

Allowable Expenditures

Strategies to Comply

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Overview

- ▶ Permissible Expenditures
 - ▶ 1. Introduction and Background
 - ▶ 2. Legal Authority
 - ▶ A. Authorization
 - ▶ B. Restrictions and Prohibited Expenditures
 - ▶ C. Budget/Appropriation
 - ▶ 3. Federal Expenditures
 - ▶ 4. Building/Student Activity Funds and Fundraiser Proceeds
 - ▶ 5. Additional FAQ's
 - ▶ 6. Conclusion

Legal Authorization



Overview of Permissible Expenditures

Three Critical Questions:

1. Is the expenditure **authorized** under state or federal law?
2. Is the expenditure **specifically limited or prohibited** by law or Board Policy?
3. Is there an **appropriation in the current budget** adopted by the Board?

Legal Authority for Expenditures

▶ Statutory Authority

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Section 11a of the RSC includes all powers that are **implied or incidental to** these specific powers to expend funds for education. MCL 380.11a.

... and exercise a power incidental or appropriate to the performance of any function related to the operation of the school district in the interest of public elementary and secondary education within the school district.

The “Educational Nexus”

▶ Statutory Authority

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Legal Authority for Expenditures

A general powers school district has broad authority to expend funds for any purpose related to an educational purpose, including providing for safety and welfare of students, unless specifically prohibited or restricted.

Constitutional Limitations

- ▶ Michigan Constitution
- ▶ Article VIII Section 2 prohibits the support of private or denominational education.
- ▶ Sec. 2. The legislature shall maintain and support a system of free public elementary and secondary schools as defined by law. . .
- ▶ “No public monies or property shall be appropriated or paid or any public credit utilized . . . directly or indirectly to aid or maintain any private, denominational or other nonpublic pre-elementary, elementary, or secondary school.”

Constitutional Limitations

Michigan Constitution

Article IX Section 18 prohibits the “lending of credit” for a private purpose.

“Sec. 18. The credit of the state shall not be granted to, nor in aid of any pension, association or corporation, public or private, except as authorized in this constitution.”



**Spending
Limitations: Based on Source**

Sources of Revenue

Spending
Limitations:

Source of
Revenue

Operating Revenue Sources:

1. State Aid (Foundation Allowance)
2. Tax Revenue
3. Grant Proceeds
4. Other (Misc. Revenue, Donations, etc.)

Spending
Limitations:

Source of
Revenue

Sources of Revenue

NON-Operating Revenue Sources:

1. Voted Bond Tax Revenue
2. Sinking Fund Tax Revenue
3. Certain Grant Proceeds

Source Limitations Operating Revenue Restrictions:

State School Aid Act (SSAA):

- ▶ Section 1618 restricts expenditures to operating expenses, which includes salaries and other compensation, transportation, lighting, heating, ventilation, water service, the purchase of textbooks (selected by the board to be used in the schools), supplies and “any other school operating expenditures defined in Section 7.”
- ▶ Section 7 of the SSAA provides that operating expenses states “costs for school operating purposes include all expenditures necessary to carry out the powers of the district or intermediate district under the revised school code.”

Source Limitations

Tax and Bond Revenue Restrictions:

- ▶ **Section 1216**: Governs use of all funds raised by tax in general and provides revenue shall not be used for a purpose other than the purpose approved by the voters.
- ▶ **Section 1211**: Restricts the use of property tax revenue to the operating expenses (*e.g.* 18 mills of operating revenue).
- ▶ **Section 1212**: Restricts the use of property tax collections to purposes listed in Section 1212 and the the building and sinking fund ballot proposal.
- ▶ **Section 1351a**: Restricts the use of bond millage proceeds to purposes listed Section 1351a and in the school improvement bond ballot proposal.

