



### USFR MEMORANDUM NO. 185

**TO:** School District Administrators; County School Superintendents

**FROM:** Magdalene D. Haggerty, Office of the Auditor General  
Scott W. Thompson, Arizona Department of Education

**DATE:** December 12, 2001

**SUBJECT:** Guidance for Coding Expenditures in the Maintenance and Operation, Unrestricted Capital Outlay, and Soft Capital Allocation Funds

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The Unrestricted Capital Outlay (UCO) and Soft Capital Allocation (SCA) Funds may only be used as described in Arizona Revised Statutes (A.R.S.) §§15-903(C) and 15-962(D). However, for various reasons, these statutes have not been consistently applied over the years, which has resulted in differences within a district from year to year and among districts regarding how capital expenditures are recorded. The intent of this Memorandum, including the attached Capital Determination Chart, Capital Supplies List, Other Capital List, and Non-Capital List is to promote greater consistency within a district from year to year and among districts by clarifying which expenditures should and should not be recorded in these funds. **The effective date of this memorandum is July 1, 2002.** However, districts may implement early.

When it is determined that an item is capital, it may be purchased from the UCO or SCA Funds or another appropriate special revenue fund, but it cannot be purchased from the Maintenance and Operation (M&O) Fund. Similarly, when it is determined that an item is non-capital, it may be purchased from the M&O Fund or an appropriate special revenue fund, but it cannot be purchased from the UCO or SCA Funds. Essentially, the expenditures appropriate from the M&O Fund and those appropriate from the UCO and SCA Funds are mutually exclusive.

The M&O Fund is the general fund of the district and as such accounts for all financial resources of the district, except those required to be accounted for in other funds. The UCO and SCA Funds were established to account for district expenditures related to capital purposes and certain non-capital expenditures described in statute. The primary difference between the UCO and SCA Funds is that the SCA Fund must be expended first for short-term capital items (not land and buildings) that are required to meet the adequacy standards prescribed in A.R.S. §15-2011 and adopted by the School Facilities Board, with the option of using any remaining funds for administrative soft capital needs once such standards have been met.

The enclosed Capital Determination Chart (Chart) uses a series of questions, the related capital and non-capital lists, and specifically defined terms to determine whether an item may be paid from the UCO or

SCA Funds. As statute allows certain supply items to be paid from the UCO and SCA Funds, it is necessary to follow the decision steps in the Chart to identify the appropriate fund to use.

The first step in the Capital Determination Chart is to review the Capital Supplies List. All items included in this list must also meet one of the category definitions shown on the list to be paid from the UCO Fund. If an item is not on the list, but meets a category definition, it may also be paid from the UCO Fund. Library books, textbooks, and instructional aids may also be paid from the SCA Fund. If an item is not on the Capital Supplies List and does not meet the definition of a *Construction Material*, *Library Book*, *Textbook*, or *Instructional Aid*, the Other Capital List should be reviewed. The Other Capital List includes non-supply items that are appropriately paid from the UCO Fund. Any of these items that meet the requirements of A.R.S. §15-962(D) may also be paid from the SCA Fund.

If the item is not included on the Other Capital List, the Non-Capital List should be reviewed. Items on the Non-Capital List cannot be paid from the UCO Fund unless the item is used as a construction material or instructional aid. Similarly, an item on the Non-Capital List cannot be paid from the SCA Fund unless the item is used as an instructional aid. Therefore, it is important to determine that the item does not meet the definition of *Construction Material* or *Instructional Aid* before using the Non-Capital List.

If an item is not included on any of the lists, it must meet all three capital criteria on the Capital Determination Chart (useful life of at least 1 year, repair vs. replace, and independent unit) to be paid from the UCO or SCA Funds. If an item is considered to have a useful life of at least 1 year, and would likely be repaired rather than replaced if damaged or worn, refer to the definitions of *Independent Unit* and *Component Unit* shown on the Capital Determination Chart to make the final determination.

