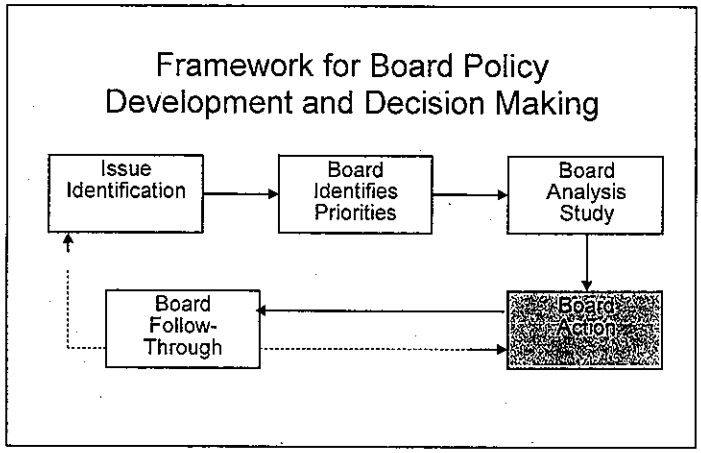
Iowa State Board of Education

Executive Summary

April 30, 2009



Agenda Item: Rules: Chapter 98 - Financial Management of Categorical Funding (Notice)

Iowa Goal: All K-12 students will achieve at a high level.

Equity Impact Statement: All school districts and area education agencies are governed by these rules, which provide regulatory guidance on financial management of categorical funding.

Presenter: Carol Greta, Attorney
Office of the Director

Attachments: 1

Recommendation: It is recommended that the State Board give public notice of its intent to adopt this new chapter of rules.

Background: This chapter provides guidance in a single document for school districts and area education agencies on financial management of funding pursuant to Iowa Code section 256.9(18), and for auditors examining the financial condition and transactions of school districts and area education agencies pursuant to Iowa Code section 11.6(1)"a"(1).

EDUCATION DEPARTMENT [281]

Notice of Intended Action

Pursuant to the authority of Iowa Code section 256.7(5), the State Board of Education hereby proposes to adopt new Chapter 98, "Financial Management of Categorical Funding," Iowa Administrative Code.

This chapter provides guidance in a single document for school districts and area education agencies on financial management of funding pursuant to Iowa Code section 256.9(18), and for auditors examining the financial condition and transactions of school districts and area education agencies pursuant to Iowa Code section 11.6(1)"a"(1).

An agencywide waiver provision is provided in 281—chapter 4.

Interested individuals may make written comments on the proposed amendment on or before June 9, 2009, at 4:30 p.m. Comments on the proposed amendments should be directed to Su McCurdy, Iowa Department of Education, second floor, Grimes State Office Building, Des Moines, Iowa 50319-0146; telephone (515)281-4738; e-mail su.mccurdy@iowa.gov; or fax (515) 281-8777.

A public hearing will be held on June 9, 2009, from 9:00 to 10:00 a.m., at the State Board Room, second floor, Grimes State Office Building, East 14th Street and Grand Avenue, Des Moines, Iowa, at which time persons may present their views either orally or in writing. Any persons who intend to attend the public hearing and have special requirements, such as those related to hearing or mobility impairments, should contact and advise the Department of Education of their specific needs by calling (515)281-5296.

The proposed new chapter is intended to implement Iowa Code chapters 24, 256B, 257, 276, 279, 280, 282, 283A, 284, 284A, 291, 294A, 298, 298A, 299A, 300, and 301, and sections 11.6(1)"a"(1), 256.9(18), 256D.4(3), 256C.4(1)"c," and 284.13(a)"d"(1)].

The following amendment is proposed.

Item 1. Add the following **new** chapter of rules:

CHAPTER 98

FINANCIAL MANAGEMENT OF CATEGORICAL FUNDING

DIVISION I

GENERAL PROVISIONS

281—98.1(256,257) Definitions.

"*Categorical funding*" means financial support from state and federal governments that is targeted for particular categories of students, special program, or special purposes. This support is in addition to school district or area education agency general purpose revenue, is beyond the basic educational program, and most often has restrictions on its use. Where categorical funding requires a local match, that local match also is considered to be categorical funding. Categorical funding includes both grants in aid and budgetary allocations. Although grants in aid and budgetary allocations are both categorical funding, they are defined separately to distinguish unique characteristics of each type of categorical funding.

"Grants in aid" means financial support that is either allocated to the school district or area education agency or for which a school district or area education agency applies, usually from state or federal appropriations. This support is paid separately from state foundation aid. In the general fund, grants in aid become miscellaneous income and increase budget authority when the support is received as revenue.

"*Budgetary allocation*" means the portion of the funding that is specifically earmarked for a particular purpose or designated program and which, in the case of the general fund, has been rolled into, or added to, the school district cost per pupil or school district regular program cost. Budgetary allocations may include both state aid and property tax. Budgetary allocations increase budget authority on the first day of the fiscal year for which the allocation has been certified or on the date that the school budget review committee approves modified allowable growth for a specific purpose or program; the budgetary authority remains even if the full amount of revenue is not received or if the local board does not levy a cash reserve. There is no assumption that a school district or area education agency will receive the same amount of revenue as it has received in budget authority due to delinquent property taxes, cuts in state aid, or legislative decisions to fund other instructional programs off the top of state aid. The school district or area education agency must expend the full amount of budgetary authority for the specific purposes for which it was earmarked. When the school district or state cost per pupil is transferred from one school district to another school district in the form of tuition as required by Iowa Code, any budgetary

allocation that is included in the school district or state cost per pupil shall be considered transferred to the receiving school district and shall be expended for the specific purpose for which it was earmarked.

"Supplement, not supplant" means that the categorical funding shall be in addition to general purpose revenues; shall not be used to provide services required by federal or state law, administrative rule, or local policy; and that general purpose revenues shall not be diverted for other purposes because of the availability of categorical funding. Supplanting is presumed to have occurred if the school district or area education agency uses categorical funding to provide services that it was required to make available under other categorical funding or law, or uses categorical funding to provide services that it provided in prior years from general purpose revenues, or uses categorical funding to provide services to a particular group of children or programs that it uses general purpose revenues to provide the same or similar services to other groups of children or programs. These presumptions are rebuttable if the school district or area education agency can demonstrate that it would not have provided the services in question with general purpose revenues if the categorical funding had not been available.

281—98.2(256,257) General Finance. The categorical funding provided for various purposes to school districts and area education agencies includes some general financial characteristics. These are discussed below.

98.2(1) *Indirect cost recovery.* Categorical funding provided by the state to school districts or area education agencies is not eligible for indirect cost

recovery unless the Iowa Code section authorizing the funding or allocation expressly states that indirect cost recovery is permitted from that source. If Iowa Code permits indirect cost recovery, the school district or area education agency shall utilize its restricted indirect cost rate developed by the department for federal programs from data submitted by the school district or area education agency on its certified annual report.

98.2(2) *Restriction on supplanting.* Categorical funding shall supplement, but shall not supplant, expenditures in the appropriate fund into which the categorical funding is deposited and accounted for, unless the Iowa Code section authorizing the funding or allocation expressly states that supplanting is permitted from that source.

98.2(3) *Mandatory carry forward.* Any portion of categorical funding provided by the state not expended by the end of the fiscal year in which received by or for which allocated to the school district or area education agency, shall be carried forward as a reserved fund balance and added to the subsequent year's budget for that purpose. The funding can only be expended for the purposes permitted for that categorical funding. Where a local match is required for categorical funding, the amount unexpended at the end of the fiscal year that is carried forward shall not be used as part of the required local match.

98.2(4) *Discontinued funding.* In the event that a categorical funding source is discontinued and an unexpended balance remains, the school district or area education agency shall carry forward the unexpended balance and expend the remaining balance within the subsequent 24 months for the purposes for which

allowed in the final year that the funding was allocated or granted prior to discontinuation unless a rule in this chapter provides for a longer period.

98.2(5) *Expenditures.* Expenditures from categorical funding shall be limited to direct costs of providing the program or service for which the funding was intended. Expenditures shall not include costs that are allocated costs or that are considered indirect costs or overhead. Expenditures for the functions of administration, business and central services, operation and maintenance of plant, transportation, enterprise and community service operations, facility acquisition and construction, or debt service generally are not allowed from categorical funding unless expressly allowed by Iowa Code or if the expenditure represents a direct, allowable cost. In order for costs of administration, business and central services, operation and maintenance of plant, transportation or enterprise and community service operations to be considered direct costs, the costs must be necessary because of something that is unique to the program that is causing the need for the service, not otherwise needed or not otherwise provided to similar programs, the costs must be in addition to those which are normally incurred, and the costs must be measureable directly without allocating. Where a local match is required for categorical funding, that local match requirement shall not be met by the use of other categorical funding except where expressly allowed by Iowa Code. Expenditures shall not include reimbursing the school district or area education agency for expenditures it paid in a previous year in excess of the funding available for that year.

98.2(6) *Restriction on duplication.* The school district or area education agency shall not charge the same cost to more than one funding source.

98.2(7) *Excess expenditures.* The school district or area education agency shall not charge to categorical funding more expenditures than the total of the current year's funding or allocation plus any carry forward balance from the previous year.

