section 153(a)(1)(I) of the Education Sciences Reform Act of 2002, which authorizes NCES to gather data on the financing of education. In addition to finance data, the NPEFS collects average daily attendance data. Average daily attendance is the denominator in the average state per pupil expenditure figures required by the Title I legislation. Because these data are used in the allocation formula, established deadlines, definitions, and editing procedures are rigidly enforced. Survey deadlines are announced in the *Federal Register*, and definitions are based on the account codes and finance item definitions presented in the financial accounting handbook.

At the state level, In$ite, the Financial Analysis Model for Education, was designed to assist school leaders to show how schools within the same district compare on spending patterns. The product is designed to analyze 100 percent of a school district's general ledger. In addition to collection information on the expenditures, it analyzes information at individual school sites. By using this model, the South Carolina Department of Education (SCDE) can provide valuable information for program areas at the SCDE, legislative requests, and questions regarding school and district spending by the public at large. Annual school and district report cards also report In$ite data on total expenditures and percentages of teacher salaries.

In addition, audited expenditures for the second preceding fiscal year are to be used in the completion of the LEA indirect cost proposals for a given fiscal year. Audited expenditures for fiscal year 2018–19 were used to compute the indirect cost proposals for fiscal year 2020–21. Therefore, it is essential that LEAs classify expenditures uniformly and consistently throughout the fiscal year.

Useful Applications of Information

The Governmental Accounting Standards Board (GASB) defines financial reporting as the means of communicating financial information to users (GASB Statement 1, Paragraph 32). For this communication to be effective, financial information must have the following basic characteristics:

- **Understandability.** Information should be clear, but not oversimplified. Explanations and interpretations should be included where necessary.

- **Reliability.** Information should be verifiable and free from bias. It should be comprehensive; thus, nothing should be omitted that is necessary to accurately represent events and conditions. However, nothing should be included that might cause the information to be misleading.

- **Relevance.** There must be a close, logical relationship between the information provided and the purpose for which it is needed.

- **Timeliness.** Information should be available soon enough after the reported events to affect decision making.

- **Consistency.** Once a principle or a method is adopted, it should be used for all similar events and conditions. If a change is made, the nature of and reason for the change, as well as its effects, should be explained.

- **Comparability.** Procedures and practices should remain the same across time and reports. If differences occur, they should be due to substantive differences in the events and conditions reported rather than because of arbitrary implementation (GASB Statement 1, Paragraphs 63 through 68).

These standards imply wide uses of data and require carefully designed policies to help guide decisions about control over the use of an information system. Some policies are codified in laws or regulations; others are official statements, executive orders, or agency directives. Government policies on information systems are guided by two complementary, but sometimes conflicting, purposes: stewardship and usefulness. Stewardship encourages policies that regard government information as a public good, such as personal privacy and records management, whereas usefulness promotes policies that encourage the dissemination of information to improve the quality and lower the cost of government services, such as public access and interagency information sharing. Stewardship policies address confidentiality, information security, data quality and integrity, and long-term preservation of information. Usefulness policies address interagency and intergovernmental sharing, public access, public-private information partnerships, and reuse of information.

Users of School Finance Information

To be of value, information must meet the needs of those who use it. Users of school finance information may be divided into four major groups: those to whom the school districts and state departments of education are primarily accountable (the general public); those who directly represent the general public (legislative and oversight bodies); those who perform academic research using education information (education researchers); and those who lend or participate in the lending process (investors and creditors) (GASB Statement 1, Paragraphs 35 through 37). Each of these groups has different needs, but each is concerned with the design and implementation of an education system that is programmatically and fiscally effective and efficient.

Summary

All four data user groups discussed above are interested in comparing original or modified budgets with actual results. For example, to assess accountability, citizens as well as legislative and oversight bodies want to ensure that resources are used in accordance with appropriations. Overspending may indicate poor financial management, weak budgetary practices, or uncontrollable and unforeseen circumstances. Underspending may indicate effective financial management that provides the necessary quality and quantity of services within the available appropriations or a decision by management to accumulate a surplus of resources for future use. It is important that all financial reporting is clear, accurate, consistent, and comparable in order to aid in the decision-making process.

