

CLASSIFICATION OF EXPENDITURE AND OTHER FINANCING USE ACCOUNTS

The purpose of classifying expenditures is to provide a basis for grouping the expenditures so that a meaningful analysis can be made. Expenditures are classified by function (why purchased), object (what purchased) organizational unit and activity (for whom purchased, optional), and fiscal year (when purchased).

The purposes and objects for which expenditures are made are categorized into types. These types are called dimensions, such as fund, function and object. These group headings are not account titles; they are used only as convenient means of grouping specific expenditure accounts for definition purposes.

No single expenditure classification grouping used alone would provide enough information for accountability and responsive management. Objects of expenditures such as salaries, purchased services, supplies and materials will be meaningless unless they can be related directly to the service areas and responsibility units for which they were purchased. Thus, by relating a specific expenditure to all dimensions, more complete accountability is realized and more information is available to management.

The amount of detailed information needed is not the same for all school districts. The extent to which the Chart of Accounts is implemented depends upon the degree of detail necessary to meet the needs of all users of the financial information of school districts. The classification of expenditures listed here has been developed as a guide for collecting and recording the financial information of a school district to satisfy statutory requirements, provide prudent stewardship of funds, and meet various management needs. In addition, the records system developed enables school districts to summarize data in usable formats for state and federal reports.

For a school district to perform all its various management functions, it needs to utilize all the dimensions set forth in the following classification of expenditures. This classification has a built-in flexibility in that any account may have additional subaccounts based on the need for more detailed information, or accounts may be combined for less detailed information. Small school districts may not need or desire to utilize all the dimensions, either for economy or other reasons; but any reduction in the number of accounts used should be reviewed.

A. FUNCTION—SUBFUNCTION (Program)--SERVICE AREA--AREA OF RESPONSIBILITY

Function means the action a person takes or the purpose for which a thing exists or is used. Function includes the activities or actions which are performed to accomplish the objectives of an enterprise. The activities of a School District are classified into six broad areas or functions: Instruction, Support Services, Community Services, Nonprogrammed Charges, Debt Services and Cocurricular Activities. Functions are further broken down into Subfunctions and Service Areas which are subsequently subdivided into Areas of Responsibility.

Each of these program levels consists of activities which have somewhat the same general operational objectives. Furthermore, categories of activities comprising each of these divisions and subdivisions are grouped according to the principle that the activities can be combined, compared, related and be mutually exclusive. For example, subfunctions under the function of Instruction include Regular Programs, Special Programs and Adult Continuing Education Programs. Service Areas under the subfunction Regular Programs include Elementary Programs, Middle/Junior High Programs and High School Programs. It does, however, identify and define the elements (Area of Responsibility) which can be arranged into any organizational structure according to needs, philosophy and tradition of each individual school district. For

comparability and compatibility of information, certain principles were followed in the arrangement of the structure. These principles are described as follows:

Principles of Cost Identification:

1. Elements of cost which can be easily identified with a specific activity are considered Direct Expenses (costs) for that activity. Costs not readily identifiable with any specific activity are considered Indirect Expenses for that activity.
2. In the same manner, costs easily identified with a program or Area of Responsibility are considered Direct Expenses (costs) for that program. Costs incurred for several different programs or costs not readily identifiable with any specific program are considered Indirect Expenses for that program.
3. All those activities associated with teacher-student interactions are considered to be Instruction and are Direct Services; all other activities are considered Indirect Services of Instruction. Direct Expenses (costs) of Direct Services (Instruction) are recorded under Instruction and Direct Expenses for Indirect Services to "Instruction" are recorded under Support Services or Community Services or transactions as applicable.
4. Direct costs of a program may or may not be recorded under Instruction. The determining factor is whether or not the program is part of or associated with the instructional process; i.e., the staff involved are teaching students. If the program is associated with the Instruction, the Direct Expenses are recorded under the program, and then, under Instruction. If, however, the program is not directly associated with instruction (Food Service Program), Direct Expenses are recorded under that program--Food Service--and Support Services, and Indirect Expenses are reported under Support Services.
5. Each function under Instruction or Area of Responsibility under Support Services can be a separate center for accumulating costs. This indicates that objects of expenditures are made for each Area of Responsibility. For example, the object Salaries would be made for all functional activities in each Area of Responsibility.
6. Services or goods provided to a school district by other agencies or persons at no cost to the school district are not treated as revenue, as such. They are sizable in some school districts and a fair market value should be entered into another noncash memorandum system to get at the total cost of education. Examples of the goods and services are: supplies donated by the Parent-Teacher Association, or teachers themselves; donated services of both professional and nonprofessional people (student teachers, parents who have teaching certificates); parents who monitor the playground or lunchroom; donated repairs of equipment or building and supplies and/or equipment donated by service clubs or individuals. The revenue account to be used is 1920 (Contributions and Donations) under Definitions of Revenue Accounts, but object and function accounts in the noncash memorandum system should be the same as if they were cash transactions. These values may be distributed to programs just as if they were cash transactions.