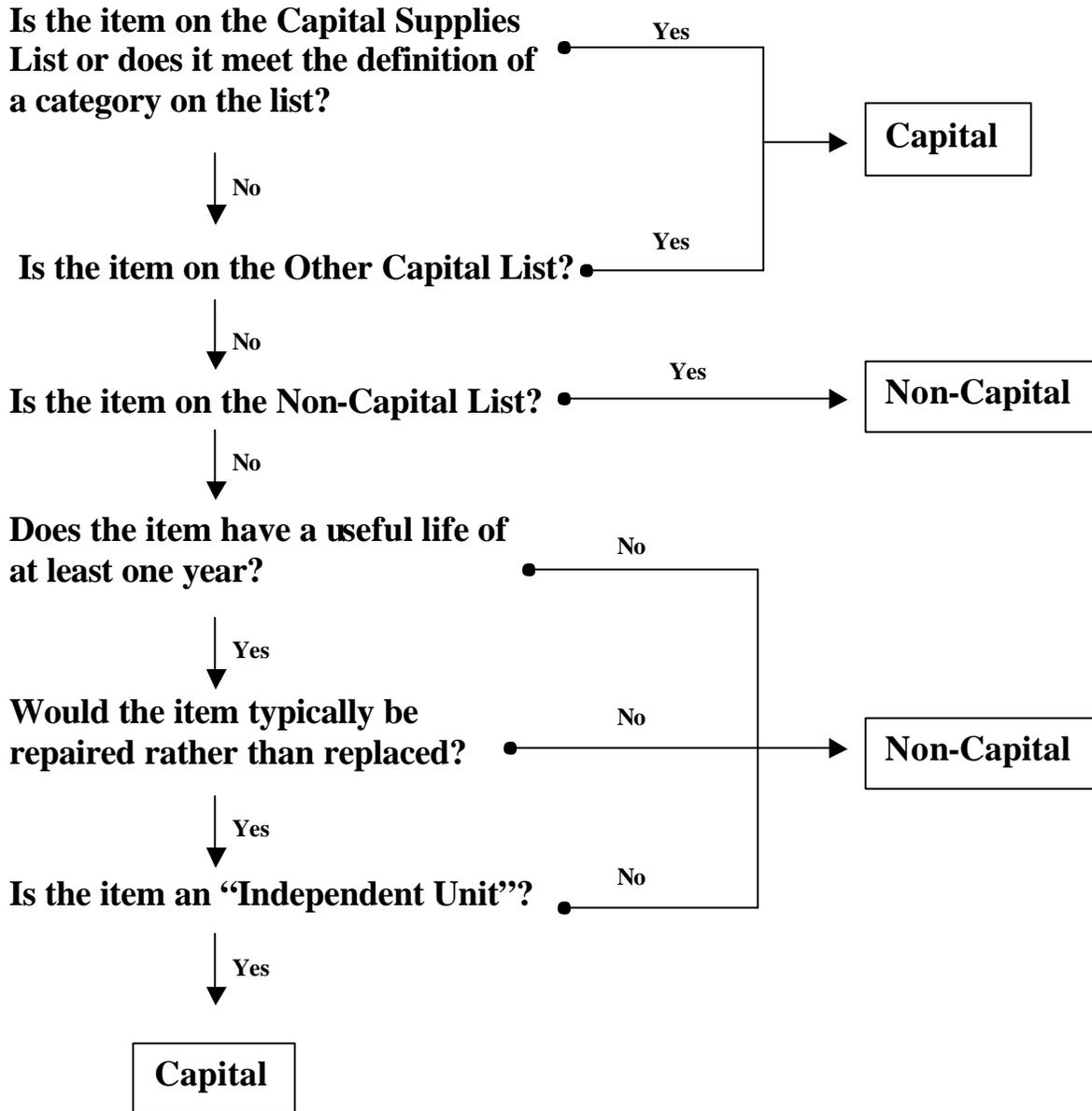
In addition to the capital determination tools referenced in the preceding paragraphs, a list of example journal entries has been included with this Memorandum for further guidance. The examples include the determining factor for each item as well as guidance on coding beyond the fund level.

If you have any questions or need assistance, 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.

MDH/SWT/lm

Enclosures

# CAPITAL DETERMINATION CHART



## DEFINITIONS

**Independent Unit**—An item that retains its original shape, appearance, and character with use and does not lose its identity through fabrication or incorporation into a different or more complex unit or substance.

**Component Unit**—A part of an independent unit. Also a part of a fixture or land improvement. Cannot be paid from the UCO or SCA Funds unless specifically listed on one of the capital lists.

