

The Texas Education Agency (TEA) adopts an amendment to §109.5001, concerning budgeting, accounting, and auditing. The amendment is adopted without changes to the proposed text as published in the December 22, 2023 issue of the *Texas Register* (48 TexReg 7736) and will not be republished. The amendment adopts by reference the updated Financial Accountability System Resource Guide (FASRG), Version 19, which includes allowable costs for dyslexia and related disorders added by House Bill (HB) 3928, 88th Texas Legislature, Regular Session, 2023. Although no changes were made to §109.41 since published as proposed, the FASRG adopted by reference does include changes to Modules 1-6 at adoption.

**REASONED JUSTIFICATION:** The FASRG describes the rules of financial accounting for school districts, charter schools, and education service centers and is adopted by reference under §109.5001. Revisions to the FASRG align the content with current governmental accounting and auditing standards, remove obsolete requirements, and remove descriptions and discussions of best practices and other non-mandatory elements.

Requirements for financial accounting and reporting are derived from generally accepted accounting principles (GAAP). School districts and charter schools are required to adhere to GAAP. Legal and contractual considerations typical of the government environment are reflected in the fund structure basis of accounting.

An important function of governmental accounting systems is to enable administrators to assure and report on compliance with finance-related legal provisions. This assurance and reporting process means that the accounting system and its terminology, fund structure, and procedures must be adapted to satisfy finance-related legal requirements. However, the basic financial statements of school districts and charter schools should be prepared in conformity with GAAP.

School district and charter school accounting systems shall use the accounting code structure presented in the Account Code section of the FASRG (Module 1). Funds shall be classified and identified on required financial statements by the same code number and terminology provided in the Account Code section of the FASRG (Module 1).

The FASRG, Version 19, contains six modules on the following topics: Module 1, Financial Accounting and Reporting (FAR) and FAR Appendices; Module 2, Special Supplement - Charter Schools; Module 3, Special Supplement - Non-profit Charter Schools Chart of Accounts; Module 4, Auditing; Module 5, Purchasing; and Module 6, Compensatory Education, Guidelines, Financial Treatment, and an Auditing and Reporting System.

State law provides authority for both the State Board of Education (SBOE) and the commissioner of education to adopt rules on financial accounting. To accomplish this, the SBOE and the commissioner each adopt the FASRG by reference under separate rules. The SBOE adopts the FASRG by reference under 19 TAC §109.41, and the commissioner adopts the FASRG by reference under §109.5001.

During the January-February 2024 SBOE meeting, the SBOE approved §109.41 for second reading and final adoption. At that time, the SBOE approved the following changes to the FASRG since published as proposed. These changes impact the FASRG adopted by reference in new §109.5001.

#### *Module 1, Financial Accounting and Reporting (FAR) and FAR Appendices*

Module 1 aligns with current governmental accounting standards. Module 1 includes the following changes. Updates were made to accounting codes and accounting guidance, which will include allowable costs for dyslexia and related disorders added by House Bill 3928, 88th Texas Legislature, Regular Session, and previous guidance was clarified. School districts and charter schools will be required to maintain proper budgeting and financial accounting and reporting systems. In addition, school districts will be required to establish principles and policies to ensure uniformity in accounting in conformity with GAAP established by the Governmental Accounting Standards Board (GASB).

In response to public comment, Module 1, FAR Appendices, was modified at adoption to provide clearer guidance and add clarity through grammatical edits for the use of accounting codes.

In addition, all references to the Elementary and Secondary Act (ESEA) have been updated at adoption to the Every Student Succeeds Act (ESSA).

#### *Module 2, Special Supplement - Charter Schools*

Module 2 aligns with current financial accounting reporting standards. Module 2 includes the following significant changes. Updates were made to accounting codes and accounting guidance, including a requirement for the recording of Teacher Retirement System (TRS) on-behalf revenue and payments and the calculation for the amounts, and previous guidance would be clarified. The module establishes financial and accounting requirements for Texas public charter schools to ensure uniformity in accounting in conformity with GAAP. The module also includes current guidance that complements the American Institute of Certified Public Accountants (AICPA) *Audit and Accounting Guide, State and Local Governments* and supplements the *Government Auditing Standards* of the United States Government Accountability Office (GAO). These requirements will facilitate preparation of financial statements that conform to GAAP established by the Financial Accounting Standards Board (FASB).

At adoption, all references to the ESEA have been updated to the ESSA.

#### *Module 3, Special Supplement - Non-profit Charter Schools Chart of Accounts*

Module 3 aligns with current financial accounting standards. Module 3 includes the following changes. Updates were made to accounting codes and accounting guidance, which includes allowable costs for dyslexia and related disorders added by House Bill 3928, 88th Texas Legislature, Regular Session, 2023, as well as the addition of accounting codes for TRS on-behalf payments, and previous guidance was clarified. Charter schools will be required to maintain proper budgeting and financial accounting and reporting systems that are in conformity with Texas Education Data Standards in the TSDS PEIMS. In addition, charter schools will be required to establish principles and policies to ensure uniformity in accounting in conformity with GAAP established by the FASB. The module also includes current auditing guidance that complements the AICPA *Audit and Accounting Guide, State and Local Governments* and supplements the *Government Auditing Standards* of the United States GAO. These requirements will facilitate preparation of financial statements that conform to GAAP established by the FASB.