B. OBJECTS--SUBOBJECTS

Object means the service or commodity obtained as the result of a specific expenditure. Eight major Object categories are identified and described here: (1) Salaries, (2) Employee Benefits,

(3) Purchased Services, (4) Supplies and Materials, (5) Capital Acquisitions, (6) Other Objects, (7) Donations from Outside LEA, and (8) Depreciation of capital Assets. These broad categories are subdivided to obtain more detailed information about objects of expenditures. A three-digit serial number is used which makes it possible to search out detailed information.

C. OPERATIONAL UNIT & OTHER CODING

Based on the federal account classifications prescribed in the “Financial Accounting for Local and State School Systems, 2014 Edition” an operational unit is not necessary to meet the minimum accounting standards. It is used to denote the group and type of educational activities for organizational purposes. Each type of unit has discriminating characteristics. The units include individual schools in most cases and can be used to designate school costs centers. In other words, budgets and expenditures may be made from each school or operational unit. Such units are specific schools, transportation, administration and warehouses. The following are examples of operational units and codes based on this federal definition:

- 501 Friedley Elementary School
- 701 Jones High School
- 901 Central Administration
- 921 Bus Garage

Based on the software utilized by a majority of our South Dakota school districts an operational unit is typically assigned to identify, at a minimum, federal grant expenditures and revenues. However, it may be used to identify any revenue source and program expenditures based on the school district’s needs. Below are examples of operational unit codes (district may assign any three-digit code to a specific grant or revenue source):

- 520 Title I Basic Grant
- 521 Title I School Improvement Grant
- 601 Perkins Grant
- 650 Homeland Security Grant
- 710 IDEA, 611 Grant
- 801 State CTE Grant
- 850 Local Donation (Mr. Jones)

Below is an example of the expenditure coding using an assigned operational unit:

Fund	Function	Operational Unit	Object	Sub-Object	Facility
22	1221	710	111	000	101

Commonly used financial software in South Dakota also allows additional expenditure fields to identify sub-objects and facilities. A sub-object field further defines set asides for specific expenditures such as a breakdown of utility expenditures. A facility code is used to identify expenditures associated with a specific school or attendance center (i.e., 101 Elementary, 201 Middle School/Jr. High and 301 High School).

Below is an example of the expenditure coding for sub-object and facility:

Fund	Function	Operational Unit	Object	Sub-Object	Facility
10	2549	000	321	001	301

D. PROGRAM (This dimension is optional and is not necessary to meet minimum required accounting standards.)

A program is a plan of activities and procedures designed to accomplish a predetermined objective or set of allied objectives. Programs, as appropriate for this manual, are of four types: instructional programs, support service programs, community service programs and cocurricular activities. The function and program dimensions are merged into a single dimension to become a cost center in actual system practice. The support service functions become support service programs; the community service functions in the same manner are designated community service programs; the cocurricular activities become cocurricular programs. Instructional programs are divided into Regular, Special, and Adult Continuing Education Programs.

This accounting manual is designed to be a vehicle or guide for (1) program cost accounting, or for (2) accounting for programs in a program, planning, budgeting and evaluating system. Its purpose does not encompass those of specifying and defining specific programs for a school district. Users of the accounting manual are the ones to determine the number and nature of programs to be used. Some suggestions at this time, however, might prove helpful in making the transition to use of the manual.

Converting accounting procedures from those having been in use heretofore to those described in this accounting manual is not a tremendous task but utilizing the full advantages of a program, planning, budgeting and evaluating system (PPBES) is a mission which should be approached in phases over a period of years. Program cost accounting means, simply, budgeting of and accounting for money on an instructional program basis rather than budgeting and accounting for instruction as one function and similarly as all other functions which support instruction. But the concept of PPBES means budgeting, on a priority basis, instructional and support programs which have been set up to accomplish mutually agreed upon objectives. Processes--number and mix of services and goods--to achieve these objectives are determined through simulation and analysis on an alternative basis. Recurring budgeting is done on a priority basis after previous processes have been evaluated.

Converting to program cost accounting is the first phase and before curriculum supervisors and program officers have time to formulate goals and measurable objectives, the problem concerning programs or cost centers for which to budget and accumulate costs arises. Probably a minimum number of cost centers should be used. In this case, functions could serve as the cost centers or programs. That is, cost centers would be established for four regular instructional programs (Elementary, Middle/Junior High, Preparatory Post-Secondary Education, and Preparatory Post Secondary Employment), six or fewer special education programs, adult continuing programs as needed, appropriate community service programs and as many of the support service programs (functions) as feasible and the cocurricular activities.

The above regular instructional programs may be broken into subject matter areas and program elements if more detail cost centers are desired. These are decoded and defined in Handbook VI, Standard Terminology for Curriculum and Instruction for Local and State School Systems. * Phasing into a PPBES means generating broad based goals and objectives, setting up procedures and activities, (programs) which have measurable subobjectives and determining appropriate processes (teacher-teacher, assistants-teacher, aides-machines-supplies-method mixes) through simulated analyses.

*John F. Putnam and W. Dale Chismore, Standard Terminology for Curriculum and Instruction in State and Local School Systems, State Educational Records and Reports Series: Handbook VI, U.S. Department of Health, Education and Welfare, Superintendent of Documents, U.S. Government Printing Office, Washington, D.C., 20402, 1970 - \$3.00.

Following are examples of the Function and Program merging into one array as cost centers in system development:

1100 000	Regular Programs
1110 000	Elementary Programs