## Capital Supplies List (Object Code 66XX)

<p><b>Construction Materials</b><sup>1</sup> (6610)</p> <ul style="list-style-type: none"> <li>▪ Concrete</li> <li>▪ Carpet</li> <li>▪ Electrical switches</li> <li>▪ Electrical outlets</li> <li>▪ Insulation</li> <li>▪ Joint compound</li> <li>▪ Lumber</li> <li>▪ Molding</li> <li>▪ Nails/Screws</li> <li>▪ Roofing materials</li> <li>▪ Sheet rock</li> <li>▪ Spackling</li> <li>▪ Tile</li> <li>▪ Wiring</li> </ul> <p><b>Library Books</b><sup>2</sup> (6641)</p> <p><b>Textbooks</b><sup>2</sup> (6642)</p>	<p><b>Instructional Aids</b><sup>2</sup> (6643)</p> <ul style="list-style-type: none"> <li>▪ Alphabet blocks</li> <li>▪ Auto parts for shop class</li> <li>▪ Balls, hockey pucks, shot puts</li> <li>▪ Calculators for students</li> <li>▪ Cassettes<sup>3</sup> and CDs<sup>3</sup></li> <li>▪ Drama scripts/plays</li> <li>▪ Globes</li> <li>▪ Instructional games</li> <li>▪ Maps</li> <li>▪ Math manipulatives</li> <li>▪ Musical instruments</li> <li>▪ Readers<sup>3</sup></li> <li>▪ Sheet music</li> <li>▪ Software (Instructional)<sup>3</sup></li> <li>▪ Textbooks<sup>3</sup></li> <li>▪ Workbooks<sup>3</sup></li> </ul>
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1. These items are only capital if they are Construction Materials (see definitions).
2. See Definitions.
3. If adopted by Governing Board as part of the basic instructional program, code to Object Code 6642—Textbooks.

### CATEGORY DEFINITIONS

**Construction Materials**—Supplies used in original construction or renovation (i.e., the substantial alteration of square footage, floor plan, or purpose of a building or portion of a building) of a building or land improvement.

**Library Books**—Resource materials maintained in a library or classroom, such as videos, film strips, software, newspapers, magazines, books, and cassettes.

**Textbooks**—Materials **adopted** by the Governing Board, such as books, software, videos, film strips, kits (i.e., whole kits or materials to create kits), and sheet music that function as the basic instructional program.

**Instructional Aids**—Items used to supplement a district’s educational program including athletics, such as workbooks, films, kits, calculators, and instructional computer software. General supplies of a consumable nature (e.g., lasting less than 1 year), such as pens, pencils, crayons, and clay, are not considered instructional aids and should not be paid from capital funds. Paper used in the mass production of educational materials, such as workbooks, is considered an instructional aid. However, paper used in the day-to-day production of handouts or lesson materials is not an instructional aid.

## Other Capital List

### Land, Buildings, and Related Improvements

<p><b>Land</b></p> <p><b>Buildings</b></p> <ul style="list-style-type: none"> <li>▪ Portables</li> <li>▪ Sheds</li> <li>▪ Warehouses</li> </ul> <p><b>Land Improvements</b></p> <ul style="list-style-type: none"> <li>▪ Bleachers (Outdoor)</li> <li>▪ Bridges</li> <li>▪ Dugouts</li> <li>▪ Fencing</li> <li>▪ Goal posts (Permanent)</li> </ul>	<p><b>Land Improvements (Concl'd)</b></p> <ul style="list-style-type: none"> <li>▪ Landscaping</li> <li>▪ Lighting (Outdoor)</li> <li>▪ Parking lots</li> <li>▪ Playground equipment</li> <li>▪ Propane tanks</li> <li>▪ Ramadas</li> <li>▪ Roads</li> <li>▪ Sewers</li> <li>▪ Sidewalks</li> <li>▪ Sprinkler systems</li> <li>▪ Towers</li> </ul>
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### Equipment (Object Code 673X)