98.2(8) *Commingling prohibited.* Categorical funding shall not be commingled with other funding. All categorical funding shall be accounted for separately from other funding. School districts and area education agencies shall use a project code and program code as defined by *Uniform Financial Accounting for Iowa School Districts and Area Education Agencies*, as appropriate or required.

281—98.3 to **281—98.10** Reserved.

DIVISION II

APPROPRIATE USE OF BUDGETARY ALLOCATIONS

281—98.11(257) Categorical and non-categorical student counts. The certified enrollment data collection includes both student counts related to budgetary allocations for the subsequent budget year provided for the purpose of offering a program in addition to the basic educational program for a specific category of students and student counts that are general in nature and can be used for any legal general fund purpose. Student counts that are general in nature are used to generate funding through the school aid foundation formula and are not intended to fund a specific program or a specific category of

students. General student counts include the basic enrollment of full-time resident students.

Counts for part-time nonpublic students participating in the public school classes pursuant to Iowa Code section 257.6(3) and for part-time dually enrolled competent private instruction students in grades 9-12 are the full-time-equivalent enrollment of a regularly enrolled student. Counts for dually enrolled competent private instruction students less than grade 9 are the legislatively-set-equivalent of a regularly enrolled full-time student. Counts for part-time nonpublic students and for part-time dually enrolled competent private instruction students in grades 9-12 who participate in the post-secondary enrollment option act classes are the full-time-equivalent of a regularly enrolled student based on cost. Because these counts are the full-time-equivalent of a regularly enrolled student, and are not in addition to, the funding generated within the school aid foundation formula based on these counts are considered general in nature.

Student counts related to categorical budgetary allocations are those that generate funding intended to be used for only that specific category of students being counted or for the specific program for which the additional counts are authorized in Iowa Code.

281—98.12(257,299A) Home school assistance program. The home school assistance program (HSAP) is a program for a specific category of students and that is provided outside the basic educational program provided to regularly enrolled students by the school district.

98.12(1) *Appropriate uses of categorical funding.* Because the program is specifically instruction, expenditures generally are limited to the functions of instruction, student support services and staff support services. Appropriate uses of the home school assistance program funding include, but are not limited to, the following:

a. Salary and benefits for the teacher of the home school assistance program students. If the teacher is a part-time home school assistance program teacher and a part-time regular classroom teacher, then the portion that is related to providing the home school assistance program can be charged to the program, but the regular classroom portion could not.

b. Staff development for the home school assistance program teacher.

c. Travel for the home school assistance program teacher.

d. Resources, materials, software, and supplies, purchased services 1) that are necessary to provide the services of home school assistance and 2) that will remain with the school district for its K-12 home school assistance program.

98.12(2) *Inappropriate uses of categorical funding.* Inappropriate uses of the home school assistance program funding include, but are not limited to, indirect costs or use charges; operational or maintenance costs; capital expenditures; student transportation; administrative costs; dual enrollment program costs, including postsecondary enrollment options act classes, even if for the same student that is in the home school assistance program; or any other expenditures

not directly related to providing the home school assistance program. A home school assistance program shall not provide moneys or resources paid for with home school assistance program funding, to parents or students utilizing the program.

281—98.13(256C,257) Statewide voluntary four-year-old preschool program. The statewide voluntary four-year-old preschool program is a program for a specific category of students and is funding for the purpose of providing a high-quality early learning environment for four-year-old children whose families choose to access such programs.

98.13(1) *Appropriate uses of categorical funding.* Because the program is specifically instruction, expenditures generally are limited to the functions of instruction, student support services and staff support services, but include expenditures required in 281—chapter 16.

98.13(2) *Inappropriate uses of categorical funding.* Inappropriate uses of the statewide voluntary four-year-old preschool program funding include, but are not limited to, indirect costs or use charges, capital expenditures other than equipment, facility acquisition, debt service, operational or maintenance costs or administrative costs that supplant, or any other expenditures not directly related to providing the statewide voluntary four-year-old preschool program or that would supplant existing public funding for preschool programming.

281—98.14(257) Supplementary weighting. Supplementary weighting provides funding in addition to the student count that generates general purpose revenues and is for the purpose of incenting sharing of students and staff

between school districts and providing postsecondary opportunities for qualified students. It is assumed that supplementary weighting covers only a portion of the costs of sharing or providing postsecondary opportunities and shall be fully expended within the fiscal year. Therefore, school districts are not required to account for the supplementary weighting funding separate from the general purpose revenues.

281—98.15(257) Operational function sharing supplementary weighting. Operational function sharing supplementary weighting provides funding in addition to the student count that generates general purpose revenues and is for the purpose of incenting sharing of management level staff. It is assumed that supplementary weighting covers only a portion of the costs of sharing management level staff and shall be fully expended within the five-year period of sharing. Therefore, school districts are not required to account for the supplementary weighting funding separate from the general purpose revenues.

281—98.16(257,280) Limited English proficiency (LEP) weighting. Limited English proficiency weighting provides funding in addition to the student count that generates general purpose revenues and is for the purpose of providing funding for the excess costs of instruction of limited English proficient students above the costs of instruction of pupils in a regular curriculum. In addition, the school budget review committee may grant modified allowable growth to continue funding of the excess costs beyond the four years of weighting. The limited English proficiency weighted funding and the modified allowable growth for

limited English proficiency programs are both categorical funding and may have different restrictions than the federal limited English proficiency funding.

98.16(1) *Appropriate uses of categorical funding.* Appropriate uses of funding for the limited English proficiency program are those that are direct costs of providing instruction which supplement, but do not supplant, the costs of the regular curriculum. These expenditures include, but are not limited to, salaries and benefits of teachers and paraeducators; instructional supplies, textbooks, and technology; classroom interpreters; support services to students served in limited English proficiency programs above the services provide to pupils in regular programs; support services to instructional staff such as targeted professional development, curriculum development or academic student assessment; and support services provided to parents of limited English proficiency students and community services specific to limited English proficiency.

98.16(2) *Inappropriate uses of categorical funding.* Inappropriate uses of funding for the limited English proficiency program include, but are not limited to, indirect costs, operational or maintenance costs, capital expenditures other than equipment, student transportation, administrative costs, or any other expenditures not directly related to providing the limited English proficiency program beyond the scope of the regular classroom.

281—98.17(256B,257) Special education weighting. Special education weighting provides funding in addition to the student count for the purpose of providing additional instruction and services to an identified group of students.

More information on the special education program is provided in 281—chapter 41.

281—98.18(257) At-risk formula supplementary weighting. At-risk formula supplementary weighting provides funding in addition to the student count for the purpose of providing additional instruction and services to an identified group of at-risk and alternative school secondary students pursuant to Iowa Code section 257.11(4)"a."

98.18(1) *Appropriate uses of categorical funding.* Appropriate uses of at-risk formula supplementary weighting funding include costs to develop or maintain at-risk pupils' programs, which may include alternative school programs, and include, but are not limited to:

a. Salary and benefits for the teacher(s) of students participating in the at-risk or alternative school programs. If the teacher (or counselor) is part-time at-risk and part-time regular classroom teacher (counselor), then the portion that is related to providing the at-risk program can be charged to the program, but the regular classroom portion could not. Guidance counselors or a dean of students dedicated to working directly and exclusively with identified students beyond the services provided by the school district to students that are not identified as at risk.

b. Professional development for all teachers and staff working with at risk students and programs involving intervention strategies.

c. Research based programs such as resources, materials, software, supplies, purchased services that meet all of the following criteria: 1) meet

the needs of K-12 identified students at risk, 2) are beyond those provided by the regular school program, 3) are necessary to provide the services listed in the school district's at-risk program plan, and 4) will remain with the K-12 at-risk program.

98.18(2) *Inappropriate uses of categorical funding.* Inappropriate uses of the at-risk formula supplementary weighting funding include, but are not limited to, indirect costs or use charges, operational or maintenance costs, capital expenditures other than equipment, student transportation, administrative costs other than those related to a separate school located off site and where the administrator is assigned exclusively to this program, or any other expenditures not directly related to providing the at-risk or alternative school program beyond the scope of the regular classroom program.

281—98.19(257) Reorganization incentive weighting. Reorganization incentive weighting provides funding in addition to the student count that generates general purpose revenues and is for the purpose of incenting reorganization of school districts to increase student learning opportunities. It is assumed that reorganization incentive weighting covers only a portion of the costs of reorganizing and shall be fully expended within the fiscal year. Therefore, school districts are not required to account for the reorganization incentive weighting funding separate from the general purpose revenues.

281—98.20(257) Gifted and talented program. Gifted and talented funding is included in the school district cost per pupil calculated for each school district under the school foundation formula. The per pupil amount increases each year

by the allowable growth percentage. This amount must account for no more than 75 percent of the school district's total gifted and talented budget. The school district must also provide a local match from the school district's regular program school district cost and this portion must be a minimum of 25 percent of the total gifted and talented budget. In addition, school districts may have donations and grants, and the school district may contribute more local school district resources toward the program. The 75 percent portion, the local match, and all donations and grants shall be accounted for as categorical funding.

The purpose of the gifted and talented funding described in Iowa Code section 257.46 is to provide for identified gifted students' needs beyond those provided by the regular school program pursuant to each gifted student's individualized plan. The funding shall be used only for expenditures that are directly related to providing the gifted and talented program.