Section 3: Governmental Generally Accepted Accounting Principles

For governments to achieve the objective of accountability, financial reports must be both relevant and reliable for reasonably informed users. They must satisfy numerous and diverse needs or objectives by presenting information about short-term financial position and liquidity, budgetary and legal compliance, and issues having a longer-term focus, such as capital budgeting and maintenance. Additionally, information must be presented at different levels of detail to satisfy the needs of various users.

Following more than a decade of research and analysis, the Governmental Accounting Standards Board (GASB) concluded that to meet the varied needs of a wide range of users, governmental reports must provide information regarding the public entity as a whole in addition to the traditional fund financial statements. Accordingly, in June 1999, GASB introduced a new financial reporting model in its *Statement 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (GASB 1999). This new model integrated the traditional focus of governmental fund financial statements relating to fiscal accountability (and the modified accrual basis of accounting) with new forms of reporting (e.g., government-wide financial statements). The two levels of financial reporting are intended to

- provide more relevant information that results in greater accountability by state and local governments; and
- enhance the understandability and usefulness of annual financial reports so that users of these reports can make more informed economic, social, and political decisions.

It is important for governments to provide their constituencies with effective financial information presented in a consistent and clear format. Specifically, the information provided by governments should contribute to accountability in the following areas:

- financial position and results of operations;
- actual financial results compared to adopted budgets;
- compliance with finance-related laws, rules, and regulations;
- efficiency and effectiveness of operations; and
- maintenance of governmental assets.

Consistency in financial reporting by governments is achieved through the use of accounting standards. GASB is the standard-setting authority of GAAP for state and local governments, including school districts. In cases where no GASB pronouncement is applicable, other authoritative sources of guidance exist.

The following section presents a hierarchy of GAAP in descending order of authority. The hierarchy was originally established in the American Institute of Certified Public Accountants' (AICPA) Statement on Auditing Standards (SAS) 69 (AICPA 1992). In 2009, GASB issued Statement 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which incorporated the governmental GAAP hierarchy into GASB's authoritative literature. This action did not affect the hierarchy itself or change current practice. In 2010, GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* Similarly, this statement incorporated into GASB's authoritative literature certain accounting and financial reporting guidance issued either by the Financial Accounting Standards Board (FASB) or the Accounting Principles Board or found within the Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure before November 30, 1989. This furthered GASB's efforts to codify relevant governmental GAAP. As such, it had no practical effect on the accounting or financial reporting guidance contained within. It should be noted, however, that this standard allows entities to continue to apply, as does other accounting literature, post-November 30, 1989, FASB pronouncements that do not conflict with or contradict GASB pronouncements. In June 2015, GASB issued Statement No. 76 that superseded Statement No. 55 and reduced GAAP hierarchy to two categories from the four categories under Statement No. 55.

Governmental GAAP Hierarchy

There are two categories in the governmental GAAP hierarchy. Listed in descending order of authority, they are as follows:

Category (a) consists of officially established accounting principles – Governmental Accounting Standards Board (GASB) Statements. This includes GASB Interpretations.

Category (b) consists of GASB Technical Bulletins; GASB Implementation Guides; and literature of the AICPA cleared by GASB.

Authoritative GAAP is incorporated periodically into the *Codification of Governmental Accounting and Financial Reporting Standards*, and when presented in the Codification, it retains its authoritative status. If the accounting treatment for a transaction or other event is not specified by a pronouncement in Category A, a governmental entity should consider whether the accounting treatment is specified by a source in Category B. If the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP, a governmental entity should first consider accounting principles for similar transactions or other events within a source of authoritative GAAP and then may consider nonauthoritative accounting literature from other sources that does not conflict with authoritative GAAP. Sources of nonauthoritative accounting literature include:

- GASB Concepts Statements;
- Pronouncements and other literature of:
    - the Financial Accounting Standards Board;
    - the Federal Accounting Standards Advisory Board;
    - the International Public Sector Accounting Standards Board;
    - the International Accounting Standards Board; and
    - AICPA literature not cleared by GASB.
- Practices widely recognized and prevalent in state and local government
- Literature of other professional associations or regulatory agencies; and
- Accounting textbooks, handbooks, and articles.