<p><b>Athletic Equipment</b></p> <ul style="list-style-type: none"> <li>▪ Bats</li> <li>▪ Blocking sleds</li> <li>▪ Dummies</li> <li>▪ Exercise machines</li> <li>▪ Goal posts (Movable)</li> <li>▪ Helmets/Pads</li> <li>▪ Hurdles</li> <li>▪ Mats</li> <li>▪ Nets (Tennis/Volleyball)</li> <li>▪ Rackets</li> <li>▪ Weights</li> </ul> <p><b>Component Units</b></p> <ul style="list-style-type: none"> <li>▪ A/C compressors</li> <li>▪ Automotive engines</li> </ul> <p><b>Fixtures</b></p> <ul style="list-style-type: none"> <li>▪ HVAC units</li> <li>▪ Bleachers (Indoor)</li> <li>▪ Ceiling fans</li> <li>▪ Chalkboards</li> <li>▪ Drinking fountains</li> <li>▪ Hot water heaters</li> <li>▪ Light fixtures</li> <li>▪ Sinks</li> <li>▪ Speakers (Built-in)</li> <li>▪ Toilets</li> <li>▪ Wall mirrors</li> <li>▪ Whiteboards</li> </ul>	<p><b>Furniture/Furnishings</b></p> <ul style="list-style-type: none"> <li>▪ Bookcases</li> <li>▪ Chairs</li> <li>▪ Desks</li> <li>▪ Filing cabinets</li> <li>▪ Large area rugs</li> <li>▪ Tables</li> </ul> <p><b>Other Equipment</b></p> <ul style="list-style-type: none"> <li>▪ Auto diagnostic machines</li> <li>▪ Bar code scanners</li> <li>▪ Battery chargers</li> <li>▪ Cameras (Non-disposable)</li> <li>▪ Cash registers</li> <li>▪ Camcorders</li> <li>▪ Chalk line dispensers</li> <li>▪ Copiers</li> <li>▪ Computer CPUs</li> <li>▪ Computer monitors</li> <li>▪ Dishwashers</li> <li>▪ Dryers</li> <li>▪ Fax machines</li> <li>▪ Floor jacks</li> <li>▪ Key cutters</li> <li>▪ Kilns</li> <li>▪ Laminators</li> <li>▪ Lawnmowers</li> <li>▪ Laser disk players</li> </ul>	<p><b>Other Equipment (Concl'd)</b></p> <ul style="list-style-type: none"> <li>▪ Leaf blowers</li> <li>▪ Microwaves</li> <li>▪ Ovens</li> <li>▪ Overhead projectors</li> <li>▪ Paint sprayers</li> <li>▪ Power tools</li> <li>▪ Printers</li> <li>▪ Refrigerators</li> <li>▪ Satellite dishes</li> <li>▪ Scanners</li> <li>▪ Sewing machines</li> <li>▪ Software (Non-instructional)</li> <li>▪ Telephones</li> <li>▪ Typewriters</li> <li>▪ TVs</li> <li>▪ Vacuums</li> <li>▪ VCRs</li> <li>▪ Washers</li> <li>▪ Welders</li> </ul> <p><b>Vehicles (Pupil and Non)</b></p> <ul style="list-style-type: none"> <li>▪ Busses</li> <li>▪ Cars</li> <li>▪ Trucks</li> <li>▪ Vans</li> </ul>
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### Other Capital Projects

<ul style="list-style-type: none"> <li>▪ Asbestos removal</li> <li>▪ Recarpeting</li> <li>▪ Removal of a capital asset</li> </ul>	<ul style="list-style-type: none"> <li>▪ Repaving a parking lot</li> <li>▪ Reroofing an entire building</li> </ul>
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**Non-Capital List**  
(Object Code 6610)

<p><b>Automotive parts</b></p> <ul style="list-style-type: none"><li>▪ Alternators<sup>4</sup></li><li>▪ Antifreeze</li><li>▪ Batteries</li><li>▪ Bulbs</li><li>▪ Carburetors<sup>4</sup></li><li>▪ Fan belts</li><li>▪ Filters</li><li>▪ Fuel pumps<sup>4</sup></li><li>▪ Fuses</li><li>▪ Oil</li><li>▪ Spark plugs</li><li>▪ Timing belts<sup>4</sup></li><li>▪ Tires<sup>4</sup></li><li>▪ Transmission fluid</li><li>▪ Transmissions<sup>4</sup></li></ul> <p><b>Athletic supplies</b></p> <ul style="list-style-type: none"><li>▪ Tape</li><li>▪ Whistles</li><li>▪ Wraps</li></ul> <p><b>Office supplies</b></p> <ul style="list-style-type: none"><li>▪ Binders</li><li>▪ File folders</li><li>▪ Ink cartridges</li><li>▪ Labels</li><li>▪ Markers</li><li>▪ Organizers</li><li>▪ Pencils</li><li>▪ Pens</li><li>▪ Paper</li><li>▪ Paperclips</li><li>▪ Scissors</li></ul>	<p><b>Office supplies (Concl'd)</b></p> <ul style="list-style-type: none"><li>▪ Staples</li><li>▪ Tape</li><li>▪ Toner</li></ul> <p><b>Janitorial/Maintenance</b></p> <ul style="list-style-type: none"><li>▪ Brooms</li><li>▪ Buckets</li><li>▪ Cleaning solutions</li><li>▪ Cords/Cables</li><li>▪ Drill bits</li><li>▪ Light bulbs</li><li>▪ Locks<sup>4</sup></li><li>▪ Miter boxes</li><li>▪ Mops</li><li>▪ Paint<sup>4</sup></li><li>▪ Paper products</li><li>▪ Plumbing parts<sup>4</sup></li><li>▪ Soap</li><li>▪ Toilet seats</li><li>▪ Towels</li></ul> <p><b>Food service supplies</b></p> <ul style="list-style-type: none"><li>▪ Aprons</li><li>▪ Bowls</li><li>▪ Cups</li><li>▪ Detergent</li><li>▪ Food trays</li><li>▪ Paper products</li><li>▪ Plates</li><li>▪ Pots and pans<sup>4</sup></li><li>▪ Utensils</li></ul> <p><b>Miscellaneous supplies</b></p> <ul style="list-style-type: none"><li>▪ Flags</li></ul>
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4. Code to Capital if item meets the definition of a “Construction Material” or an “Instructional Aid.”

