

Actual and Necessary Business Expenses

I. Introduction

State and Federal laws prohibit the donation of public funds but allow actual, appropriate, and necessary business expenditures. The line between a donation of public funds and actual and necessary business expenditure is not always clear and the line varies depending upon the funding source documents.

This memo and the attached list of examples gives guidelines for applying the intent of the law to specific situations that arise at a community college. Not every situation can be addressed. Any questions should be directed to the college or district office business officer before committing to an expenditure. The District's policies and procedures state that an unauthorized purchase could expose the purchaser to personal liability for the expense.

Any proposed expenditure must be within approved funding and available resources, and serve the educational purpose of the District by meeting at least one of the following standards:

- Communicates the educational mission of the District
- Increases community awareness of educational programs
- Promotes support of local educational priorities
- Improves time management and staff effectiveness
- Recognizes exemplary service to the District

II. Discussion of Funding Source Guidelines

Category of Accounts - Unrestricted General Fund Accounts

Definition: Keycodes that begin with a "1" and do not have a "9" as the next to the last digit. For example, 1110001. The majority of District expenditure accounts.

Examples of ***generally acceptable*** expenditures from the Unrestricted General Fund:

- General supplies, contracts, and equipment necessary to advance the educational purpose of the District
- Framed certificates or plaques costing less than \$50
- Clothing items that all staff in a work area are required to wear
- Food at required meetings during a normal meal period

Examples of ***generally unacceptable*** expenditures from the Unrestricted General Fund:

- Donuts, bagels, coffee for regular staff meetings
- Holiday celebrations, cards, decorations
- Individual personal occasions such as birthdays and retirements
- Donations or gifts
- Any item of clothing that is not required to be worn as a uniform
- Flowers for condolences, thank you, or congratulations

Category of Accounts - Restricted or Categorical Funds

Definition: Keycodes with the digit “9” as the next to the last digit or any keycode starting with a digit other than a “1” or a “7”. For example, 1333091, 4116824, 3421100.

The same rules that apply to the Unrestricted General Fund apply to the Restricted and Categorical key codes except as noted below:

1. The funding documents, funded proposal, or proposal documents specifically allow the expense.
2. The funding source provides appropriate written documentation by mail, e-mail, or facsimile that specifically authorizes a proposed expenditure.

In either case, the above documentation to support the expenditure must either be on file with the business manager or accompany the purchasing document that is submitted to the site business officer for approval. The grant project director and related manager will be accountable for compliance with the specific rules and guidelines dictated by the funding source, as well as the District’s expenditure procedures and guidelines.

Category of Accounts - Trust Funds

Definition: A keycode with a “7” as a first digit. For example, 7326005.

Unless prohibited by the funding source, trust funds may be used for food and beverages. Trust funds may not be used for holiday decorations and personal gifts unless specifically authorized by the funding source, the trust establishment documentation, or by District contract.

Although generally allowed, any purchases of food and beverage must be related to the educational purpose of the college district and the specific purpose of the trust.

III. Requests for Interpretation or Clarifications

As stated earlier, there is not a black or white rule for every contemplated expenditure. If in doubt, first apply the tests of common sense and, “What would it look like on the front page of the newspaper?” Next, direct requests for clarification or interpretation to the college or district office business officer. In cases where a proposed expenditure appears to conflict with District policy and procedure, the business manager may make the decision or forward the question to the appropriate chief executive officer, who will make the final determination.