Section 4: Internal Control Structure

An integral part of proper accounting procedures rests in issues of controls and begins with internal accountability structures. AICPA's *Statement on Auditing Standards No. 78, Consideration of Internal Control in a Financial Statement Audit: An Amendment to Statement on Auditing Standards No. 55* (1995) (which incorporates the Committee of Sponsoring Organizations' report, *Internal Control Framework*) indicates that the elaborateness of the system of internal controls established within an organization is a matter of judgment on the part of management, with careful consideration for circumstances, such as the size of the organization and the number of personnel available, and the relationship between the costs and benefits of designing and implementing controls. In addition, the nature of internal control is such that even appropriate methods and systems will not guarantee that an organization's objectives will be achieved.

Furthermore, 2 CFR Part 200.303 establishes that a non-federal entity must establish and maintain effective internal control over Federal awards that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States and the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Internal control is a process—affected by an organization's board of trustees, management, and other personnel—designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- reliability of financial reporting;
- effectiveness and efficiency of operations; and
- compliance with applicable laws and regulations.

As a result, internal control consists of five interrelated components:

- control environment;
- risk assessment;
- control activities;
- information and communication; and
- monitoring.

Using the COSO 2013 Framework, each of these components is discussed below.

Control Environment

The control environment is established on the basis of the attitude of management toward internal control. The control environment "sets the tone of an organization, influencing the control consciousness of its people and it is the foundation for all other components of internal control. As such, a management philosophy that is dedicated to establishing a sound business process and operating controls would tend to create a stronger internal control environment than a philosophy that is unaware of or unconcerned with internal controls.

Collectively, various factors affect the control environment, including the following:

- commitment to integrity and ethical values;
- board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.
- Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
- Commitment to attract, develop, and retain competent individuals in alignment with objectives;
- The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives

Risk Assessment

Risk assessment is the entity's identification and analysis of risks relevant to the achievement of its objectives. Risk assessment forms a basis for determining how risk should be managed. The four principles relating to risk assessment are as follows:

- The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
- The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
- The organization considers the potential for fraud in assessing risks to the achievement of objectives.
- The organization identifies and assesses changes that could significantly impact the system of internal control.

Given the dynamic nature of governmental operating environments, the ability to anticipate and mitigate risks from these changes is a key factor in measuring the strength of internal controls.

Control Activities

Control activities are the actions established by policies and procedures that help ensure that management directives are carried out. Three principles related to control activities are listed below:

- The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

- The organization selects and develops general control activities over technology to support the achievement of objectives.

- The organization deploys control activities though policies that establish what is expected and procedures that put policies into actions.

The application of controls, such as the segregation of duties, is affected to some degree by the size of the entity. In small entities, procedures are less formal than in large entities. Additionally, certain types of control activities may not be relevant in small entities.

Information and Communication

Information and communication represent the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities. The three principles related to information and communication includes the following:

- The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.

- The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.

- The organization communicates with external parties regarding matters affecting the functioning of internal control.

Senior management should deliver a clear message to employees about their responsibilities and roles in the internal control system. Employees should also have a means for communicating the effectiveness and efficiency of these systems to upper levels of management.

Monitoring

Monitoring is a process that assesses the quality of internal control performance over time. Ongoing monitoring activities include regular management and supervisory activities, and other actions taken during the normal performance of management's duties. Furthermore, periodic reviews of internal controls and related activities, performed with internal personnel or external resources, may be undertaken. The nature and timing of these evaluations depend on the effectiveness of ongoing activities and the risk that internal controls are not performing as intended by management. Deficiencies in the system of internal controls should be reported to the appropriate level of management.

The two principles related to monitoring activities are as follows:

- The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

- The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

If accounting information is routinely used in making operating decisions, management is likely to establish effective controls and hold lower level managers and employees accountable for performance. In addition, if management routinely uses accounting information in measuring progress and operating results, significant variances between planned and actual results are likely to be investigated. This review may detect the causes of the variances and affect the steps necessary to correct the procedures that failed to prevent them.