98.20(1) *Appropriate uses of categorical funding.* Appropriate uses of the gifted and talented program funding include, but are not limited to:

a. Salary and benefits for the teacher of gifted and talented students. If the teacher is a part-time gifted and talented and a part-time regular classroom teacher, then the portion that is related to providing the gifted and talented program can be charged to the program, but the regular classroom portion could not.

b. Staff development for the gifted and talented teacher.

c. Resources, materials, software, supplies, purchased services that meet all of the following criteria: 1) meet the needs of K-12 identified students, 2)

are beyond those provided by the regular school program, 3) are necessary to provide the services listed on the gifted student's individualized plan, and 4) will remain with the K-12 gifted and talented program.

98.20(2) *Inappropriate uses of categorical funding.* Inappropriate uses of the gifted and talented program funding include, but are not limited to, indirect costs or use charges, operational or maintenance costs, capital expenditures other than equipment, student transportation, administrative costs, or any other expenditures not directly related to providing the gifted and talented program beyond the scope of the regular classroom.

281—98.21(257) Returning dropout and dropout prevention program. Returning dropout and dropout prevention programs are funded thorough a school district-initiated request to the school budget review committee for modified allowable growth pursuant to Iowa Code sections 257.38 - .41. This amount must account for no more than 75 percent of the school district's total dropout prevention budget. The school district must also provide a local match from the school district's regular program school district cost, and this portion must be a minimum of 25 percent of the total dropout prevention budget. In addition, school districts may have donations and grants, and the school district may contribute more local school district resources toward the program. The 75 percent portion, the local match, and all donations and grants shall be accounted for as categorical funding.

The purpose of the dropout prevention funding is to provide funding to meet the needs of identified students at risk of dropping out of school beyond the instructional program and services provided by the regular school program. The funding shall be used only for expenditures that are directly related to providing the returning dropout and dropout prevention program. Returning dropouts are resident pupils who have been enrolled in a public or nonpublic school in any of grades seven through twelve who withdrew from school for a reason other than transfer to another school or school district and who subsequently re-enrolled in a public school in the school district. Potential dropouts are resident pupils who are enrolled in a public or nonpublic school who demonstrate poor school adjustment as indicated by two or more of the following:

a. High rate of absenteeism, truancy, or frequent tardiness.

b. Limited or no extracurricular participation or lack of identification with school, including but not limited to, expressed feelings of not belonging.

c. Poor grades, including but not limited to, failing in one or more school subjects or grade levels.

d. Low achievement scores in reading or mathematics which reflect achievement at two years or more below grade level.

e. Children in grades kindergarten through three who meet the definition of at-risk children adopted by the department of education.

98.21(1) *Appropriate uses of categorical funding.* Appropriate uses of the returning dropout and dropout prevention program funding include, but are not limited to:

a. Salary and benefits for the teacher(s) of students participating in the dropout prevention programs, alternative programs, and alternative schools, and salary and benefits for guidance counselors or a dean of students dedicated to working directly and exclusively with identified students beyond the services provided by the school district to students that are not identified as at risk of becoming dropouts. If the teacher (or counselor) is part-time dropout prevention and part-time regular classroom teacher (counselor), then the portion that is related to providing the dropout prevention program can be charged to the program, but the regular classroom portion could not.

b. Professional development for all teachers and staff working with at risk students and programs involving dropout prevention strategies.

c. Research based programs such as resources, materials, software, supplies, purchased services that meet all of the following criteria: 1) meet the needs of K-12 identified students at risk of dropping out or returning dropouts, 2) are beyond those provided by the regular school program, 3) are necessary to provide the services listed in the school district's dropout prevention plan, and 4) will remain with the K-12 returning dropout and dropout prevention program.

98.21(2) *Inappropriate uses of categorical funding.* Inappropriate uses of the returning dropout and dropout prevention program funding include, but are not limited to, indirect costs or use charges, operational or maintenance costs, capital expenditures other than equipment, student transportation, administrative

costs other than those related to a separate school located off site and where the administrator is assigned exclusively to this program, or any other expenditures not directly related to providing the returning dropout and dropout prevention program beyond the scope of the regular classroom.

281—98.22(257) Use of the unexpended general fund balance. The school budget review committee may authorize a school district to spend a reasonable and specified amount from its unexpended general fund balance for either of the following purposes:

a. Furnishing, equipping, and contributing to the construction of a new building or structure for which the voters of the school district have approved a bond issue as provided by law or the tax levy provided in Iowa Code section 298.2.

b. The costs associated with the demolition of an unused school building, or the conversion of an unused school building for community use, in a school district involved in a dissolution or reorganization under Iowa Code chapter 275, if the costs are incurred within three years of the dissolution or reorganization.

98.22(1) *Appropriate uses of categorical funding.* Appropriate uses of the unexpended general fund balance include a transfer from the general fund to the capital projects fund in the amount approved by the school budget review committee. In the capital projects fund the money shall be used exclusively for furnishing, equipping or construction of a new building or demolition of an unused building.

98.22(2) *Inappropriate uses of categorical funding.* Inappropriate uses of the unexpended general fund balance include, but are not limited to, expenditures for salaries or recurring costs.

98.22(3) *Mandatory reversion of unused funding.* The portion of the unexpended general fund balance which is authorized to be transferred and expended shall increase budget authority. However, any part of the amount not actually spent for the authorized purpose shall revert to its former status as part of the unexpended general fund balance and budget authority will be reduced by the amount not actually spent.

281—98.23(256D,257) Iowa early intervention block grant. Beginning with the fiscal year 2009-2010, the Iowa early intervention block grant program is converted from a grants in aid categorical funding to a budgetary allocation categorical funding. The program's goals for kindergarten through grade three are to provide the resources needed to reduce class sizes in basic skills instruction to the state goal of seventeen students for every one teacher; provide direction and resources for early intervention efforts by school districts to achieve a higher level of student success in the basic skills, especially reading skills; and increase communication and accountability regarding student performance.

98.23(1) *Appropriate uses of categorical funding.* Appropriate uses of the Iowa early intervention block grant include providing programs, instructional support, and materials at the kindergarten through grade three level that include but are not limited to the following: additional licensed instructional staff; additional support for students, such as before and after school programs, tutoring, and

intensive summer programs; the acquisition and administration of diagnostic reading assessments; the implementation of research-based instructional intervention programs for students needing additional support; the implementation of all-day, every-day kindergarten programs; and the provision of classroom teachers with intensive training programs to improve reading instruction and professional development in best practices.

98.23(2) *Inappropriate uses of categorical funding.* Inappropriate uses of the Iowa early intervention block grant program funding include, but are not limited to, indirect costs or use charges, operational or maintenance costs, capital expenditures other than equipment, student transportation, or administrative costs.

281—98.24(257,294A) Educational excellence, phase II. Beginning with the fiscal year 2009-2010, the educational excellence phase II program is converted from a grants in aid categorical funding to a budgetary allocation categorical funding. Phase II of the educational excellence program is for the purpose of improving teacher salaries. A teacher for purposes of the educational excellence program is an individual holding a practitioner's license issued under Iowa Code chapter 272, or a letter of authorization or statement of professional recognition issued by the board of educational examiners, who is employed in a nonadministrative position by a school district or area education agency pursuant to a contract issued by a board of directors under Iowa Code section 279.13. A teacher may be employed in both an administrative and a nonadministrative position by a board of directors of a school district, and shall be considered a

part-time teacher for the portion of time that the teacher is employed in a nonadministrative position.

98.24(1) *Appropriate uses of categorical funding.* Appropriate use of the educational excellence phase II program funding is limited to additional salary for teachers and the amount required to pay the employers' share of the federal social security and Iowa public employees' retirement system, or a pension and annuity retirement system established under Iowa Code chapter 294, payments on the additional salary. Educational excellence phase II program funding shall be fully expended in the fiscal year for which it is allocated; however, in the event that a small amount is remaining, and it would not be cost effective to re-allocate the remainder to teachers in the fiscal year, the school district or area education agency shall carry forward the remainder and add it to the amount to be allocated to teachers in the subsequent fiscal year.

98.24(2) *Inappropriate uses of categorical funding.* Inappropriate uses of the educational excellence phase II program funding include any expenditures other than additional salary for teachers and the amount required to pay the employers' share of the federal social security and Iowa public employees' retirement system, or a pension and annuity retirement system established under Iowa Code chapter 294, payments on the additional salary.

281—98.25(257,284) Educator quality, basic salary. Beginning with the fiscal year 2009-2010, the educator quality basic salary program is converted from a grants in aid categorical funding to a budgetary allocation categorical funding. A teacher for purposes of the educator quality program is an individual who holds a

practitioner's license issued under Iowa Code chapter 272, or a statement of professional recognition issued under Iowa Code chapter 272 who is employed in a nonadministrative position by a school district or area education agency pursuant to a contract issued by a board of directors of a school district under Iowa Code section 279.13. A teacher may be employed in both an administrative and a nonadministrative position by a board of directors of a school district, and shall be considered a part-time teacher for the portion of time that the teacher is employed in a nonadministrative position.

