



CATEGORICAL PROGRAMS

Categorical programs include grants, entitlements and other restricted funds received by a school district from governmental or other entities. These programs are designed to fund specific activities such as special education costs. All costs charged to categorical programs must comply with the requirements of the program.

Note: Please refer to the California School Accounting Manual (CSAM), Procedure 310. **U/F** refers to whether the resource is a grant or an entitlement. **U** stands for unearned revenue and represents a grant. **F** stands for fund balance and represents an entitlement.

Characteristics of Categorical Programs:

- Governed by additional laws and regulations
- Accounting requirements under GASB
- Additional fiscal management
- Additional reporting
- Additional audit reporting

Sources of Categorical Programs

- **Federal Government:** Federal categorical programs may run on the federal fiscal year of October 1 to September 30. Funds are received primarily from the U.S. Department of Education. Federal categorical programs may also come from other federal agencies such as the U.S. Department of Labor. Examples of federal categorical programs include Every Student Succeeds Act (ESSA) programs and Individuals with Disabilities Education Act (IDEA) programs.
- **State of California:** Examples: Special Education and After School Education and Safety (ASES). State categorical programs operate on a fiscal year of July 1 to June 30.
- **Pass through federal categorical programs:** For pass through grants, the State of California is the recipient organization and the school district is the sub-recipient. Pass through categorical programs to California schools primarily flow through the California Department of Education. The State of California receives the grant award and then apportions the funds to school districts. The school districts then submit financial reports to the State of California. Examples of pass through grants include the Every Student Succeeds Act (ESSA), Carl Perkins Act, and Workforce Investment Act.

GASB 33 addresses specific revenue recognition policies that are to be used in accounting for categorical funds. Applying the appropriate policy is an extremely important part of the year-end closing process. An LEA should review each project separately and determine the proper entries to close the year. To account for categorical programs properly, an LEA must first determine if the categorical program is a grant or an entitlement.

Grant or Entitlement

Grant (Unearned Revenue) - A grant is a contribution of funds to an LEA to be used for a specific purpose, activity or facility. In general, expenditure is the prime factor for determining grant eligibility, and revenue is recognized when the expenditure is made. **Grants are considered earned when the expenditure is recorded (expended).**

- Recorded as revenue when cash is received.
- At the end of the year, if revenue received exceeds donor-authorized expenditures, the difference is recorded as unearned revenue in object code 9650. Unearned revenue is revenue that has been received but not yet earned (expended). The total expenditures used in this calculation may not exceed the grant award.
- If donor-authorized expenditures exceed the total revenues received, the difference is recorded as accounts receivable. A program cannot have accounts receivable and unearned revenue at the same time.
- Unused grant award (carryover) is the difference between the total grant award and the total donor authorized expenditures for the year. Any unused grant that exceeds the unearned revenue or accounts receivable is not recorded in the books, but is added to the amount of the award for the subsequent year to determine the total grant available. The unused grant award should not be recorded as an accounts receivable because it has not been earned.
- Examples of grants are: Every Student Succeeds Act programs and Carl Perkins programs.

Grant or Entitlement (Continued)

Entitlement (Fund Balance) - An entitlement is a payment based on an allocation formula. Like grants, entitlements are restricted. **Entitlements are considered earned when the entitlement is awarded.**

- The entitlement is recorded as revenue when it is received.
- The amount of any entitlement, which has not been received by June 30, yet is expected to be received by September 30, should be accrued.
- At the end of the year, any entitlement funds that have not been expended are recorded as restricted ending balances. This is because restrictions remain on the use of the revenue from the entitlement; therefore the fund balance for this entitlement must be separated from the fund balance available for general use.
- Examples of entitlements are: Medi-Cal and Proposition 20 Restricted Lottery.

The CDE SACS Query website provides useful information on categorical programs. It is located at <http://www2.cde.ca.gov/sacsquery/querybyresource.asp>.

The following pages illustrate the accounting transactions necessary to close categorical programs for the fiscal year.

Contributions from the Unrestricted General Fund

The revenue for some programs, such as Special Education, is often insufficient to cover all the costs incurred by the district. In these cases, the district must do a contribution from the Unrestricted General Fund as shown below. This information is also entered on the CAT Form.