Common Types of Control Procedures

Numerous control procedures and monitoring activities are performed by individuals in governmental entities to accomplish particular objectives. All of these controls, however, can be classified within one of the basic categories described below. Detailed control procedures or monitoring activities may be included in each of these categories, depending on the size of the entity and the sophistication of the particular control environment.

Access Controls

Certain controls prevent access to assets by unauthorized persons. Often these controls are physical in nature. For example, an organization might store inventories of supplies and commodities in locked storage areas, store currency in a vault or a locked drawer, and use alarm systems to restrict access by unauthorized individuals. If controls to prevent unauthorized access to assets are not effective, assets may be lost or stolen. If detective control procedures such as physical inventory counts are appropriately performed, shortages should be discovered in a timely manner.

In some cases, unauthorized access to assets may be gained through vulnerable accounting records—especially records maintained on computer systems. For example, if warehouse requisitions can be issued through a computer terminal, access to inventory may be gained through the system. Controls over unauthorized access to assets through computer records may be physical (e.g., terminals may be kept in a locked room) or logical (e.g., access to the computer program or data files may be obtained only with the proper password or other user-identification method). Monitoring the control procedures that address unauthorized access includes observing physical control procedures, reviewing established access privileges with the manager of information systems, and reviewing reports of attempted computer access violations. Internal auditors often perform such activities.

Access controls, however, do not prevent individuals who have authorized access to assets from misappropriating them. Individuals who have authorized access to both assets and related accounting records may be in a position to conceal shortages of assets in the records. However, if duties are properly segregated, persons with access to assets will not have access to related accounting records, which might be altered to conceal shortages.

Controls over authorized access to assets are important to an organization, not only to prevent thefts, but also to ensure that assets are committed only after proper consideration by knowledgeable and experienced individuals. Authorization and approval are types of controls designed to prevent invalid or inappropriate transactions from occurring. An example is a procedure designed to ensure that disbursements are made only when authorized orders for goods and services have been received. In many systems, access to computerized records (e.g., shipping requests) can result in improper access to assets; therefore, procedures must be designed to limit access to these records.

Reconciliation and Comparison of Assets with Records
Reconciling and comparing assets with accounting records establishes a system of independent verification, either through preparing an independent control document used to reconcile accounting records and assets or by directly comparing accounting records with related assets. Examples of these procedures include the reconciliation of physical inventory with accounting records and the preparation of a bank reconciliation.

Analytical Reviews
The purpose of analytical reviews is to evaluate summarized information by comparing it with expected results. Management personnel often perform analytical reviews to determine whether the entity is performing as planned. For example, a common analytical review procedure is the comparison of budgeted to actual performance, with investigation of any significant or material variances as determined by the analyst. Often, analytical reviews are used to monitor other underlying control procedures.

Authorization and Approval
Authorization and approval procedures prevent invalid transactions from occurring. Thus, this type of control typically involves authorization or approval of transactions at specific dollar thresholds and manual (e.g., requiring signatures of authorized individuals) or automated (e.g., password protected) authorizations for computerized transactions. The effectiveness of these procedures often depends on general computer controls over information security.

Reviews of Output
Reviews of output should be performed by school district personnel who have the knowledge and experience to identify errors. Such reviews, which can be performed in both computer and manual systems, are used to check the validity and accuracy of output by comparing it in detail with expected results. For example, a purchasing manager may compare recorded amounts or quantities purchased with separate records of purchase orders.

Transactional Reviews
Transactional reviews check the validity and accuracy of transaction processing by comparing it in detail with expected results. Reviews often use exception reports (usually computer generated), which list items that could not be processed because they did not meet specified criteria. For example, a computer-generated check may be rejected if it exceeds some dollar amount and requires a manual signature. Monitoring these types of control procedures involves management reviews of results.

General Computer Controls
Computer systems frequently have common areas of control and related control procedures referred to as general computer controls. These controls directly or indirectly affect all systems that operate within a computer-processing environment. General computer controls include the usual elements of effective internal control, that is, an individual or group responsible for control procedures and monitoring activities. Managers of the information systems function usually monitor the performance of general computer controls. Monitoring activities include observation, exception reporting, reviews of work performed, reviews of program changes, oversight by information system steering committees, and the monitoring of user complaints. For example, the effectiveness of programmed control procedures, such as edit checks and approvals, depends on general computer controls that ensure that program changes are not made improperly.