98.25(1) *Appropriate uses of categorical funding.* Appropriate use of the educator quality basic salary program funding is limited to additional salary for teachers and the amount required to pay the employers' share of the federal social security and Iowa public employees' retirement system, a pension and annuity retirement system established under Iowa Code chapter 294, payments on the additional salary, and payments to a whole grade sharing partner school district as negotiated as part of the new or existing agreement pursuant to Iowa Code subsection 282.10(4). Educator quality basic salary funding shall be fully expended in the fiscal year for which it is allocated; however, in the event that a small amount is remaining, and it would not be cost effective to re-allocate the remainder to teachers in the fiscal year, the school district or area education agency shall carry forward the remainder and add it to the amount to be allocated to teachers in the subsequent fiscal year.

98.25(2) *Inappropriate uses of categorical funding.* Inappropriate uses of the educator quality basic salary program funding include any expenditures other

than additional salary for teachers and the amount required to pay the employers' share of the federal social security and Iowa public employees' retirement system, a pension and annuity retirement system established under Iowa Code chapter 294, payments on the additional salary or and payments to a whole grade sharing partner school district as negotiated as part of the new or existing agreement pursuant to Iowa Code subsection 282.10(4).

281—98.26(257,284) Educator quality, professional development. Beginning with the fiscal year 2009-2010, the educator quality professional development program, including core curriculum professional development, is converted from a grants in aid categorical funding to a budgetary allocation categorical funding.

98.26(1) *Appropriate uses of categorical funding.* Appropriate uses of the educator quality professional development funding is limited to providing professional development to teachers, including additional salaries for time beyond the normal negotiated agreement; pay for substitute teachers, professional development materials, speakers, and professional development content; costs associated with implementing the individual professional development plans; and payments to a whole grade sharing partner school district as negotiated as part of the new or existing agreement pursuant to Iowa Code subsection 282.10(4). The use of the funds shall be balanced between school district, attendance center, and individual professional development plans, making every reasonable effort to provide equal access to all teachers.

98.26(2) *Inappropriate uses of categorical funding.* Inappropriate uses of educator quality professional development funding includes, but is not limited to,

any expenditures that supplants the professional development opportunities the school district otherwise makes available.

281—98.27 to **281—98.39.** Reserved.

DIVISION III

APPROPRIATE USE OF GRANTS IN AID

281—98.40(256,257,298A) Grants in aid. The state provides a large amount of categorical funding for various purposes to school districts and area education agencies in the form of grants in aid. Only those grants in aid allocated to a substantial number of the school districts and area education agencies through the department of education are included in these rules.

281—98.41(257,294A) Educational excellence, phase I. Phase I of the educational excellence program is for the purpose of supporting the regular compensation for teachers.

98.41(1) *Appropriate uses of categorical funding.* Appropriate use of the educational excellence phase I program funding is limited to regular salary for teachers and the amount required to pay the employers' share of the federal social security and the Iowa public employees' retirement system, or a pension and annuity retirement system established under Iowa Code chapter 294, payments on the additional regular salary. Educational excellence phase I program funding is to be fully expended in the fiscal year for which it is allocated.

98.41(2) *Inappropriate uses of categorical funding.* Inappropriate uses of the educational excellence phase I program funding include any expenditures other

than regular salary for teachers and the amount required to pay the employers' share of the federal social security and the Iowa public employees' retirement system, or a pension and annuity retirement system established under Iowa Code chapter 294, payments on the regular salary.

281—98.42(257,284) Beginning teacher mentoring and induction. The purpose of the beginning teacher mentoring and induction program is to promote excellence in teaching, enhance student achievement, build a supportive environment within school districts and area education agencies, increase the retention of promising beginning teachers, and promote the personal and professional well-being of teachers.

98.42(1) *Appropriate uses of categorical funding.* Appropriate uses of the beginning teacher mentoring and induction program funding include costs to provide each mentor of a beginning teacher with the statutory award for participation in the school district's or area education agency's beginning teacher mentoring and induction program; to implement the plan; and to pay any applicable costs of the employer's share of contributions to federal social security and the Iowa public employees' retirement system or a pension and annuity retirement system established under Iowa Code chapter 294, for such amounts paid by the school district or area education agency.

98.42(2) *Inappropriate uses of categorical funding.* Inappropriate uses of beginning teacher mentoring and induction program funding include any costs not listed above as appropriate uses.

281—98.43(257,284A) Beginning administrator mentoring and induction. The purpose of the beginning administrator mentoring and induction program is to promote excellence in school leadership, improve classroom instruction, enhance student achievement, build a supportive environment within school districts, increase the retention of promising school leaders, and promote the personal and professional well-being of administrators.

98.43(1) *Appropriate uses of categorical funding.* Appropriate uses of the beginning administrator mentoring and induction program funding include costs to provide each mentor with the statutory award for participation in the school district's beginning administrator mentoring and induction program; to implement the plan; and to pay any applicable costs of the employer's share of contributions to federal social security and the Iowa public employees' retirement system or a pension and annuity retirement system established under Iowa Code chapter 294, for such amounts paid by the school district.

98.43(2) *Inappropriate uses of categorical funding.* Inappropriate uses of beginning administrator mentoring and induction program funding shall include any costs that are not listed above as appropriate uses.

281—98.44(257,301) Nonpublic textbook services. Textbooks adopted and purchased by a school district shall, to the extent funds are appropriated by the general assembly, be made available to pupils attending accredited nonpublic schools upon request of the pupil or the pupil's parent under comparable terms as made available to pupils attending public schools.

98.44(1) *Appropriate uses of categorical funding.* The appropriate use of the nonpublic textbook services funding shall be for the public school district to purchase nonsectarian textbooks for the use of pupils attending accredited nonpublic schools located within the boundaries of the public school district. Textbook means books and loose-leaf or bound manuals, systems of reusable instructional materials or combinations of books and supplementary instructional materials which convey information to the student or otherwise contribute to the learning process, or electronic textbooks, including but not limited to computer software, applications using computer-assisted instruction, interactive videodisc, and other computer courseware and magnetic media.

In the event that a participating accredited nonpublic school physically relocates to another school district, textbooks purchased for the nonpublic school with funds appropriated for that purpose by Iowa Code shall be transferred to the school district in which the accredited nonpublic school has relocated and may be made available to the accredited nonpublic school by the school district in which it has relocated. Funds distributed to a former school district for purposes of purchasing textbooks and that are unexpended shall also be transferred from the former school district of location to the school district in which the accredited nonpublic school has relocated.

98.44(2) *Inappropriate uses of categorical funding.* Inappropriate uses of nonpublic textbook services include, but are not limited to, reimbursements to accredited nonpublic schools for purchases made by the accredited nonpublic school, sectarian textbooks, computer hardware, installation of hardware or other

purchased services, teacher manuals or any other materials not available to the students attending the accredited nonpublic school, or any other expenditure that does not fit the definition of textbook. Funding provided for one nonpublic school located within the boundaries of the public school district shall not be used for another accredited nonpublic school, even if the accredited nonpublic schools are associated with the same parent organization.

281—98.45 to **281—98.59**. Reserved.

DIVISION IV

APPROPRIATE USE OF SPECIAL TAX LEVIES AND FUNDS

281—98.60(24,29C,76,143,256,257,274,275,276,279,280, 282,283A,285, 291,296,298,298A, 300,301,423E,423F,565,670) Levies and funds. Tax levies or funds that are required by law to be expended only for the specific items listed in statute are to be accounted for in a similar way to categorical funding. Each fund is mutually exclusive and completely independent of any other fund. No fund shall be used as a clearing account for another fund, and no fund may retire the debt of another fund unless specifically authorized in statute.

281—98.61(24,143,257,275,279,280,285,297,298,298A,301,473,670) General fund. All moneys received by a school corporation from taxes and other sources must be accounted for in the general fund, except moneys required by law to be accounted for in another fund. If another fund specifically lists an expenditure to that fund, it is assumed not to be appropriate to the general fund unless statute

expressly states that it is an appropriate general fund expenditure. Each school district and each area education agency shall have only one general fund.

98.61(1) *Sources of revenues in the general fund.* Sources of revenue in the general fund include all moneys not required by law to be accounted for in another fund and interest on the investment of those moneys. Proceeds from the sale or disposition of property other than real property, proceeds from the lease of real or other property, compensation or rent received for the use of school property, sales of school supplies, and sales or rentals of textbooks shall be accounted for in the general fund. Proceeds for loans for equipment pursuant to Iowa Code section 279.48, federal loans for asbestos projects pursuant to Iowa Code section 279.52, or loans for energy conservation projects pursuant to Iowa Code section 473.20 may be accounted for in the general fund. Any revenue or receipt described in law as "miscellaneous income" or related to modified allowable growth is restricted to the general fund.