In response to public comment, Module 3 was modified at adoption to provide clearer guidance and add clarity through grammatical edits for the use of accounting codes.

In addition, all references to the ESEA have been updated at adoption to the ESSA.

#### *Module 4, Auditing*

Module 4 aligns with current auditing standards. Module 4 includes the following changes. Updates were made to accounting codes and accounting guidance, and previous guidance was clarified. The module establishes auditing requirements for Texas public school districts and charter schools and includes current requirements from Texas Education Code (TEC), §44.008, as well as Code of Federal Regulations, Title 2, Part 200, Subpart F, Audit Requirements, that implement the federal Single Audit Act. The module also includes current auditing guidance that complements the AICPA *Audit and Accounting Guide, State and Local Governments* and supplements the *Government Auditing Standards* of the United States GAO. These requirements will facilitate preparation of financial statements that conform to GAAP established by the GASB.

At adoption, all references to the ESEA have been updated to the ESSA.

#### *Module 5, Purchasing*

Module 5 aligns with current purchasing laws and standards. Module 5 includes the following changes. Updates were made to purchasing guidance that has changed from previous legislation. Purchasing rules that needed additional explanation were clarified. School districts and charter schools will be required to establish procurement policies and procedures that align with their unique operating environment and ensure compliance with relevant statutes and policies.

In response to public comment, Module 5 was modified at adoption to provide clearer guidance and add clarity through grammatical edits.

*Module 6, Compensatory Education, Guidelines, Financial Treatment, and an Auditing and Reporting System*

Module 6 includes the following changes. Updates were made to clarify language that needed additional explanation, and other changes were made due to changes in law. School districts and charter schools will be required to maintain proper budgeting and financial accounting and reporting systems. The module provides information to assist local school officials' understanding of the numerous options for use of the state compensatory education allotment and provides current guidance for compliance.

In response to public comment, Module 6 was modified at adoption to add reference to the impact of HB 1416, 88th Texas Legislature, Regular Session, 2023, on the State Compensatory Education (SCE) program and to provide clearer guidance and add clarity through grammatical edits.

The FASRG is posted on the TEA website at <https://tea.texas.gov/finance-and-grants/financial-accountability/financial-accountability-system-resource-guide>.

SUMMARY OF COMMENTS AND AGENCY RESPONSES: The public comment period on the proposal began December 22, 2023, and ended January 22, 2024. Following is a summary of public comments received and agency responses.

*Module 1: Financial Accounting and Reporting (FAR) Appendices and Module 3: Special Supplement - Nonprofit Charter School Chart of Accounts*

Comment: Texas Council of Administrators of Special Education (TCASE) commented that some language stated for program intent code (PIC) 37 (Dyslexia or Related Disorders - Screening, Evaluation, and Identifications) and PIC 43 (Dyslexia or Related Disorders - Special Education) in Module 1: FAR Appendices, Section A.8.4 and Module 3: Special Supplement - Nonprofit Charter School Chart of Accounts, Section 3.8.4 could create confusion, and TCASE suggested clarification for the language. Specifically, TCASE requested clarification on the use of the term "tools for evaluation" in the list of allowed costs for PIC 37, as special education funds are used for evaluation; suggested adding reference to dyslexia certifications in addition to training as allowable costs for PIC 37; suggested clarifying that "services, such as instructional accommodations" include personnel costs, including those incurred through contracting with private providers, as allowed costs for PIC 37; suggested that the costs to exclude from PIC 43 be revised to be consistent with language in PIC 37 because the word "tools" is not referenced at exclusionary costs for PIC 43; commented that costs for more individuals with various certification should be included as allowed costs for PIC 43 in addition to licensed dyslexia therapists and certified academic language therapists; and commented that deleting language referring to contracts with private providers for both PIC 37 and 43 makes it unclear on how contracted costs should be coded.

Response: The agency agrees that amending language for costs to include in PIC 37 will clarify costs that are allowed to be coded to the PIC. The following changes have been made to the FASRG at adoption.

Language has been modified from "Dyslexia screening, progress monitoring, and/or evaluation tools" to "Tools and instruments used to screen, progress monitor, and/or evaluate for dyslexia and related disorders." PIC 37 is used for coding expenses from revenue received from the dyslexia allotment under TEC, §48.103. Any types of tools or instruments purchased by a local education agency with its dyslexia allotment to screen, progress monitor, or evaluate for dyslexia can be coded to this PIC.

Language has been modified from "Dyslexia identification training for evaluation personnel" to "Training in the identification of dyslexia for evaluation personnel," and "Costs related to certification, licensure, and/or training to become providers of dyslexia instruction" has been added to the list of costs to include in PIC 37.