General computer controls include controls over computer operations; systems acquisition, development, and maintenance; information security; and information systems support, as detailed below:

- **Computer Operations.** The computer operations staff is responsible for the day-to-day processing activities of the entity's system. It ensures that jobs are scheduled and processed as planned, data are properly stored on the system or tapes, and reports are distributed in a timely and accurate fashion.
- **Systems Acquisition, Development, and Maintenance.** The systems acquisition, development, and maintenance staff is responsible for planning, acquiring (or developing), testing, and implementing new application systems and changes to existing application systems. Such controls are usually important in larger processing environments where there is more development and maintenance activity, where the systems are more complex, and where there is less reliance on purchased software.
- **Information Security.** The information security function is responsible for administering and maintaining an entity's information security program, including both physical and logical security. The primary goal of such a program is to ensure that access to program data, online transactions, and other computing resources is restricted to authorized users.
- **Information Systems Support.** Information systems support includes such functions as system software maintenance, database administration, communications and network management, and end-user computing, and other functional groups with technical and administrative support responsibilities.

Maintaining the internal control environment and related control procedures is an integral part of management's responsibilities. In the context of governmental accounting and reporting, the control environment has a direct impact on an entity's ability to collect and present accurate financial information. Thus, the internal control environment and related procedures are key areas of concern to an entity's external auditor.

Section 5: Component Units

It is essential that governmental financial statements provide an overview of the reporting entity that is based on financial accountability, yet allows users to distinguish between the primary government and its component units. GASB Statement 14, *The Financial Reporting Entity* (issued in June 1991), established criteria for evaluating potential component units and provided guidance on the statement presentation of those entities that met the criteria. GASB Statement 61, *The Financial Reporting Entity: Omnibus—An amendment of GASB Statements No. 14 and No. 34,* is primarily an update of GASB Statement 14 and modifies certain requirements for inclusion of component units in the financial reporting entity. GASB Statement No. 80, *Blending Requirements for Certain Component Units*, is also an amendment of GASB Statement No. 14. Component units are defined as legally separate organizations for which the elected officials of the primary government are financially accountable or for which the nature and significance of the relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading.

Financial accountability for a potential component unit is determined by either of the following:

- appointment of the voting majority of the potential component unit governing board by the primary government *and either*
    - the ability of the primary government to impose its will on the potential component unit; *or*
    - a relationship of financial benefit or burden between the primary government and the potential component unit.
- whether or not the potential component unit is fiscally dependent upon the primary government *and* there is a potential for the component unit to provide specific financial benefits to, or impose specific burdens on, the primary government.

If a potential component unit does not meet either of the two tests above for financial accountability, an organization may still be included in the financial statements of the primary government based on the criterion that exclusion would result in a misleading presentation of the financial reporting entity.

Component units may be

- blended, as though they are part of the primary government; or
- discretely presented.

GASB Statement 34 did not amend the definition of component units or the general reporting requirements. GASB Statements 61 and 80 modified the criteria for when blending is required.

Blended Component Units

Even though it is preferable to distinguish between the primary government and its component units, certain component units, despite being legally separate from the reporting entity, are so intertwined with the entity that they are, in effect, the same as the primary government.

Accordingly, GASB has stated that these component units should be reported as part of the primary government. Thus, the component unit's balances and transactions should be reported in a manner similar to the way balances and transactions of the reporting government itself are reported. This method of inclusion is known as blending.

A component unit should be blended under any of the following circumstances:

- The component unit's governing body is substantively the same as the governing body of the primary government *and* (1) there is a financial benefit or burden relationship between the primary government and the component unit, *or* (2) management of the primary government has operational responsibility for the component unit. Operational responsibility is most often evidenced by the primary government if it manages the component unit in basically the same way that it does its own operations.

- The component unit provides services entirely, or almost entirely, to the reporting entity or otherwise exclusively, or almost exclusively, benefits the entity even though it does not provide services directly to it.