Source Limitation on Funds

MCL 380.1351a
VS.
MCL 380.1212

* = Conditions Apply to these Uses

| <u>Project or Use</u> | <u>Bond Fund Allowable</u> | <u>Sinking Fund Allowable</u> |
|---|----------------------------|-------------------------------|
| Constructing New School Buildings | Yes | Yes |
| Purchasing Land | Yes | Yes |
| Additions to School Buildings | Yes | Yes |
| Repairs to School Buildings | No | Yes |
| Remodeling School Buildings | Yes | Yes |
| Site Development and Improvements | Yes | Yes |
| Development and Improvement of Athletic Facilities | Yes | Yes |
| Development and Improvements to Playgrounds | Yes | Yes |
| Equipment Purchases (See Technology and Buses/Vehicles Below) | Yes | No* |
| Environmental (Asbestos) Abatement | Yes | Yes |
| Energy Conservation Improvements | Yes | Yes |
| Furniture/Furnishings Purchases | Yes | No |
| School Security Improvements | Yes | Yes* |
| Technology (Instructional Hardware and Initial Operating Software) | Yes | Yes* |
| Upgrades to Existing Technology | No* | Yes* |
| Technology Training, Consulting or Maintenance Contracts | No | No |
| School Transportation Vehicles/Buses (with seating capacity > 11 passengers incl. driver) | Yes | Yes* |
| Parts to maintain student transportation vehicles/buses | No | Yes* |
| Maintenance & Warranty Agreements | No | No |
| Supplies & Uniforms | No | No |
| Salaries | No | No |
| Maintenance Vehicles and Parts | No | Yes* |
| Textbooks | No | No |

Source Limitations

Other Revenue:

- ▶ **Grant Proceeds:** Limitations and restrictions will defer based on terms of the grant. Assume restricted.
- ▶ **Fundraiser Revenue/Donations:** An internal group will raise funds and should donate those to the district *with* a statement regarding the purpose. *Without this statement funds could be treated as unrestricted and used for any purpose.*
- ▶ **Other Revenue:** Revenue from parking lot sales, vending machines likely unrestricted.



**Spending
Limitations: Based on Use**

Spending Limitations: Use Restrictions and Prohibitions

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Extra Compensation – Article II, Section 3 of the Michigan Constitution

Third-Party Contracting – MCL 380.11a(4) and 380.601a(2)

Rental or Lease of cars for Board members – MCL 380.1217a and 388.1764

Investment Income – MCL 380.1223 and 380.622 - restrictions on investment purchases

Tax Deferred Annuity - 380.1224

Merit Pay – MCL 380.1250

Mercury – MCL 380.1274b

Board Member Compensation and Expenses – MCL 380.1254 and 380.621

Spending Limitations: Use Restrictions and Prohibitions

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Insurance - MCL 380.1269

Purchasing – MCL 380.1274 and 380.623a (restrictions related to amount and bidding)

Travel by Board Members- 380.621a

Transportation – MCL 380.1321 et. seq.

Professional Development – MCL 380.1525

Gifts and Recognition Awards – MCL 380.1814 and 380.634

Sectarian Schools – MCL 380.1217

Foreign Goods – MCL 388.1764c

Performance Enhancing Drugs – MCL 380.1318

Construction Purchases – MCL 380.1267 (restrictions related to amount and bidding)

FAQs

Permissible Expenditures

May a school district pay for employees' Uber or Lyft fares if traveling for a seminar?

Is the school district permitted to use district funds for food during teacher professional development meetings held during lunch period?

Is the school district permitted to use district funds for a staff picnic?

Spending Limitations: Permissible

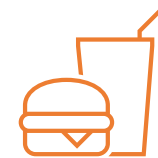
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Membership Dues and
Government Association Fees



Travel expenses, registration fees for
continuing education, workshops and
seminars



Meals and refreshments
during work related seminars
and training events

Federal Expenditures



Federal Expenditures

- ▶ Allowability is based on compliance supplement and/or approved budget
- ▶ No unlawful expenditures
- ▶ Budgets
 - ▶ Purchases need to align with approved budget
 - ▶ Description
 - ▶ Cost
 - ▶ Make sure accounts charged align with budget function and object codes
 - ▶ Ask for budget amendment if needed

Federal Expenditures

- ▶ Salaries and Fringes
 - ▶ Salaries and fringes need to be based on actual, not budgets
 - ▶ Percentages charged for employees need to be based on something, such as an activity report
 - ▶ Must allocate fringes with same methodology as salaries
 - ▶ Cannot charged 100% of the salaries, but only 50% of the fringes
 - ▶ Other benefits (vacation, family-related, sick, military leave, insurance, unemployment, travel reimbursements)
 - ▶ Need to be provided under established written leave policies
 - ▶ Need to be equitably allocated to all related activities including federal awards
 - ▶ Accounting basis (cash or accrual) used for costing each type of leave needs to be consistently followed

