



USFR MEMORANDUM NO. 219

TO: School District Administrators; County School Superintendents

FROM: Magdalene D. Haggerty, Office of the Auditor General
Vicki G. Salazar, Arizona Department of Education (ADE)

DATE: January 26, 2006

SUBJECT: Guidance on Determining Supplanting for Joint Technological Education District (JTED) Members

In accordance with Arizona Revised Statutes (A.R.S.) §15-393, as amended by Laws 2005, Ch. 294, §1, in fiscal year (FY) 2006 and thereafter, JTED member districts are required to use monies received from a JTED for vocational education programs. Additionally, member districts are required to use JTED monies to supplement rather than supplant vocational education courses provided in the “base year.” Base year is defined in statute as the year in which the districts’ voters approved joining a JTED. However, member districts that used JTED monies for other than vocational education purposes or that used JTED monies to supplant monies from other sources since the base year or the year before spending any JTED monies are eligible to phase in the nonsupplanting provision during FYs 2006 and 2007. JTED member districts may have additional requirements under their JTED intergovernmental agreements (IGA) and should refer to both the guidance in this memorandum and any additional requirements of their IGA to determine the proper use of JTED monies.

Accounting for JTED/Vocational Education Monies

To document the use of JTED monies by JTED member districts, all member districts must account for the monies received from a JTED in a separate IGA fund. Additionally, beginning in FY 2006, all districts, including non-JTED member districts, must identify vocational education expenditures, other than those for pupil transportation, by coding them to Program 270—Vocational and Technological Education. Pupil transportation expenditures for vocational education programs should be identified by coding them to a separate program code in the 400 range.

Supplanting

Supplanting occurs when funding from one source is used to replace funding from another source. Therefore, JTED monies should not be used to replace non-JTED monies previously spent on vocational education that were redirected for other purposes. Additionally, supplanting with JTED monies can occur

even if expenditures from non-JTED monies have not decreased since the base year, as inflation in school district funding and growth in ADM, if applicable, would require districts to increase the use of non-JTED monies for vocational education in order to maintain the level of effort from non-JTED monies and ensure JTED monies are used to enhance vocational education programs provided in the base year.

Due to varying circumstances at districts, this memorandum cannot address all possible situations that might be considered supplanting. Therefore, each district, in considering its own unique circumstances, should determine and document through its accounting records that it is not using JTED monies to supplant non-JTED monies for vocational education.

Beginning in FY 2006, to determine whether there is an appearance of supplanting with JTED monies, member districts and their auditors should compare the non-JTED expenditures for vocational education in the current year to those of the statutory base year. This comparison should be made using the non-JTED expenditures identified in the member district's accounting records or the district's annual financial report (AFR), if accounting records are not available for the base year. For districts that have neither accounting records nor an AFR for their statutory base year, the first year for which either accounting records or a completed AFR is available should be used as the alternative base year.

Determining Base and Current Year Non-JTED Expenditures

Districts should include:

- Non-JTED vocational education expenditures coded for all funds either through coding to program 270 in the chart of accounts effective since July 1, 1998, or function 270 in the chart effective prior to July 1, 1998.
 - Expenditures may have been recorded in any fund, but may primarily be in the Maintenance and Operation Fund and any funds that allow, or are limited to, vocational education expenditures. Do not include state or federal grant funds used for vocational education, such as the state block grant or the federal Carl Perkins grant.¹
 - Expenditures for vocational education program textbooks and instructional aids paid from capital funds.
 - Expenditures included in the Career and Technical Education and Vocational Education Projects Fund 535 in the chart of accounts effective since July 1, 1998, or Fund 760 in the previous chart.
- Other non-JTED vocational education costs that were not coded to Program 270, but that can be identified including:
 - Non-K-12 expenditures, such as community school fund expenditures for daycare centers if vocational education students participate in operating the center.

¹ JTED member districts with a base year prior to 1998 (the first year that the vocational education Group B weight was replaced with the state block grant for vocational education) should reduce the M&O expenditures in the base year by the amount of the funding generated by the vocational education Group B weight funded in their base year, as calculated by ADE.

- Transportation costs for vocational education students coded to Program 400, beyond those that would have been necessary to transport the students to and from school if they were not enrolled in vocational education classes.
- Costs such as professional development and career ladder payments for vocational education teachers.
- Other indirect costs of vocational education programs allocated through a reasonable method, such as cost per student or cost per full-time equivalent employee.

Districts should exclude capital expenditures for furniture, equipment, and vehicles, as well as land and buildings for vocational education programs and instead refer to the guidance below for capital purchases.

Capital Provision²

As indicated above, capital expenditures for furniture, equipment, and vehicles, as well as land and buildings for vocational education programs should be excluded from the total vocational education expenditures in both the base and current year. Such capital expenditures are normally made to benefit more than 1 year and are not typically made on an annual basis like operational expenditures. Therefore, these capital expenditures should be excluded from the comparison of current year expenditures to base year expenditures to determine the appearance of supplanting. Additionally, to apply the nonsupplanting provision of the new law to monies received from a JTED, beginning with FY 2006, member districts should not use JTED monies to replace capital items, with a historical cost of \$5,000 or more, purchased with non-JTED monies in prior years. Districts may use JTED monies to upgrade capital facilities and equipment, and for the incremental cost, if any, of replacing an asset purchased with non-JTED monies. If JTED monies will be used in replacing a building or equipment item that had a useful life of 15 years or more, the historical cost of the building or equipment item should be adjusted for inflation before determining the portion of the replacement cost that must be paid from non-JTED monies to avoid supplanting. Therefore, the historical cost should be increased by the percentage change in the base level from the year the asset was acquired to the year it is replaced.