Example:

The school district needs to transfer \$50,000 into Special Education to cover costs that are not supported by the revenue in that resource. The entry would be as follows:

Account	Fund	Resource	Object	Debit	Credit
Unrestricted Revenue	0100	0000	8980	\$50,000	
Special Education	0100	6500	8980		\$50,000

Federal Transferability

Federal transferability of funds is governed by Title V in Every Student Succeeds Act Section 5102. A local educational agency may transfer up to 100 percent of Title II, Part A and Title IV, Part A program funds to other allowable programs.

Allowable Title Programs:

- Title I, Part A;
- Title I, Part C;
- Title I, Part D;
- Title II, Part A;
- Title III English Learner;
- Title III Immigrant;
- Title IV, Part A;
- Title V, Part B, Subpart 1;
- Title V, Part B, Subpart 2;

Regardless of transfers, the LEA will continue to be responsible for meeting Title II, Part A and Title IV, Part A legal requirements, which are required as a condition of accepting the funds. In addition, funds transferred to other allowable programs are subject to the legal requirements for those programs.

Example:

The district received a \$20,000 grant for Title II, Part A. The district wishes to transfer 50% (\$10,000) to Title I, Part A. The entry would be as follows:

Account	Fund	Resource	Object	Debit	Credit
Title II, Part A	0100	4035	8990	\$10,000	
Title I, Part A	0100	3010	8990		\$10,000

The expenditures would then be accounted for within Title I, Part A.

Consolidated Federal Administration

School districts have the option to consolidate ESEA funds for the administration of one or more programs under ESEA, as authorized in Section 8203 of the ESEA. Programs that may be included in the consolidation of administrative funds are:

- Title I, Part A (Basic)
- Title I, Part C (Migrant Education)
- Title I, Part D (Delinquent)
- Title II, Part A (Supporting Effective Instruction)
- Title III (Immigrant Students)
- Title III (English Learner Students)
- Title IV, Part B (21st Century Community Learning Centers)
- Title IV, Part A (Student Support and Academic Enrichment)

Consolidation of funds provides flexibility in charging administrative costs and results in simplified accounting and personnel activity timekeeping. Districts will take the following steps:

- Determine the amount to be consolidated. For most programs, a maximum may not be specified, but the district must ensure that the amount of administration plus indirect costs does not exceed 15% of the grant amount. For programs without a specified maximum, federal cost principals provide that the maximum amount available for administrative costs shall not exceed what is reasonable and necessary for efficient administration of the program. An LEA may use no more than two percent for direct administrative costs for the Title III, English Learner Students grant.
- Charge administrative costs to Resource 3155 (ESSA: Consolidated Administration Funds) throughout the year, with Function 2100 (Supervision of Instruction) or Function 2150 (Instructional Administration of Special Projects).

Example:

Account	Fund	Resource	Function	Object	Debit	Credit
ESSA Consolidated Admin	0100	3155	2100	1300	\$900	
ESSA Consolidated Admin	0100	3155	2100	3401	\$250	
ESSA Consolidated Admin	0100	3155	2100	4300	\$130	
ESSA Consolidated Admin	0100	3155	2100	9110		\$1,280

Consolidated Federal Administration (Continued)

- At the end of the year, the undistributed costs in Resource 3155 are distributed to the participating programs using Object 5710 (Transfers of Direct Costs). The district has discretion as to how much to transfer to each program, as long as the amount is within the maximum allowable administrative cost for that program. The total grant amount should not be exceeded after the distribution.

Example:

Account	Fund	Resource	Function	Object	Debit	Credit
Title I, Part A	0100	3010	2100	5710	\$800	
Title II, Part A	0100	4035	2100	5710	\$300	
Title III	0100	4203	2100	5710	\$180	
ESSA Consolidated Admin	0100	3155	2100	5710		\$1,280

- Federal Timekeeping Requirements:** Consolidated administration can be treated as a single cost objective for purposes of federal timekeeping requirements. Therefore, LEAs are not required to maintain personnel activity reports to document the time spent for administrative activities performed exclusively for these programs. Semi-annual certification must still be completed. Refer to Procedure 905, Documenting Salaries and Wages, in CSAM for more information.

For more information on consolidated federal administration, see CSAM Procedure 780.