Federal Expenditures

- ▶ Advertising
 - ▶ Advertising for recruitment of personnel - **Ok**
 - ▶ Advertising related to procurement of goods and services for a federal award - **Ok**
 - ▶ Advertising for disposal of materials that were acquired with federal dollars - **Ok**
 - ▶ Advertising as part of program outreach - **Ok**
 - ▶ Costs for displays, demonstrations, and exhibits - **No**
 - ▶ Costs of facilities for special events - **No**
 - ▶ Costs of promotional items such as gifts/souvenirs – **No**
- ▶ Audit Services – **Ok if allocated reasonably**

Federal Expenditures

- ▶ Contributions and donations – No
- ▶ Fundraising – No
- ▶ Entertainment costs – No unless approved in budget and is program related
- ▶ Meeting, retreats, workshops or events use to disseminate technical information relating to the program – Ok
- ▶ Bad Debts – No
 - ▶ Collection costs also unallowable
- ▶ Depreciation – Ok but can't double dip
- ▶ Interest on borrowing funds - No

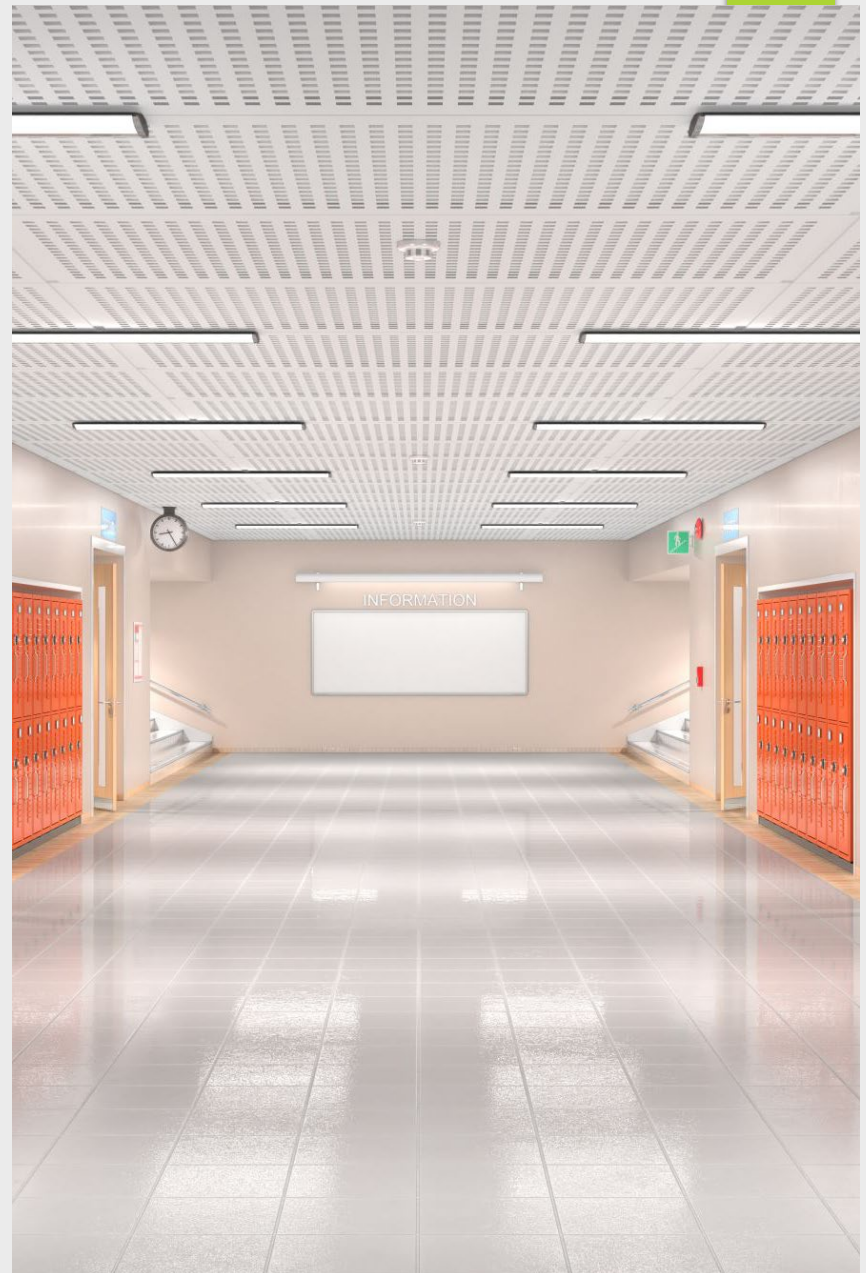
Federal Expenditures

- ▶ Maintenance and repair of buildings – Ok
- ▶ Memberships, subscriptions and professional activity costs
 - ▶ Membership in a professional organization - Ok
 - ▶ Subscriptions to business or professional periodicals - Ok
 - ▶ Costs of membership in a community organization – Ok if prior approval received
 - ▶ Costs of membership in a country club or social club – No
 - ▶ Costs of membership whose primary purpose is lobbying – No
- ▶ Recruiting costs
 - ▶ Costs incurred for “help wanted” advertising - Ok
 - ▶ Relocation costs – Ok but if they leave within 12 months you may have to repay
 - ▶ Employment agency costs – Ok if reasonable

Federal Expenditures

- ▶ Travel Costs
 - ▶ Per diem travel costs – Ok
 - ▶ Actual costs when traveling – Ok
 - ▶ Travel costs for dependents – No unless traveling for more than 6 months
 - ▶ First class airfare? – No unless it requires unreasonable hours of travel, excessively long travel, or result in additional costs that would offset savings

Building and Student Activity Funds



GASB 84

- ▶ The basic premise of GASB 84 is that a governmental entity should not be used by certain groups or other individuals (e.g. staff, parents, volunteers) as a bank.
- ▶ Districts often held or deposited funds for groups or individuals raised for student or building activities as non-public funds.
- ▶ The Michigan Public School Accounting Manual (Bulletin 1022) adopted GASB 84 criteria in March 2019.
- ▶ GASB 84 fiduciary rules are now Section II, Subsection E.18 of Bulletin 1022.
- ▶ Created new Special Revenue Fund code 29 (“Student/School Activity Fund”)

GASB 84

- ▶ Criteria for a “fiduciary fund” are strict and do not cover the typical building or student activity funds.