98.61(2) *Appropriate uses of the general fund.* Appropriate expenditures in the general fund include, but are not limited to, the following:

a. Providing day-to-day operations to the district or area education agency such as salaries, employee benefits, purchased services, supplies, and expenditures for instructional equipment.
b. Purchasing school buses from unobligated funds on-hand.
c. Establishing and maintaining dental clinics for children and offering courses of instruction on mouth hygiene.
d. Employing public health nurses.

e. Funding insurance agreements if the district has not certified a district management levy.

f. Purchasing books and other supplies to be loaned, rented, or sold at cost to students.

g. Purchasing safety eye-protective devices and safety ear-protective devices.

h. Purchasing bonds and premiums for bonds for employees who have custody of funds belonging to the corporation or funds derived from extracurricular activities and other sources in the conduct of their duties.

i. Paying assessed costs related to changes in boundaries, reorganization, or dissolution.

j. Publishing the notices and estimates and the actual and necessary expenses of preparing the budget.

k. Engraving and printing school bonds, in the case of a school district.

l. Transferring interest and principal to the debt service fund when due for loans to purchase equipment authorized under Iowa Code section 279.48 and loans to be used for energy conservation measures under Iowa Code section 473.20, in the case of a school district, where the original proceeds were accounted for in the general fund.

m. Transferring interest and principal to the debt service fund when due for lease purchase agreements related to capital projects authorized under Iowa Code subsection 273.3(7), in the case of an area education agency.

n. Funding asbestos projects including the costs of inspection and re-inspection, sampling, analysis, assessment, response actions, operations and maintenance, training, periodic surveillance, developing of management plans and recordkeeping requirements relating to the presence of asbestos in school buildings and its removal or encapsulation.

o. Funding energy conservation projects entered into with the department of natural resources or its duly authorized agents or representatives pursuant to Iowa Code section 473.20, in the case of a school district.

p. Transferring to a capital project fund as authorized by the school budget review committee, in the case of a school district.

q. Transferring to a capital project fund as funds are due to be expended on a capital project authorized under Iowa Code subsection 273.3(7), in the case of an area education agency.

r. Paying any other costs not required to be accounted for in another fund.

98.61(3) *Inappropriate uses of the general fund.* Inappropriate expenditures from the general fund include the following:

a. Purchasing land or improvements other than land for student construction projects.

b. Purchasing or constructing buildings or for capital improvements to real property except under special circumstances authorized by the school budget review committee, in the case of a school district, or except as authorized under Iowa Code subsection 273.3(7), in the case of an area education agency.

c. Modifying or remodeling school buildings or classrooms even to make them accessible.

d. Paying interest and principal on long-term indebtedness for which the original proceeds were not accounted for in the general fund.

e. Funding lease-purchases.

f. Purchasing portable buildings.

g. Paying individuals or private organizations that are not audited and allowed and related to goods received or services rendered.

h. Paying other costs that are not operating or current expenditures for public education and are not expressly authorized in Iowa Code.

98.61(4) *Special levies.* The general fund includes two special levy programs available to school districts, but not to area education agencies, that are restricted by Iowa Code.

(1) *Instructional support program.* The instructional support program is a district-initiated program to provide additional funding to the district's general fund.

a. *Appropriate uses of instructional support program funding.* Moneys received by a district for the instructional support program may be used for any general fund purpose except those listed as inappropriate uses in paragraph "b."

b. *Inappropriate uses of instructional support program funding.* Moneys received by a district for the instructional support program shall not be used as, or in a manner which has the effect of, supplanting funds authorized to be received under Iowa Code sections 257.41 (returning dropout and dropout prevention programs), 257.46 (gifted and talented programs), 298.2 (management fund

levy), and 298.4 (physical plant and equipment fund levy), or to cover any deficiencies in funding for special education instructional services resulting from the application of the special education weighting plan under Iowa Code section 256B.9.

(2) *Educational improvement program.* The educational improvement program is a district-initiated program available to districts in special circumstances to provide additional funding to the district's general fund if the district already has the instructional support program in place.

a. *Appropriate uses of educational improvement program funding.* Moneys received by a district for the educational improvement program may be used for any general fund purpose.

b. *Inappropriate uses of educational improvement program funding.* Inappropriate uses of educational improvement program funding include any expenditure not appropriate to the general fund.

281—98.62(279,296,298,670) Management levy fund. The purpose of this fund is to pay the costs of unemployment benefits; early retirement benefits; insurance agreements; the costs of liability insurance to protect the school districts from tort liability, loss of property, and environmental hazards; and judgments or settlements relating to such liability. Establishing a management fund is available to school districts but not to area education agencies.

98.62(1) *Sources of revenues in the management fund.* Sources of revenue in the management fund include a property tax and interest on the investment of those moneys.

98.62(2) *Appropriate uses of the management fund.* Appropriate expenditures in the *management* fund include the following:

a. Costs of unemployment benefits as provided in Iowa Code section 96.31.

b. Costs of liability insurance to protect the school districts from tort liability, loss of property, and environmental hazards.

c. Costs of a final court judgment entered against the district or a settlement made for a tort liability claim including interest accruing on the judgment or settlement to the expected date of payment.

d. Costs, including prepaid costs, of insurance agreements to protect the school districts from tort liability, loss of property, environmental hazards, or other risk associated with operations, but not including employee benefit plans.

e. Costs of early retirement benefits to employees under Iowa Code section 279.46 to pay monetary bonus, continuation of health or medical insurance coverage, or other incentives for encouraging employees to retire before the normal retirement date for employees within the age range of age 55 to 65 who notify the board of directors prior to April 1 of the fiscal year that they intend to retire not later than the start of the next following school calendar.

f. Costs of a physical inventory conducted solely for the purpose of insurance.

g. Transfers to debt service fund for payment of principal and interest when due on general obligation bonds issued under Iowa Code section 296.7 to

protect the school district from tort liability, loss of property, environmental hazards, or other risk associated with operations.

h. Transfers to the appropriate fund for the portion of an insurance claim which was eligible under the insurance agreement but was denied because it was within the deductible limit.

98.62(3) *Inappropriate uses of the management fund.* Inappropriate expenditures from the *management* fund include the following:

a. Costs for employee health benefit plans.

b. Costs to conduct physical inventories of property for purposes other than insurance.

c. Costs to conduct actuarial studies.

d. Costs for supplies or capital outlay.

e. Transfer to a trust fund for OPEB (other post employment benefit) cost or estimated cost calculated pursuant to GASB (governmental accounting standards board) statement 45.

f. Any other costs not expressly authorized in Iowa Code.

281—98.63 (298) Library levy fund. The board of directors of a school district in which there is no free public library, may contract with any free public library for the free use of such library by the residents of the school district, and pay the library the amount agreed upon for the use of the library as provided by law. During the existence of the contract, the board shall certify annually a tax sufficient to pay the library the consideration agreed upon.

98.63(1) *Sources of revenues in the library levy fund.* Sources of revenue in the library levy fund include a property tax not to exceed twenty cents per thousand dollars of assessed value of the taxable property of the district and interest on the investment of those moneys.

98.63(2) *Appropriate uses of the Library levy fund.* Appropriate expenditures in the library levy fund include expenditures necessary to provide a free public library.

98.63(3) *Inappropriate uses of the library levy fund.* Inappropriate expenditures from the library levy fund include the following:

a. Capital expenditures related to land or buildings.

b. Debt Service.

c. Any other costs not necessary to provide a free public library.

281—98.64(279,297,298,283) Physical plant and equipment levy (PPEL) fund. The physical plant and equipment levy (PPEL) consists of the regular PPEL of not exceeding thirty-three cents ($0.33) per thousand dollars of assessed valuation and a voter-approved PPEL of not exceeding one dollar and thirty-four cents ($1.34) per thousand dollars of assessed valuation, for a total of one dollar and sixty-seven cents ($1.67). Establishing a PPEL fund is available to school districts but not to area education agencies.

98.64(1) *Sources of revenues in the PPEL fund.* Sources of revenue in the PPEL fund include a property tax, income surtax, and interest on the investment of those moneys, and proceeds from loan agreements in anticipation of the collection of the voter-approved property. Proceeds from the condemnation, sale

or disposition of real property are revenue to the PPEL fund. Proceeds from loans for equipment pursuant to Iowa Code section 279.48, federal loans for asbestos projects pursuant to Iowa Code section 279.52, or loans for energy conservation projects pursuant to Iowa Code section 473.20 may be accounted for in the PPEL fund. If the school board intends to enter into a rental, lease arrangement, or loan agreement, only a property tax shall be levied for those purposes.