Completing the CAT Form

Districts use the CAT Form in the SACS Software to calculate unearned revenue, accounts receivable, accounts payable and/or ending fund balance for each categorical program. There are six separate worksheets in the CAT Form based on the source of funds and the applicable accounting treatment:

- Unearned Revenue- Federal (see sample)
- Unearned Revenue- State (see sample)
- Unearned Revenue- Local
- Restricted Ending Balance- Federal
- Restricted Ending Balance- State (see sample)
- Restricted Ending Balance- Local

Instructions for completing the CAT Form are included in the SACS software.

To complete the CAT Form, districts fill in the requested information for the award, revenue received, and expenditures. At the bottom of the CAT Form, the district calculates the deferred revenue, accounts receivable, accounts payable, and/or restricted ending balance. Once the CAT Form has been completed, the applicable entries can be made as shown in the following examples. Note that unrestricted programs do not need to be shown on the CAT Form because they are unrestricted funds.

Example 1: Unearned Revenue. Please note that unearned revenue programs should not have both unearned revenue and accounts receivable.

Account	Fund	Resource	Object	Debit	Credit
ESSA Title I, Part A	0100	3010	8290	\$10,000	
ESSA Title I, Part A	0100	3010	9650		\$10,000

Completing the CAT Form (Continued)

Example 2: Accounts Receivable

Account	Fund	Resource	Object	Debit	Credit
Lottery Instruct. Materials	0100	6300	920X	\$5,000	
Lottery Instruct. Materials	0100	6300	8560		\$5,000

Example 3: Accounts Payable

Account	Fund	Resource	Object	Debit	Credit
Special Ed Mental Health	0100	6512	8590	\$3,000	
Special Ed Mental Health	0100	6512	951X		\$3,000

Example 4: Unused Grant Award

The Unused Grant Award calculation on the CAT Form for unearned revenue programs is the difference between the available award and the total expenditures.

In some cases, this amount is the same as the unearned revenue. In other cases, the unused grant award exceeds the unearned revenue. In these cases, no accounting entry is done for the difference between the unearned revenue and the unused grant award because the funds have not been earned. Instead, this amount will be budgeted as revenue in the subsequent year.

In other cases, there is a receivable, but the district did not spend the total available award. In these cases, the unused grant award will be an amount in excess of the receivable. This unused award cannot be claimed as a receivable because it has not been earned.

Entries in the Subsequent Year

In the subsequent year, accounting transactions must be done to reverse or clear the closing entries.

Unearned Revenue

Step 1: Clear Unearned Revenue. The unearned revenue set up at closing will become a beginning balance in object 9650 in the subsequent year. It is necessary to reverse the unearned revenue so that it will be recognized as current-year revenue.

Account	Fund	Resource	Object	Debit	Credit
ESSA Title I, Part A	0100	3010	9650	\$10,000	
ESSA Title I, Part A	0100	3010	8290		\$10,000

Step 2: Budget Unearned Revenue and an Equal Amount of Expenditures. The unearned revenue must be budgeted so it can be recognized as current-year revenue. In addition, expenditures of an equal amount must be budgeted because an ending balance is not permitted for unearned revenue programs.

Accounts Receivable

Step 1: Revenue Posted to Suspense by Financial Accounting

Financial Accounting posts \$7,500 in prior-year Lottery revenue in Suspense. However, the receivable was only \$5,000.

Account	Fund	Resource	Object	Debit	Credit
Suspense	0100	9999	9110	\$7,500	
Suspense	0100	9999	8999		\$7,500

Step 2: Clear Suspense

Because the amount deposited into suspense exceeds the receivable, the amount of the receivable is cleared against Object 9202 and the remainder is recognized as revenue in the current year. The district may want to establish a sub-object code to distinguish the difference between current year revenues and revenues that carried over from the prior year (example: 8560-009)

Account	Fund	Resource	Object	Debit	Credit
Suspense	0100	9999	8999	\$7,500	
Lottery Instruct. Materials	0100	6300	920X		\$5,000
Lottery Instruct. Materials	0100	6300	8560009		\$2,500

Entries in the Subsequent Year (Continued)

Step 3: Clear Accounts Receivable

Once 9201 equals 9202 for a resource, the receivable can be cleared as shown below.