To clarify that costs for contracted personnel can be coded to PIC 37, the following language has been added to the costs to include in PIC 37: "Personnel costs for the screening, evaluation, and identification of students with dyslexia."

The agency disagrees that revising the costs to exclude from PIC 43 regarding "tools" is necessary but agrees that amending language for the costs that are allowed to be coded to PIC 43 will provide clarification. Therefore, for PIC 43, the FASRG has been modified at adoption to replace "Salary for personnel providing dyslexia instruction to identified students" and "Licensed dyslexia therapist or certified academic language therapist positions and/or stipends for licensed dyslexia therapists or certified academic language therapists" with "Personnel costs for licensed, trained, or certified providers of dyslexia instruction." The amended language clarifies allowable providers as described in the SBOE's Dyslexia Handbook, which is adopted in 19 TAC §74.28.

### *Module 3: Special Supplement - Nonprofit Charter School Chart of Accounts*

Comment: A certified public accountant commented that the word "finance" should be added after "right-of-use" in the inclusion chart for function code 71 (Debt Service) in Module 3 to specify that function code 71 should be used for interest on right-of-use finance leases.

Response: The agency agrees that function 71 should be used for interest on right-of-use finance leases. Language has been modified at adoption for function code 71 in Module 3, Section 3.3, to specify that it should be used for right-of-use finance leases.

### *Module 5: Purchasing*

Comment: Texas Association of School Business Officials recommended that the word "local" be deleted from the definition of the purchase of newspaper advertising below the competitive procurement threshold in section 5.10 of Module 5 to state, "Newspaper Advertising. The purchasing of advertising from newspapers for the purpose of communicating with the general public of information concerning the district that is legally mandated, such as elections and procurement opportunities, when paid directly to the publisher."

Response: The agency agrees that the word "local" may be deleted to remove the specification for the purchase of advertising from local newspapers. However, language in Module 5, Section 5.10, has been modified at adoption to specify newspapers of general circulation in the geographic boundaries of the school district. The language has been updated to read, "Newspaper Advertising. The purchasing of advertising from newspapers of general circulation in the geographic boundaries of the school district for the purpose of communicating with the general public of information concerning the district that is legally mandated, such as elections and procurement opportunities, when paid directly to the publisher."

### *Module 6: State Compensatory Education, Guidelines, Financial Treatment, and an Auditing and Reporting System*

Comment: An education service center representative requested that HB 1416, 88th Texas Legislature, Regular Session, 2023, be added to the part of section 6.1 of Module 6 that summarizes the impact of the SCE program as a result of HB 4545, 87th Texas Legislature, Regular Session, 2021. The representative also requested that the language "with the help of required stakeholders" be included in the part of section 6.1 of Module 6 that describes expenses related to reducing the dropout rate to the allowable use of SCE funds. Additionally, the representative recommended that the term "district comprehensive needs assessment" be replaced with "district improvement plan" in the last paragraph under section 6.2.2 of Module 6.

Response: The agency agrees and has modified the FASRG at adoption to update Module 6, sections 6.1 and 6.2.2, with the suggested language.

STATUTORY AUTHORITY. The amendment is adopted under Texas Education Code (TEC), §7.055(b)(32), which requires the commissioner to perform duties in connection with the public school accountability system as prescribed by TEC, Chapters 39 and 39A; TEC, §44.001(a), which requires the commissioner to establish advisory guidelines relating to the fiscal management of a school district; TEC, §44.001(b), which requires the commissioner to report annually to the State Board of Education (SBOE) the status of school district fiscal management as reflected by the advisory guidelines and by statutory requirements; TEC, §44.007(a), which requires the board of trustees of each school district to adopt and install a standard school fiscal accounting system that conforms with generally accepted accounting principles; TEC, §44.007(b), which requires the accounting system to meet at least

the minimum requirements prescribed by the commissioner, subject to review and comment by the state auditor; TEC, §44.007(c), which requires a record to be kept of all revenues realized and of all expenditures made during the fiscal year for which a budget is adopted. A report of the revenues and expenditures for the preceding fiscal year is required to be filed with the agency on or before the date set by the SBOE; TEC, §44.007(d), which requires each district, as part of the report required by TEC, §44.007, to include management, cost accounting, and financial information in a format prescribed by the SBOE in a manner sufficient to enable the board to monitor the funding process and determine educational system costs by district, campus, and program; and TEC, §44.008(b), which requires the independent audit to meet at least the minimum requirements and be in the format prescribed by the SBOE, subject to review and comment by the state auditor. The audit must include an audit of the accuracy of the fiscal information provided by the district through the Texas Student Data System Public Education Information Management System.

CROSS REFERENCE TO STATUTE. The amendment implements Texas Education Code (TEC), §§7.055(b)(32), 44.001(a) and (b), 44.007(a)-(d), and 44.008(b).

<rule>

**§109.5001. Financial Accountability System Resource Guide.**

The rules for financial accounting are described in the official Texas Education Agency (TEA) publication Financial Accountability System Resource Guide, Version 19, which is adopted by this reference as the agency's official rule. A copy is available on the TEA website with information related to financial compliance.