- The component unit's total debt outstanding, including leases, is expected to be repaid entirely or almost entirely with resources of the primary government.

- The component unit is organized as a not-for-profit corporation in which the primary government is the sole corporate member as identified in the component unit's articles of incorporation or bylaws, and the component unit is included in the financial reporting entity pursuant to the provisions in paragraphs 21-37 of Statement 14, as amended.

Some component units account for their activities in a single fund; others use all or several fund types. If a component unit is blended, the types of funds of the component unit should be blended with those of the primary government by including them in the appropriate combining statements of the primary government. However, because the primary government's general fund is usually the main operating fund and often is a focal point for report users, a general fund should be presented only for the primary government. The general fund of a blended component unit should be reported as a special revenue fund, even though it may not meet the definition of a special revenue fund per GASB Statement 54.

Discretely Presented Component Units
Discrete presentation of component units refers to the method of reporting financial data of component units in a column(s) and row(s) separate from the financial data of the primary government.

When component units are presented in the basic financial statements (i.e., statement of net position and statement of activities), each statement should distinguish between the governmental and business-type activities of the government, and between the total entity and its discretely presented component units, by reporting each in separate columns (and rows, in the statement of activities). Component units that are fiduciary in nature, however, should be included only in the fund financial statements with the entity's fiduciary funds.

GASB Statement 39 (Paragraph 7) provides that a discrete presentation must be used for an organization that meets the requirements as a component unit under its new criteria.

SCDE requires that all charter schools, despite their presentation as blended or discretely presented component units have and submit an independent financial statement audit and single audit, when applicable. The charter schools are also to submit its separate SCDE Supplemental Schedules when the charter school is a discretely presented component unit. If a charter school is considered a blended component unit of the LEA, and the sponsoring district reports data for the charter school in its template, then a separate SCDE Supplemental schedule is not needed from the charter school.

Section 6: Fund Classifications and Definitions.

A fund is a separate 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 or changes therein. SCDE allows the use of seven major funds: General Fund, Special Revenue Fund, Special Revenue- EIA Fund, Debt Service Fund, Capital Projects Fund, Food Service Fund and the Pupil Activity Fund. Current fund classifications are presented below.

Governmental Fund Types

1. **General Fund.** This fund is the chief operating fund of the school district. It is used to account for all financial resources of the school district except those accounted for and reported in another fund. **A district may have only one general fund.**

2. **Special Revenue Funds.** These funds account for the proceeds of specific revenue sources (other than trusts or major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. (Unless specifically required by Generally Accepted Accounting Principles (GAAP) or other requirements, restricted revenues may also be accounted for in the general fund.) One or more ongoing and specific restricted or committed revenues should be the foundation for a special revenue fund.

   Some examples of special revenue funds are:

restricted state or federal grants-in-aid;

expendable trusts that benefit or support the governmental entity; and

restricted tax levies.

3. **Special Revenue- EIA Funds.** The Education Improvement Act was passed in 1984 to upgrade the quality of education in South Carolina. The fund accounts for the proceeds of the additional one percent Sales and Use Tax which is restricted to expenditures for the Education Improvement Act standards. Because of the categorical nature of the funding,the state requires that revenues and expenditures be accounted for in a separate special revenue fund.

4. **Capital Projects Funds.** These funds account for financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those of proprietary funds and trust funds). The most common source of capital projects funding is the sale of bonds or other capital financing instruments.

5. **Debt Service Funds.** These funds account for financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used if legally mandated, as well as for the accumulation of resources for and the payment of, general long-term debt principal and interest maturing in future years.

Proprietary Fund Types

6. **Food Service (**The food service fund can be considered either an enterprise fund, which is a proprietary fund type, or a Special Revenue Fund for districts**).** An enterprise fund is a proprietary fund. Enterprise funds account for any activity for which a fee is charged to external users for goods or services. Enterprise funds are required to be used to account for any activity whose principal revenue sources meet any of the following criteria:

    debt backed solely by revenues from fees and charges (thus, not debt that is backed by the full faith and credit of the school district);

    legal requirement to recover costs through fees and charges; or

    policy decision of the governing board of management to recover the costs of providing services through fees or charges.