- ▶ The District may still hold funds for student or building activities, but such funds will be held as public funds in a Special Revenue Fund (new Fund Code 29).
- ▶ Eliminates building and student activity funds.
- ▶ The District may still create a fiduciary fund (hold funds for a third party that are “non-public” funds).
- ▶ Fiduciary Funds must now meet strict criteria and are uncommon.

GASB 84

- ▶ GASB 84 made School District's reevaluate which funds are "fiduciary" in nature based on the School District's involvement
- ▶ Many of fiduciary activities typical to School Districts **no longer qualify** as fiduciary
 - ▶ Athletic groups/Clubs
 - ▶ Student activity accts
 - ▶ Building level activity accts
 - ▶ PTO/Booster accts (if held by District)

GASB 84 and Permissible Expenditures

▶ **Governmental Fund Implications:**

- ▶ Required to budget
- ▶ Must adhere by District Policy for governmental funds
- ▶ Must adhere to LEGAL requirements
- ▶ 1022 account codes required (basic)

Expenses previously allowed as a fiduciary fund may no longer be allowed as a governmental fund.

GASB 84 and Permissible Expenditures

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- ▶ Determining expense allowability for student activity funds
 - ▶ Two Step Process:
 - ▶ Determine if School District is authorized to make the expenditure
 - ▶ Determine if there are any specific limitations or restrictions on the expenditure exist in contravention to this authority

GASB 84 and Permissible Expenditures

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- ▶ **STEP 1** - Expenditures are generally allowable if there is a “reasonable nexus” to the operation of the school district is in carrying out its educational mission
 - ▶ There is no specific limitation or prohibition on the expenditure
 - ▶ In most instances, expenditures in student activity funds will have an educational nexus to the operation on the school in that the **activity is for the benefit of the students or school**

GASB 84 and Permissible Expenditures

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- ▶ **STEP 2** – Specific limitations or restrictions that might apply to the expenditure of these funds which might limit the general powers authority.
 - ▶ Many limitations and restrictions based on source of funds
 - ▶ Student activity funds would rarely contain any School District revenues, therefore would not be subject to source limitations.
 - ▶ Still subject to restrictions under Section 1814 of the Revised School Code which prohibits use of public funds for alcohol, jewelry, gifts, golf fees, illegal items, etc.
 - ▶ Therefore, could impact student fund making gifts, grants/scholarships, and golf outings.

