

A Technical Information Release is designed to provide immediate information of changes in tax laws administered by the Department for the policy positions of the Department as a service to taxpayers and practitioners. A Technical Information Release represents the position of the Department on the limited issues discussed herein based on current law and Department interpretation. For the current status of any tax law, practitioners and taxpayers should consult the source documents (i.e., Revised Statutes Annotated, Rules, Case Law, Session Laws, etc.)

The Department of Revenue Administration has recently received several inquiries regarding the kindergarten aid and catastrophic aid distributions for FY '97 (year ending June 30, 1997). This information release provides guidance regarding the proper accounting treatment for these distributions and explains the tax rate implications. If you have any questions about this procedure, please call the Municipal Services Division at (603) 271-3397.

DISTRIBUTION OF KINDERGARTEN AND CATASTROPHIC AID FOR FY '97 KINDERGARTEN AID, DISTRIBUTED JUNE 16, 1997

The kindergarten aid, enacted as chapter 300, laws of 1996, established an appropriation of

\$5 million to provide \$500 per eligible kindergarten pupil. Because of the funding uncertainty, the DRA suggested that school districts not estimate this revenue for 1996 tax rate setting purposes. Some school districts did not include this estimated revenue on the MS-24, thereby resulting in a higher property tax assessment. Other school districts included some or all of the kindergarten aid in their estimated revenues, resulting in a lower property tax assessment.

Subsequent to establishing the 1996 property tax rates, it was determined that the state would pay the FY '97 kindergarten aid entitlement in June. The checks were issued by the state on June 16, 1997. For accounting purposes, all school districts that received kindergarten aid should recognize this money as FY '97 revenue, whether or not it had been estimated for tax rate setting purposes. For those school districts that did not include the estimated revenue in last year's tax rate, this revenue will simply flow through to their general fund balance as of June 30, 1997, and will be used to reduce the 1997 property tax assessment.

Some school districts are considering this money "unanticipated revenue" per RSA 198:20-b. Before expending this money under RSA 198:20-b, school districts must have done all of the following:

(1) Voted in March of 1996, (or adopted indefinitely until rescision in a prior year) to allow "the school board to apply, accept and expend, without further action by the school district, unanticipated money from a state, federal or other governmental unit...which becomes available during the year"; **and**

(2) Held a public hearing prior to such action, noticed at least seven clear days in advance. Such a hearing, as well as the actual expenditure or commitment to expend, must have taken place prior to June 30, 1997.; **and**

(3) Not included this money as estimated revenue for 1996 tax rate setting purposes.

Before spending this kindergarten aid money under RSA 198:20-b, the DRA urges school districts to review the minutes of their 1996 annual meeting to verify what action, if any, was taken by their voters regarding kindergarten aid. School districts should also review the copies of the MS-24 provided with the 1996 property tax rate calculation to verify whether the FY '97 kindergarten aid money was included as estimated revenue in the 1996 tax rate computation.

FY '97 CATASTROPHIC AID DISTRIBUTION SCHEDULED FOR JULY, 1997

The estimated catastrophic aid distribution is provided to DRA in early September each year for tax rate setting purposes. Last fall, the Department of Education estimated an approximate 20% shortfall in the state appropriation. After final computations, the actual shortfall was closer to 25%.

The 1997 legislature responded to the shortfall by adding an appropriation to the FY '98 operating budget, "CATASTROPHIC AID FY '97". The following footnote accompanies that line item:

This appropriation is to reimburse school districts for the FY 1997 shortfall in Catastrophic Aid.

This budget line is completely separate from the Catastrophic Aid appropriation for FY '98. It is clearly legislative intent to fund the FY '97 shortfall. This could be critical to those school districts which may have been facing a general fund deficit due to the shortfall.

It is DRA's position that the Catastrophic Aid shortfall distribution be recognized as FY '97 revenue. This follows in compliance with generally accepted accounting principles, which require that revenue be recognized in the accounting period in which it becomes susceptible to accrual, that is, both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (usually within 60 days of fiscal year end).

It is our understanding that the State Treasurer will be distributing this money on or around July 11, 1997. A distribution at that time would clearly meet the definition of "available" for revenue recognition. Therefore, the Catastrophic Aid shortfall distribution should be recognized as both revenue for FY '97 and a receivable as of June 30, 1997, and reported as such on Form MS-25. This revenue will then flow through to the general fund balance as of June 30, 1997, with such balance used to offset the 1997 property tax assessment.

APPROPRIATION FUNDED FROM SURPLUS

Many school districts routinely vote at their annual meeting an appropriation "up to \$XXXX" to be transferred from their year-end fund balance/surplus to various capital reserve funds or trust funds. None of the previous discussion will interfere with such action taken by the voters. Appropriations, up to the sum stated in such motion(s)

enacted at the annual school district meeting, will be recognized to the extent that general fund balance/surplus is available.