Account	Fund	Resource	Object	Debit	Credit
Lottery Instruct. Materials	0100	6300	920X	\$5,000	
Lottery Instruct. Materials	0100	6300	920X		\$5,000

Accounts Payable

The California Department of Education bills the district for grant funding that will not be used.

Step 1: Pay Invoice

Account	Fund	Resource	Object	Debit	Credit
Special Ed Mental Health	0100	6512	951X	\$3,000	
Special Ed Mental Health	0100	6512	9110		\$3,000

Step 2: Clear Payable

Once 9510 equals 9511 for a resource, the payable can be cleared as shown below.

Account	Fund	Resource	Object	Debit	Credit
Special Ed Mental Health	0100	6512	951X	\$3,000	
Special Ed Mental Health	0100	6512	951X		\$3,000

Restricted Ending Balance

The restricted ending balance will become the beginning balance in the subsequent year. Because this revenue has already been recognized at closing, it should not be budgeted in the following year. However, the district can budget additional expenditures to utilize the carryover.

Unused Grant Award

The unused grant award from the previous year that could not be accounted for in the closing entries should be budgeted in the subsequent year on both the revenue and expenditure side of the budget.

Interest Earned on Federal Funds

School districts and charter schools are required to calculate and remit the interest earned on federal programs on at least a quarterly basis. The interest should be calculated based on the cash balances of federal program advances, therefore, the cash balances of federal reimbursement programs and school food service funds should not be included in the calculation. In addition, if any interest was earned on non-CDE administered programs, the amount of interest should be calculated separately and remitted to the Federal Treasury via the appropriate state or federal agency.

Districts may retain up to \$500 in interest earned per year for administrative expense across all federal funds. A district cannot reduce or offset federal interest earned during times when the district does not have federal revenue and is using other revenue sources to temporarily cover federal program expenditures. Please note that SELPAs will not be remitting interest to the California Department of Education (CDE) on behalf of school districts for IDEA funds.

How to Calculate Interest:

The CDE indicates that districts should calculate federal interest based on the daily cash balance. Districts should calculate the interest for all federal resources together to minimize the amount of interest due. To explain, when a resource has a negative balance and it is kept separate then the interest earned is calculated to be zero. In contrast, when a resource with a negative balance is combined with a resource which has a positive balance, then the combined balance is lower. This will cause the interest earned to be lower when calculated on the combined balance.

Links & Tools:

<https://www.cde.ca.gov/fg/ac/co/intfedfunds.asp>

<https://www.sdcoe.net/administrative-services/business-services/district-financial-services/financial-reporting>

<https://resources.finalsite.net/images/v1637260892/sdcoenet/t9w9wuxajg49p3ffqb9i/InterestCalculationInstructionsPS.pdf>

Interest Earned on Federal Funds (Continued)

Example

On a quarterly basis, the interest from the county treasurer is posted to the unrestricted general fund. For child development and other funds, the interest is posted in each of the funds. In this example a total of \$1,300 was earned: \$700 for non-federal revenues and \$600 for federal revenues.

Fund	Resource	Object	Debit	Credit
0100	0000	9110	\$1,300	
0100	0000	8660		\$1,300

Of the \$600 earned on federal revenues, the district will keep \$500 and return \$100. This entry will move the \$100 into Object 9590: Due to Grantor Governments in the unrestricted general fund

Fund	Resource	Object	Debit	Credit
0100	0000	8660	\$100	
0100	0000	9590		\$100

When issuing the warrant, the district will charge the payment to object code 9590.

Fund	Resource	Object	Debit	Credit
0100	0000	9590	\$100	
0100	0000	9110		\$100

Districts will need to maintain supporting documentation of the interest calculations and the amounts remitted to provide to the district's auditors at the close of each fiscal year.

How to Remit Interest

Each district is responsible for remitting interest to CDE on a quarterly basis. CDE has not developed a specific form for remitting interest on federal funds. Once you have calculated your quarterly interest, mail a check with a cover letter that specifies the time period of the interest earned and itemizes the amounts for each federal program by resource to the following address:

California Department of Education

PO Box 515006

Sacramento, CA 95851

Attn.: Cashier's Office