    Some examples of the use of enterprise funds are for activities such as certain food service programs, the bookstore operation, the athletic stadium, or the community swimming pool.

Fiduciary Fund Types

7. **Pupil Activity Funds** (The pupil activity fund can be considered either an agency fund, which is a fiduciary fund, or a special revenue fund). Agency funds account for funds that are held in acustodial capacity by a school district for individuals, private

organizations, or other governments. Agency funds may include those used to account for student activities or taxes collected for another government.

Section 7: REVENUE AND EXPENDITURE FUNCTION CODES
(See Tables FY 2020-21 accounting handbook tables.xls)

SECTION 8: ACCOUNT CODE DEFINITIONS

(See Definitions FY 2020-21 Account Code Definitions.pdf)

Section 9: FEDERAL AWARD COMPLIANCE

All entities that receive federal funds **must** comply with 2 CFR Part 25 and register and receive a unique entity identifier, fulfill the requirement for the System for Award Management at www.sam.gov, maintain the currency of the registration throughout the full grant term, and allow access to SCDE and the federal granting agency to ensure compliance. If an entity does not obtain a unique entity identifier or does not maintain an active registration in sam.gov, the entity will not be able to receive any federal funds directly from the federal government or pass-through the SCDE.

The Office of Management and Budget (OMB) published new requirements for federal award programs entitled Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (also known as the Super Circular or Uniform Grant Guidance (UGG)) codified at 2 CFR 200. The guidance supersedes and consolidates the requirements from OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102, A-133, and A-50. The creation of uniform guidance is designed to streamline requirements and promote greater clarity and consistency across existing circulars. This consolidation is a component of a larger federal effort to improve accountability for expenditures of federal money by placing a greater emphasis on performance over compliance.The requirements are effective for awards or increments of awards issued on or after December 26, 2014. Additional revisions to the UGG were effective on August 13, 2020 and November 12, 2020.

The significant changes and revisions include modifications to organization and terminology, internal control requirements, cost principles, and single audit requirements. Some of these changes are addressed below:

The significant changes include modifications to organization and terminology, internal control requirements, cost principles, and single audit requirements. Some of these changes are addressed below:

Greater clarity by replacing the word "vendor" with "contractor"	For purposes of the guidance, when a non-Federal entity provides funds from a Federal award to a non-Federal entity, the non-Federal entity receiving these funds may be either a subrecipient or a contractor.
Computing devices	A computing device is a supply if the acquisition cost is less than the lesser of the capitalization level established by the non-Federal entity for financial statement purposes or $5,000, regardless of the length of its useful life.

Mandatory disclosures	The non-Federal entity or applicant for a Federal award must disclose, in a timely manner, in writing to the Federal awarding agency or pass-through entity all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award. Failure to make required disclosures can result in any of the remedies described in §200.338, Remedies for noncompliance, including suspension or debarment.
Emphasis on performance goals and performance reporting	Provides more robust guidance to Federal agencies to measure performance in a way that will help the Federal awarding agency and other non-Federal entities improve program outcomes, share lessons learned, and spread the adoption of promising practices. Recipients must be required to relate financial data to performance accomplishments and must also provide cost information to demonstrate cost effective practices.
Written Allowability Procedures	The non-federal entity must have written allowability procedures for grants.
Increased emphasis on internal controls	The non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States and the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
Cash Management Interest - Bearing Account Threshold	If cash advances are received, the non-Federal entity must maintain both written procedures that minimize the time elapsing between the transfer of funds and disbursement by the non-Federal entity, and financial management systems that meet the standards for fund control and accountability. The interest bearing account threshold has been increased from \$100 to \$500. Interest earned in excess of this amount must be made to the US Department of Health and Human Services Payment Management System Rockville, MD 20852.
Conflict of interest	The Federal awarding agency must establish conflict of interest policies for Federal awards. The non-Federal entity must disclose in writing any potential conflict of interest to the Federal awarding agency or pass-through entity in accordance with applicable Federal awarding agency policy.