98.64(2) *Appropriate uses of the PPEL fund.* Appropriate expenditures in the PPEL fund include the following:

a. Purchase of grounds including the legal costs relating to the property acquisition, costs of surveys of the property, costs of relocation assistance under state and federal law, and other costs incidental in the property acquisition.

b. Improvement of grounds including grading, landscaping, paving, seeding, and planting of shrubs and trees; constructing sidewalks, roadways, retaining walls, sewers and storm drains, and installing hydrants; surfacing and soil treatment of athletic fields and tennis courts; exterior lighting, including athletic fields and tennis courts; furnishing and installing flagpoles, gateways, fences, and underground storage tanks which are not parts of building service systems; demolition work; and special assessments against the school district for public improvements.

c. Construction of schoolhouses or buildings.

d. Construction of roads to schoolhouses or buildings.

e. Purchasing, leasing, or lease-purchasing a single unit of equipment or a single unit of technology exceeding five hundred dollars ($500) in value per unit. "Single unit of equipment" refers to both equipment and furnishings and does not include bulk purchases or multiple purchases of units. The cost limitation for a single unit of equipment does not apply to recreational equipment or equipment that becomes an integral part of real property such as furnaces, boilers, water heaters, and central air conditioning units that are included in repairs to a building.

f. Transferring to debt service for payments when due of debts contracted for the erection or construction of schoolhouses or buildings, not including interest on bonds.

g. Procuring or acquisition of library facilities.

h. Repairing, remodeling, reconstructing, improving, or expanding the schoolhouses or buildings and the additions to existing schoolhouses. "Repairing" means restoring an existing structure or thing to its original condition, as near as may be, after decay, waste, injury, or partial destruction, but does not include maintenance; and "reconstructing" means rebuilding or restoring as an entity a thing which was lost or destroyed.

i. Energy conservation projects.

j. Transferring interest and principal to the debt service fund when due for loans to purchase equipment authorized under Iowa Code section

279.48, for loans in anticipation of the collection of the voter-approved property under Iowa Code section 297.36, and loans to be used for energy conservation measures under Iowa Code section 473.20, in the case of a school district, when the original proceeds were accounted for in the PPEL fund.

k. The rental of facilities under Iowa Code chapter 28E.

l. Purchase of transportation equipment for transporting students.

m. Purchase of buildings or lease-purchase option agreements for school buildings.

n. Purchase of equipment for recreational purposes.

o. Payments to a municipality or other entity as required under Iowa Code section 403.19, subsection 2.

p. Asbestos projects including costs of inspection and re-inspection, sampling, analysis, assessment, response actions, operations and maintenance, training, periodic surveillance, development of management plans and recordkeeping requirements relating to the presence of asbestos in school buildings of the district and its removal or encapsulation.

q. Purchase, erect, or acquire a building for use as a school meal facility, and equip a building for that use.

98.64(3) *Inappropriate uses of the PPEL fund.* Inappropriate expenditures from the PPEL fund include the following:

a. Student construction.

b. Salaries and benefits.

c. Travel.

d. Supplies.

e. Facility, vehicle, or equipment maintenance.

f. Printing costs or media services.

g. Any other purpose not expressly authorized in Iowa Code.

281—98.65(276,300) Public educational and recreational levy (PERL) fund. Boards of directors of school districts may establish and maintain for children and adults public recreation places and playgrounds, and necessary accommodations for the recreation places and playgrounds, in the public school buildings and on the grounds of the district. Financial support for the community education program shall be provided from funds raised pursuant to Iowa Code chapter 300 and from any private funds and any federal funds made available for the purpose of implementing community education. Establishing a PERL levy is available to school districts but not to area education agencies.

98.65(1) *Sources of revenues in the PERL fund.* Sources of revenue in the PERL fund include a property tax levy not to exceed $0.135 per $1000 of assessed valuation, any appropriation by the agencies involved in a cooperative effort under Iowa Code chapter 28E, federal grants, donations, and interest on the investment of those moneys.

98.65(2) *Appropriate uses of the PERL fund.* Appropriate expenditures in the PERL fund include the following:

a. Establishing and maintaining free public recreation places and playgrounds, including necessary accommodations.

b. Providing free public educational and recreational activities.

c. Establishing and supervising a free community education program.

d. Providing a community education director if a community education program is established.

98.65(3) *Inappropriate uses of the PERL fund.* Inappropriate expenditures in the PERL fund include the following:

a. Programs for which a fee may be charged such as before- and after-school programs and preschool programs.

b. Any other costs not necessary to provide free programs for community education and for public recreation places, playgrounds, and programs.

281—98.66(257,279,298A,565) District support trust fund. The district support trust fund is used to account for moneys received in trust where those moneys, both principal and interest, are to benefit the school district. The school district or area education agency shall not transfer its own resources to a district support trust fund. If the school district or area education agency, has more than one district support trust, it will use locally assigned project codes pursuant to *Uniform Financial Accounting for Iowa School Districts and Area Education Agencies* to identify the different trusts in the same fund. The district support trust fund is not an irrevocable trust. The board of directors of the school district must take action to accept or establish each gift, devise, or bequest in the district support trust fund. It is the board's responsibility to insure that the terms of the gift, devise, or

bequest are compatible with the mission of and legal restrictions on the school district. Once accepted, gifts, devises, and bequests become public funding under the stewardship of the school district. If the purpose for which the money is to be spent is not in keeping with the overall objectives of the school district or legal authority of the school district, the board shall not assume responsibility as the trustee.

98.66(1) *Sources of revenues in the district support trust fund.* Sources of revenue in the district support trust fund include donations of cash, investment instruments, property, and interest on investments held. In a district support trust fund, both principal and interest are available to benefit the school district's programs.

98.66(2) *Appropriate uses of the district support trust fund.* Appropriate expenditures in the district support trust fund include those that are consistent with the terms of the agreement, are legal expenditures to a school district, and are for the benefit of the school district.

98.66(3) *Inappropriate uses of the district support trust fund.* Inappropriate expenditures from the district support trust fund include transfers to nonprofit or private organizations or any expenditure which is not consistent with the terms of the agreement, legal to a school district, or for the benefit of the school district.

281—98.67(257,279,298A,565) Permanent Funds. Permanent funds are used to account for resources received that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the school district programs. The school district or area education agency shall not transfer

its own resources to a permanent fund. The board of directors of the school district must take action to accept or establish each gift, devise, or bequest in permanent funds. It is the board's responsibility to insure that the terms of the gift, devise, or bequest are compatible with the mission of and legal restrictions on the school district. Once accepted, gifts, devises, and bequests become public funding under the stewardship of the school district. If the purpose for which the money is to be spent is not in keeping with the overall objectives of the school district or legal authority of the school district, the board shall not assume responsibility of the money.

98.67(1) *Sources of revenues in the permanent fund.* Sources of revenue in the permanent fund include donations of cash, investment instruments, property, and interest on investments held. In permanent funds, only interest is available to benefit the school district's programs.

98.67(2) *Appropriate uses of the permanent fund.* Appropriate expenditures in the permanent funds include those that are consistent with the terms of the agreement, are legal expenditures to a school district, and are for the benefit of the school district.

98.67(3) *Inappropriate uses of the permanent fund.* Inappropriate expenditures from the permanent funds include transfers to nonprofit or private organizations, expenditure from principal, or any expenditure which is not consistent with the terms of the agreement, or legal to a school district, or for the benefit of the school district, or any expenditure from the principal portion.

281—98.68(76,274,296,298,298A) Debt service levy fund. A debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. A school district or area education agency may have only one debt service fund.

98.68(1) *Sources of revenues in the debt service fund.* Sources of revenue in the debt service fund include the levy on taxable property authorized by the voters pursuant to Iowa Code section 298.21 and necessary to service the current year's bonds maturing, transfers from other funds for payments of interest and principal when due required under a loan, lease-purchase agreement, or other evidence of indebtedness authorized by the Iowa Code and earnings from temporary investment of monies in the debt service fund.

98.68(2) *Appropriate uses of the debt service fund.* Appropriate expenditures in the debt service fund include the following:

a. Payment of principal and interest of the lawful bonded indebtedness maturing in the current year as it becomes due. In determining how much is necessary to service the current year's bonds maturing, the board of directors shall consider the amount of earnings from temporary investments of debt service funds and consider beginning cash balances.

b. Payment of costs of registration of public bonds or obligations.

c. Payment of additional amounts as the board deems necessary to apply on the principal.

d. Payment of principal and interest required under a loan agreement, lease-purchase agreement, or other evidence of indebtedness authorized by Code other than bonded indebtedness paid from resources transferred for that purpose to the debt service fund from other funds.

e. Payment of transfers to PPEL fund by board resolution when funds remain in the debt service fund after payment of the entire balance of outstanding debt in accordance with the original purpose of the bonded indebtedness and after return of any excess amount transferred into the debt service fund from another fund or other indebtedness. The voters in the district may authorize the district to transfer the remaining balance to the general fund instead of the PPEL fund pursuant to Iowa Code subsection 278.1(5).

98.68(3) *Inappropriate uses of the debt service fund.* Inappropriate expenditures from the debt service fund include payment of debt issued by one fund from resources transferred from a different fund unless expressly authorized by Iowa Code and any other expenditure not listed in subrule 98.68(2).

281—98.69(76,273,298,298A,423E,423F) Capital projects funds. Capital project funds are used to account for financial resources to acquire or construct major capital facilities and to account for revenues from the previous local option sales and services tax for school infrastructure and the current state sales and services tax for school infrastructure. Boards of directors of school districts are authorized to establish more than one capital project fund as necessary.

98.69(1) *Sources of revenues in the capital projects fund.* Sources of revenue in a capital project fund include sale of general obligation bonds, grants and

donations for capital facility projects, and transfers from other funds which authorized indebtedness for capital facility projects or which initiated a capital facility project or which received grants or other funding for capital projects, and tax receipts or revenue bonds issued for the state sales and services tax for school infrastructure. In the case of an area education agency, transfers from the general fund to a capital project fund are limited to payments from proceeds accounted for in the general fund when payments are due on a capital project under a lease-purchase agreement pursuant to Iowa Code subsection 273.3(7).