## CODING EXAMPLES

The following examples apply the coding guidance outlined in the Memorandum and provide guidance on coding beyond the fund level. The following items/services may also be purchased from a special revenue fund, when appropriate.

1. The District repaved its parking lot. **Determining Factor: Repaving a parking lot is included on the Other Capital List as an Other Capital Project.** (However, patching or resealing a parking lot is considered a repair and would not meet the capital criteria.)

If district purchased the service: 610-100-4000-6450 Construction Services

If performed by district personnel: 610-100-4000-6150 Classified Salaries

610-100-4000-6610 General Supplies

2. The District repainted a building. **Determining factor: Paint is included on the Non-Capital List as a Janitorial/Maintenance supply.**

If district purchased the service: 001-100-2620-6430 Repair and Maintenance Services

If performed by district personnel: 001-100-2620-6150 Classified Salaries

001-100-2620-6610 General Supplies

**Note: The following examples assume the District purchased the services described. If District personnel perform the services instead, entries similar to those described in examples 1 and 2 above would be made.**

3. The District replaced the transmission in a food service vehicle. **Determining factor: Transmissions are included on the Non-Capital List as automotive parts.**

001-100-2650-6430 Repair and Maintenance Services

4. The District purchased a couch for the nurse's office. **Determining factors: Couches are not on the Capital or Non-Capital Lists. However, it meets the three capital determination criteria.**

610-100-2130-6730 Equipment

5. The District replaced a section of roof on the gymnasium that was damaged during a storm. **Determining factor: Roofing materials do not meet the definition of construction materials if they are used for repairs.** (Reroofing an entire building would be capital. See Other Capital List, Other Capital Projects.)

001-100-2620-6430 Repair and Maintenance Services

## CODING EXAMPLES

6. The District purchased a high-speed binding machine to be used in the print shop. **Determining factors: This item is not included on the Capital or Non-Capital Lists. However, it meets the three capital determination criteria.**

610-100-2540-6730 Equipment

7. The District prints 2,500 workbooks at the beginning of the school year to be used in the classroom. **Determining factor: This meets the definition of instructional aids.**

625- or 610-100-1000-6643 Instructional Aids

8. The District replaced doors at its high school. **Determining factors: Doors are not included on the Capital or Non-Capital Lists. Additionally, they do not meet all three capital determination criteria.**

001-100-2620-6430 Repair and Maintenance Services

9. The District replaced carpeting in eight classrooms that had been damaged from flooding. **Determining factor: Recarpeting is listed on the Other Capital List as an Other Capital Project.**

610-100-2620-6450 Construction Services

10. The District is converting a classroom into a computer lab. In addition to the furniture and computer equipment purchases, the district is hiring a company to perform the necessary modifications to the room to allow for LAN and Internet access. **Determining factor: These modifications meet the definition of construction materials used in a renovation of a portion of a building.**

625- or 610-100-1000-6730 Equipment  
610-100-4000-6450 Construction Services

11. The District replaces an air conditioning unit. **Determining factor: HVAC units are on the Other Capital List as Fixtures.**

610-100-2620-6730 Equipment

12. The District paid ABC Company to install a foam surface under existing playground equipment. **Determining factor: This meets the definition of construction materials used in the original construction of a land improvement.**

610-100-4000-6450 Construction Services