Procurement by micro-purchases	Procurement by micro-purchase is the acquisition of supplies or services, the aggregate dollar amount of which does not exceed $3,000 (or $2,000 in the case of acquisitions for construction subject to the Davis-Bacon Act). To the extent practicable, the non-Federal entity must distribute micro-purchases equitably among qualified suppliers. Micro-purchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable.
Contract administration *2 CFR Part 200.326 & Appendix II*	Contracts made under an award must contain 13 specific provisions: 1. Contracts more than the simplified acquisition threshold (currently set at $150,000) must address administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as appropriate 2. Contracts in excess of $10,000 must address termination for cause and for convenience by the non-Federal entity including the manner by which it will be affected and the basis for settlement 3. Equal Employment Opportunity (EEO) 4. Davis-Bacon Act - All prime construction contracts in excess of $2,000 5. Contract Work Hours and Safety Standards Act 6. Rights to Inventions Made Under a Contract or Agreement 7. Clean Air Act and the Federal Water Pollution Control Act 8. Mandatory standards and policies relating to energy efficiency 9. Debarment and Suspension 10. Byrd Anti-Lobbying Amendment 11. Procurement of recovered materials (See 200.332) 12. Prohibition on certain telecommunications and video surveillance services or equipment 13. Domestic preferences for procurements
Termination	The new guidance introduces termination for cause as one of the reasons a Federal award may be terminated by the Federal awarding agency or pass-through entity.
De minimis indirect cost rate	Any non-Federal entity that has never received a negotiated indirect cost rate may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely. The de minimis rate does not apply to any funds with the supplement, not supplant requirement. Any non-Federal entity that has a federally negotiated indirect cost rate may apply for a one-time extension of a current negotiated indirect cost rate for a period of up to four years.

Certification	The annual and final fiscal reports or vouchers requesting payment under the agreements must include a certification, signed by an official who is authorized to legally bind the non-Federal entity, which reads as follows: "By signing this report, I certify to the best of my knowledge and belief that the report is true, complete, and accurate, and the expenditures, disbursements and cash receipts are for the purposes and objectives set forth in the terms and conditions of the Federal award. I am aware that any false, fictitious, or fraudulent information, or the omission of any material fact, may subject me to criminal, civil or administrative penalties for fraud, false statements, false claims or otherwise.
Single audit threshold	The single audit threshold has increased to $750,000. All entities that expend $750,000 or more in Federal awards must have a single or program specific audit.
Schedule of expenditures of federal awards (SEFA)	The SEFA must include the total amount provided to subrecipients from each Federal program.
Type A/B threshold	The Type A/B minimum threshold increases from $300,000 to $750,000.
Questioned costs	The questioned costs threshold increases from $10,000 to $25,000.
Protected personally identifiable information (PPII)	Auditors and auditees must ensure and sign a statement that single audit reports publically available on the Federal Audit Clearinghouse (FAC) do not include protected personally identifiable information.
Micro-purchase threshold	Micro-purchase threshold means the dollar amount at or below which a non-Federal entity may purchase property or services using micro-purchase procedures (see § 200.320). Generally, the micro-purchase threshold for procurement activities administered under Federal awards is not to exceed the amount set by the FAR at 48 CFR part 2, subpart 2.1, unless a higher threshold is requested by the non-Federal entity and approved by the cognizant agency for indirect costs.

Telecommunication costs and video surveillance costs	Costs incurred for telecommunications and video surveillance services or equipment such as phones, internet, video surveillance, cloud servers are allowable except for the following circumstances: Obligating or expending covered telecommunications and video surveillance services or equipment or services as described in § 200.216 to; 1. Procure or obtain, extend or renew a contract to procure or obtain; 2. Enter into a contract (or extend or renew a contract) to procure; or Obtain the equipment, services, or systems

The Uniform Grant Guidance states general procurement standards for non-Federal entities (which includes school districts, charter schools, and not for profit organizations). The non-federal entity must have documented procurement procedures which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable Federal law. The non-Federal entity must maintain written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award, or administration of contracts. Employees, officers, or agents should not participate in the selection of a vendor in which the member may have a conflict of interest (i.e. financial or any benefit).