98.69(2) *Appropriate uses of the capital projects fund.* Appropriate expenditures in a capital project fund, excluding state/local option sales and services tax for school infrastructure fund, include the following:

a. Purchasing, constructing, furnishing, equipping, reconstructing, repairing, improving, or remodeling a schoolhouse or schoolhouses and additions thereto, gymnasium, stadium, field house, school bus garage, teachers' or superintendent's home(s).

b. Procuring a site, or purchasing land to add to a site already owned, or procuring and improving a site for an athletic field, or improving a site already owned for an athletic field.

c. Transferring to PPEL fund or debt service fund by board resolution any balance remaining in a capital project fund after the capital project is completed and after return of any excess amount transferred into the capital project fund from another fund. The voters in the district may authorize the district to transfer the remaining balance to the general fund

instead of the PPEL fund or debt service fund pursuant to Iowa Code subsection 278.1(5).

Appropriate expenditures in the state/local option sales and services tax for school infrastructure capital project fund shall be expended in accordance with a valid revenue purpose statement if a valid revenue purpose statement exists, otherwise appropriate expenditures include the following in order:

a. Payment of principal and interest on revenue bonds issued pursuant to Iowa Code sections 423E.5 and 423F.4 for which the revenue has been pledged.
b. Reduction of debt service levies.
c. Reduction of regular and voter-approved PPEL levies.
d. Reduction of the PERL levy.
e. Reduction of any school house tax levy under Iowa Code subsection 278.1(7).
f. Any authorized infrastructure purpose of the district pursuant to Iowa Code subsection 423F.3(6), which includes the following:
    1) Payment or retirement of outstanding general obligation bonded indebtedness issued for school infrastructure purposes.
    2) Payment or retirement of outstanding revenue bonds issued for school infrastructure purposes.
    3) Purchasing, constructing, furnishing, equipping, reconstructing, repairing, improving, remodeling, or demolition of a schoolhouse or

schoolhouses and additions thereto, gymnasium, stadium, field house, or school bus garage.

4) Procuring a site, or purchasing land to add to a site already owned, or procuring and improving a site for an athletic field, or improving a site already owned for an athletic field.
5) Expenditures listed in Iowa Code section 298.3.
6) Expenditures listed in Iowa Code section 300.2.

98.69(3) *Inappropriate uses of the capital projects fund.* Inappropriate expenditures from a capital projects fund include student construction or any expenditure not expressly authorized in Iowa Code. Additionally, expenditures from the state/local options sales and services tax supplemental school infrastructure amount for new construction or for payments for bonds issued for new construction in any district that has a certified enrollment of fewer than 250 pupils in the district or a certified enrollment of fewer than 100 pupils in the high school without a certificate of need issues by the department of education. This restriction does not apply to payment of outstanding general obligation bonded indebtedness issued pursuant to Iowa Code section 296.1 before April 1, 2003. This restriction also does not apply to costs to repair school buildings; purchase of equipment, technology or transportation equipment authorized under Iowa Code section 298.3, or for construction necessary to comply with the federal Americans with Disabilities Act. Expenditures from the state/local options sales and services tax revenues have the same restriction as expenditures from the

supplemental school infrastructure amount, excluding the restriction on payments for bonds issued for new construction.

281—98.70(279,280,298A) Student activity fund. The student activity fund must be established in any school district receiving money from student-related activities such as admissions, activity fees, student dues, student fund-raising events, or other student-related cocurricular or extracurricular activities. Money collected through school activities are public funds that are the property of the school district and are under the financial control of the school board. Upon dissolution of an activity, such as a graduating class or student club, the surplus must be used to support other student activities in the student activity fund. Prudent and proper accounting of all receipts and expenditures in these accounts is the responsibility of the board. School districts may maintain subsidiary records for student activities if those records are reconciled to the official records on a monthly basis, however, all official accounting records of the student activity fund shall be maintained within the school district's chart of account pursuant to *Uniform Financial Accounting for Iowa School Districts and Area Education Agencies*.

98.70(1) *Sources of revenues in the student activity fund.* Sources of revenue in the student activity fund include income derived from student activities such as gate receipts, ticket sales, admissions, student club dues, donations, fund-raising events, and any other receipts derived from student body cocurricular or extracurricular activities, contests, and exhibitions as well as interest on the investment of those moneys.

98.70(2) *Appropriate uses of the student activity fund.* Appropriate expenditures in the student activity fund include ordinary and necessary expenses of operating school district sponsored and supervised student cocurricular and extracurricular activities, including purchasing services from another school district to provide for the eligibility of enrolled students in interscholastic activities provided by that other school district when the school district does not provide an interscholastic activity for its students.

98.70(3) *Inappropriate uses of the student activity fund.* Inappropriate expenditures from the student activity fund include the following:

a. Maintenance of funds raised by outside organizations.

b. The cost of bonds for employees having custody of funds derived from extracurricular activities in the conduct of their duties. These are cost to the general fund.

c. Expenditures that lack public purpose.

d. Payments to any private organization unless a fundraiser was held expressly for that purpose and the purpose of the fundraiser was specifically identified.

e. Transfers to any other fund of any surplus within the fund.

f. Payments more properly accounted for in another fund such as public tax funds, trust funds, state and federal grants, textbook/library book fines, fees, rents, purchases or sales, sales of school supplies, or curricular activities.

g. Use of the student activity fund as a clearing account for any other fund.

h. Cash payments to student members of activity groups.

i. The cost of optional equipment or customizing uniforms.

j. The cost of uniforms when the following two tests are not met:

1) The activity is a part of the school's educational program, and

2) The wearing of the uniform or equipment is necessary in order to participate.

k. Hospital or medical claims for student injuries or procurement of student medical insurance.

l. Optional costs related to activities that are not necessary to the extracurricular program such as promotional costs.

m. Membership fees in student activity related associations if the fees are optional, in that non-member schools may participate in sponsored events.

n. Costs to participate in or to allow students to participate in any extracurricular interscholastic athletic contest or competition not sponsored or administered by either the Iowa High School Athletic Association or the Iowa Girls High School Athletic Union.

281—98.71(256B,257,298A) ***Special education instruction fund***. The special education instruction fund is used to account for the revenues and expenditures of the special education instructional program that an area education agency provides for its member districts under Iowa Code subsection 273.9(2). This does not include special education support services as provided by Iowa Code subsection 273.9(3) which are accounted for in the general fund.

98.71(1) *Sources of revenues in the special education instruction fund.* Sources of revenue in the special education instruction fund include tuition charged to districts with students in the special education instruction program and interest on the investment of those moneys.

98.71(2) *Appropriate uses of the special education instruction fund.* Appropriate expenditures in the special education instruction fund include those authorized to a school district pursuant to Iowa Code chapter 256B and 281—chapter 41.

98.71(3) *Inappropriate uses of the special education instruction fund.* Inappropriate expenditures from the special education instruction fund include expenditures not allowed to school districts pursuant to Iowa Code chapter 256B and 281—chapter 41..

281—98.72(282,298A) Juvenile home program instruction fund. The juvenile home program instruction fund is used to account for the revenues and expenditures for the educational program for students residing in juvenile homes as provided by Iowa Code section 282.30. The juvenile home program supplements, but does not supplant expenditures required of an area education agency under Iowa Code chapter 273. Revenues and expenditures related to federal or state grants serving students in the juvenile homes that supplement, rather than supplant the juvenile home program are included in the general fund, rather than the juvenile home fund.

98.72(1) *Sources of revenues in the juvenile home program instruction fund.* Sources of revenue in the juvenile home program instruction fund include an

advance paid pursuant to Iowa Code section 282.31, tuition billed to resident districts, grants-in-aid and interest on the investment of those moneys.

98.72(2) *Appropriate uses of the juvenile home program instruction fund.* Appropriate expenditures in the juvenile home program instruction fund include ordinary and necessary expenditures to provide an instructional program to students residing in juvenile homes.

98.72(3) *Inappropriate uses of the juvenile home program instruction fund.* Inappropriate expenditures from the juvenile home program instruction fund include the following:

a. Costs estimated or allocated that are expenditures of the agency, such as insuring agency property,

b. Costs that are not ordinary and necessary to provide instruction.

c. Debt service.

d. Capital outlay related to facilities.

281—98.73(283A,298A) School nutrition fund. All school districts shall operate or provide for the operation of lunch programs at all attendance centers in the school district. A school district may operate or provide for the operation of school breakfast programs at all attendance centers in the district, or provide access to a school breakfast program at an alternative site to students who wish to participate in a school breakfast program.

98.73(1) *Sources of revenues in the school nutrition fund.* Sources of revenue in the school nutrition fund include food sales to pupils and adults, ancillary food services, state and federal grants-in-aid for the operation of a nutrition program,

gifts, sales of services to other funds, donated government commodities, and interest on investment of school nutrition fund moneys. Also included are fees charged for providing food services to staff meetings and authorized organizations for meetings on the premises in accordance with the rules of the board. The charges for such services must be no less than the actual costs involved in providing the services including the value of donated government commodities.

98.73(2) *Appropriate uses of the school nutrition fund.* Appropriate expenditures in the school nutrition fund include the following:

a. Expenditures necessary to operate a school breakfast or lunch program such as salaries and benefits for employees necessary to operate the food service program, food, purchased services, supplies, and school nutrition equipment not included in Iowa Code section 283A.9.

b. Costs to provide food service for school staff and ancillary food services to staff meetings and authorized organizations for meetings on the premises in accordance with the rules of the board of directors of the school district if those costs are reimbursed by another fund, organization, or individual.