The following examples show what portion of the cost of replacing two different assets at the end of their useful lives may be paid from JTED monies, taking into consideration the original source of funding, historical cost, useful life, and replacement cost:

Original Source of Funding	Asset A		Asset B	
	JTED	Non-JTED	JTED	Non-JTED
Historical Cost	\$ 5,500	\$ 5,500	\$ 650,000	\$ 650,000
Useful Life	7 years	7 years	20 years	20 years
Adjusted Historical Cost	N/A	N/A	\$ 910,000	\$ 910,000
Replacement Cost	\$ 7,000	\$ 7,000	\$ 1,000,000	\$ 1,000,000
Portion from JTED Monies	\$ 7,000	\$ 1,500	\$ 1,000,000	\$ 90,000

² The capital provision does not apply to capital items purchased with state or federal grant monies.

Work Sheet for Determining Appearance of Supplanting with JTED Monies

The calculations necessary to adjust the base year's non-JTED vocational education expenditures and compare them to the current year's non-JTED vocational education expenditures are outlined in the Work Sheet for Determining Appearance of Supplanting with JTED Monies included with this memorandum. This work sheet is intended to assist districts and their auditors in determining whether current year JTED monies were used to supplant non-JTED monies used for vocational education. The work sheet compares the non-JTED vocational education expenditures from the base year adjusted for inflation to the current year's non-JTED expenditures on a per-pupil basis. The inflation adjustment to the base year's vocational education expenditures is based on the percentage change in the base level. Additionally, to compensate for growth or decline in average daily membership (ADM) since the base year, both years' expenditures are divided by the applicable year's student count from that year's final adopted expenditure budget work sheet B, line A.1 (i.e., the prior year's 100th day ADM).

Appearance of Supplanting

If the comparison of per-pupil non-JTED expenditures results in the appearance of supplanting, the district may present additional specific financial or curriculum related information to its auditors for consideration. The auditors should review documentation related to the impact of district specific situations before making a final determination as to whether the district actually used JTED monies to supplant non-JTED monies in the current year. Such district specific situations may include:

- The district's vocational education ADM not increasing at a rate equal to or greater than the growth rate of the overall ADM used in the calculation of per-pupil vocational education expenditures in the base and current years. While ADE is not required to and does not retain records of vocational education enrollment that include all possible JTED members' base years, some member districts may have enrollment information that could be used to document the rate of growth or decline in vocational enrollment for comparison to the change in ADM in the same period.
- Reduction or elimination in the current year of a source of funding previously available for vocational education programs, such as the loss of an override.
- Turnover in teachers or other vocational education staff since the base year that resulted in the district paying less in the current year in vocational education salaries from non-JTED monies than would have been paid to more experienced staff. For example, the base year included salary costs for a vocational education director who had been with the district for 20 years and was at the highest paid step of the applicable salary schedule, but in the current year the new vocational education director is only on the 2nd step of the current salary schedule.

Eligibility for Phase-in Period

The changes to A.R.S. §15-393 specifically allow a 2-year phase-in period for districts that used JTED monies for other than vocational education prior to FY 2006. Additionally, districts are also eligible for the 2-year phase-in period if, using a comparison similar to the one made on the Work Sheet for Determining Appearance of Supplanting with JTED Monies, it can be shown that in any year prior to FY 2006, JTED monies were used to supplant vocational education expenditures from the base year or from the year prior

to spending any JTED monies. Districts that document JTED monies were used in a year prior to FY 2006 to replace capital equipment originally purchased with non-JTED monies are also eligible for the 2-year phase-in period.

Districts that can document eligibility for the phase-in period should complete Part B of the Work Sheet for Determining Appearance of Supplanting with JTED Monies to determine if they used at least 33 percent of the JTED monies spent in FY 2006, to supplement the level of vocational education expenditures in the base year. Likewise in FY 2007, eligible districts must use at least 66 percent of the JTED monies spent to supplement base year vocational education spending. However, districts **not** eligible for the phase-in period in FYs 2006 and 2007, and all JTED member districts, beginning in FY 2008 and thereafter, do not need to complete Part B of the work sheet as they are required to use 100 percent of the JTED monies spent in a fiscal year to supplement base year vocational education expenditures.

USFR Compliance

Effective for FY 2006, auditors should test compliance with statutory requirements related to JTED monies as part of their compliance audit work under Government Auditing Standards. Questions will be added to the USFR Compliance Questionnaire for JTED expenditures to inquire whether monies were used in accordance with statutory requirements and without supplanting non-JTED monies.

If you have any questions or need assistance implementing the guidance in this memorandum, please call the Office of the Auditor General, Accounting Services Division at (602) 553-0333, or the Arizona Department of Education, School Finance Operations Unit at (602) 542-5695.

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