FAQs

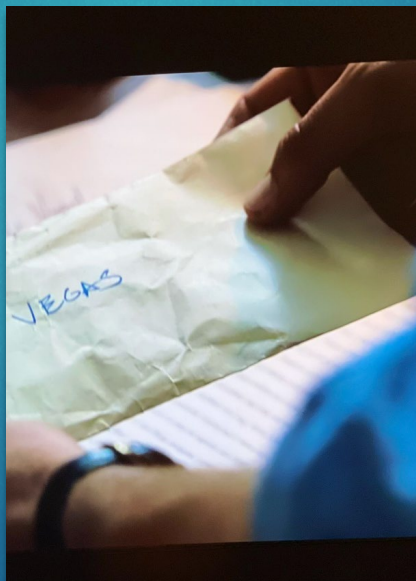
Permissible Expenditures

The chess club raised funds now held by the district for a year end event. Alcohol will be served. How should the funds be handled?

May the district purchase flowers or a gift for a funeral?

Is the school district permitted to use public funds to purchase massage chairs and yoga classes for building staff?

May a school district use financial incentives to boost student attendance on State Count Days?



Fundraisers and Permissible Expenditures


Fundraisers and Permissible Expenditures

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Donations made to the district may be designated for a certain use or purpose *unless prohibited by Board Policy*.



Some Board Policy states that all donations are treated as public funds *and* that donations may *not* be returned to a donor.



In general, donated funds may be designated for a particular program, building or purpose, but are still public funds subject to same rules as other public funds.

Fundraisers and Section 1814

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A limited exception is provided under Revised School Code Section 1814(5).

If the conditions are met, funds donated for a purpose prohibited under Section 1814 are not treated as public funds.

Section 1814(1) prohibits the purchase of gifts (in any amount) as well as alcohol, jewelry, fees for golf, or any item the purchase or possession of which is illegal.

Section 1814(2) only permits an award for recognition for an employee, volunteer, or pupil up to the statutory threshold (currently set at \$175 per recipient for 2024-25)

Fundraisers and the Section 1814(5) Exception

- ▶ Other donated funds, even with the purpose of the donation specified, are still treated as public funds.
- ▶ Section 1814(5) states that “public funds” do not include...

... voluntary contributions made for a specific purpose by a school district, intermediate school district, public school academy, or education achievement authority board member; a school district, intermediate school district, public school academy, or education achievement authority employee; another individual; or a private entity.

MCL 380.1814(5)

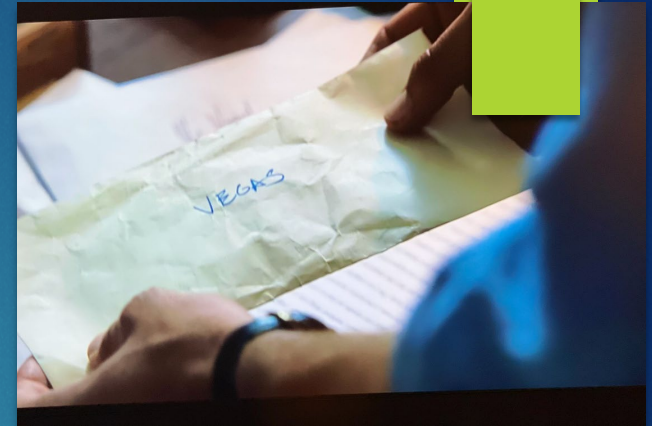
Board Policy & Practical Tips

- ▶ Review current Board Policy and ensure that it permits donations to be designated for a specific purpose.
- ▶ Ensure Board Policy, administrative guidelines and any related documents (forms, booster manuals, etc.) are consistent.
- ▶ Remove Board Policy language that prohibits the designation of funds OR that prohibits the refund of donations not used for the purpose designated.
- ▶ Use a carefully drafted donation form that requires an acknowledgment the donation on voluntary and what specific purpose funds are being donated for.



Building & Student Activity Funds Concluding Points

- ▶ Need to communicate with building level staff, parents, volunteers and others to ensure Board Policy and applicable law are followed.
- ▶ Use this opportunity to require “external” groups operate outside of the district ... reduces risk and relieve business officials of the responsibility.



FAQs

External Support Groups

The volleyball boosters are “external” but do not want to open a bank account. Can the district hold these funds?

The PTO raised funds for playground and gym equipment, which were held in the building account. The PTO asserts they own the equipment and may remove it. Is this accurate?

Thank you!