98.73(3) *Inappropriate uses of the school nutrition fund.* Inappropriate expenditures from the school nutrition fund include the following:

a. Costs to provide food service for school staff and ancillary food services to staff meetings and authorized organizations for meetings on the premises at less than actual costs involved in providing the services including the value of donated government commodities.

b. Operating transfers to any other fund.

c. Costs to purchase, construct, reconstruct, repair, remodel, or otherwise acquire or equip a building for use as a school meal facility. These costs are permitted from the PPEL fund.

d. Costs estimated or allocated that are expenditures of the district.

281—98.74(279,298A) Child care and before and after school programs fund. The board of directors of a school district may operate or contract for the operation of a program to provide child care to children not enrolled in school or to students enrolled in kindergarten through grade six before and after school, or to both.

98.74(1) *Sources of revenues in the child care fund.* Sources of revenue in the child care fund include a fee established by the board for the cost of participation in the program. The fee shall be established pursuant to a sliding fee schedule based upon staffing costs and other expenses and a family's ability to pay. If a fee is established, the parent or guardian of a child participating in a program shall be responsible for payment of any agreed upon fee. The board may require the parent or guardian to furnish transportation of the child. If the board does not establish a fee, it must finance the program through grants or donations. The board may utilize or make application for program subsidies from any existing child care funding streams.

98.74(2) *Appropriate uses of the child care fund.* Appropriate expenditures in the child care fund include salaries and benefits for employees necessary to operate

the child care program or before and after school program, purchased services, supplies, and equipment.

98.74(3) *Inappropriate uses of the child care fund.* Inappropriate expenditures from the child care fund include debt service, capital outlay related to facilities, or any other expenditure not ordinary and necessary to operate the child care program or before and after school program.

281—98.75(298A) Regular education preschool fund. The board may establish a preschool for students who are not of school age.

98.75(1) *Sources of revenues in the regular education preschool fund.* Sources of revenue in the regular education preschool fund include a fee established by the board for the cost of participation in the program. If a fee is established, the parent or guardian of a child participating in a program shall be responsible for payment of any agreed upon fee. If the board does not establish a fee, it must finance the program through grants or donations. The statewide voluntary 4-year-old preschool program established under Iowa Code chapter 256C shall not be accounted for in the regular education preschool fund.

98.75(2) *Appropriate uses of the regular education preschool fund.* Appropriate expenditures in the regular education preschool fund include salaries and benefits for employees necessary to operate the regular education preschool program, purchased services, instructional supplies, and instructional equipment.

98.75(3) *Inappropriate uses of the regular education preschool fund.* Inappropriate expenditures from the regular education preschool fund include debt service, capital outlay related to facilities, or any other expenditure not

ordinary and necessary to operate the regular education preschool program or before and after school program.

281—98.76 (298A) Student construction fund. If the board of directors of a school district establishes a construction program whereby students learn a construction trade and the facility constructed is sold to cover costs of construction, the revenues and expenses will be accounted for in the student construction fund.

281—98.77(298A) Other enterprise funds. Enterprise funds are used to account for any activity for which a fee is charged to external users for goods and services. Enterprise funds are required to be used to account for any activity whose principal revenue sources are fees and charges to recover the costs of providing goods or services where those fees and charges are permitted by Iowa Code. Funds discussed in rules 98.73 through 98.76 are enterprise funds. In addition, enterprise funds include those activities related to community service enterprises or enterprises that support the school curricular program. Community service enterprises are activities provided by the district for a fee to the general community or segment of the community that are not in the PERL or library funds such as public libraries, community pool, community wellness center, community or adult education. Enterprises that support the school program include activities such as a student farm, greenhouse, cooperative purchasing, school stores, or major resale activities.

281—98.78 to **281—98.81.** Reserved.

281—98.82(298A) Internal service funds. Internal service funds are used to account for the financing of services provided within the district to provide goods or services to other funds, component units, or other governments on a cost-reimbursement basis. The use of an internal service fund is appropriate only for activities in which the agency, school district or area education agency, is the predominant participant in the activity. If the district or area education agency is not the primary user of the goods or services provided by the internal service fund, then the activity should be accounted for in an enterprise fund rather than an internal service fund. Internal service funds include, but are not limited to, self-insurance funds, flex-benefit (cafeteria) plan funds, print shops, health reimbursement arrangements (HRAs), central warehousing and purchasing, and central data processing.

281—98.83 to **281—98.91.** Reserved.

281—98.92(257,279,298A,565) Private purpose trust funds. Private purpose trust funds are fiduciary funds established to account for gifts it receives to be used for a particular purpose or to account for money and property received and administered by the school district as trustee. These trust funds are not irrevocable trusts and are used to account for assets held by a school district in a trustee capacity to benefit individuals, private organizations, or other governments, and therefore cannot be used to support the school district's own programs. These trust funds include both those that allow use of only the interest on the investments and those that allow use of both principal and interest. Scholarship trust funds are an example of private purpose trust funds.

If a school district has more than one scholarship trust, the school district shall use project codes in accordance with *Uniform Financial Accounting for Iowa School Districts and Area Education Agencies* to separately account for the trusts. The district or area education agency shall not transfer its own resources to a private purpose trust fund.

98.92(1) *Sources of revenues in the private-purpose trust funds* Sources of revenue in the private purpose trust fund include donations of cash, investment instruments, property, and interest on investments held.

98.92(2) *Appropriate uses of the private-purpose trust fund.* Appropriate expenditures in the private purpose trust fund include those that are consistent with the terms of the agreement or are for the benefit of a private purpose other than the school district. None of the expenditures will be for the benefit of the school district's programs.

98.92(3) *Inappropriate uses of the private-purpose trust fund.* Inappropriate expenditures from the private purpose trust fund include any expenditure which is not consistent with the terms of the agreement, not legal to a school district, or that benefits the school district's programs.

281—98.93(298A) Other trust funds. Trust funds are fiduciary funds established to account for gifts it receives to be used for a particular purpose or to account for money and property received and administered by the school district as trustee. These trust funds are used to account for assets held by a school district in a trustee capacity to benefit individuals, private organizations, or other governments, and cannot be used to support the school district's own

programs. These trust funds include both those that allow use of only the interest on the investments and those that allow use of both principal and interest. The school district or area education agency shall not transfer its own resources to a trust fund. Other trust funds may include but not be limited to pension trust funds and investment trust funds. Pension trust funds are used to account for resources that are required to be held in trust for members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other benefit plans. Typically, these funds are used to account for local pension and other employee benefit funds that are provided by a school district in lieu of or in addition to any state retirement system. Investment trust funds are used to account for the external portion (i.e., the portion that does not belong to the school district) of investment pools operated by the school district.

281—98.84 to **281—98.100.** Reserved.

281—98.101(298A) Agency funds. Agency funds are used to account for funds that are held in a custodial capacity by the school district for individuals, private organizations, or other governments. Agency funds may include money collected for another government, a grant consortium when the school district serves as fiscal agent for the other school districts but has no managerial responsibilities, or funds for a teacher or a parent-teacher organization which has its own federal identification number (FIN). In an agency fund, the school district or area education agency acts merely renders a service as a custodian of the assets for the organization owning the assets and the school district or area

education agency is not an owner. Agency funds typically involve only the receipt, temporary investment and remittance of assets to their rightful owners.

98.101(1) *Sources of receipts in agency funds* Sources of receipts in the agency fund include temporary receipts of cash, investment instruments, property, and interest on investments held.

98.101(2) *Appropriate uses of agency funds.* Appropriate disbursements from an agency fund depend on the nature of the rightful owners' conditions or the responsibilities of the custodian. Typically, disbursement will involve remittance of assets to their rightful owners or to a third party on behalf and at the request of the rightful owners. The school district cannot disburse more funds at any point in time than it has received from the rightful owner.

98.101(3) *Inappropriate uses of agency funds.* Inappropriate disbursements from agency funds include any disbursement which is not consistent with the terms of the agreement, not legal to a school district, or that exceeds the amount of funds that have been received from the rightful owner or on behalf of the rightful owner.

281—98.102 to **281—98.110.** Reserved.

281—98.111(24,29C,257,298A) Emergency levy fund. A school district may levy a tax for the emergency fund upon the approval of the state appeals board. Once the levy has been received, the district may request approval of the school budget review committee to transfer the funds to any other fund of the district for the purpose of meeting deficiencies in a fund arising within two years of a disaster as defined in Iowa Code subsection 29C.2(1).

98.111(1) *Sources of receipts in the emergency levy fund.* Sources of revenue for the emergency levy fund include a tax levy not to exceed twenty-seven cents per thousand dollars of assessed value of taxable property, and interest on those monies.

98.111(2) *Appropriate uses of emergency levy fund.* Appropriate expenditures from the emergency levy fund include only transfers to other funds for the purpose of meeting deficiencies in a fund arising within two years of a disaster and upon the approval of the school budget review committee.

98.111(3) *Inappropriate uses of emergency levy fund.* Inappropriate expenditures from the emergency levy fund include any expenditures other than a transfer to another fund and any transfer not approved by the school budget review committee.

These rules are intended to implement Iowa Code chapters 24, 256B, 257, 276, 279, 280, 282, 283A, 284, 284A, 291, 294A, 298, 298A, 299A, 300, and 301, and subsections 11.6(1)"a"(1), 256.9(18), 256D.4(3), 256C.4(1)"c," and 284.13(a)"d"(1)].