



Use of Management Fund for Purchasing Commodities

Overview

The Iowa Department of Education has received several questions regarding the type of costs that can be covered through use of revenues generated through the district management levy and deposited to the management levy fund (Management Fund). The Management Fund is established under Iowa Code section 298.4 and may only be used for specified purposes. In particular, districts have sought clarity regarding purchasing commodities, such as natural gas, where districts face the risk of price increases in the market. A contract to purchase a commodity like natural gas at a fixed price does not fit the restrictions the Iowa Code places on the Management Fund and cannot be paid for using the Management Fund.

Context and Discussion

Iowa Code section 298.4 permits a school district to levy a tax to establish a Management Fund. But the Management Fund may only be used for specified purposes. One of those purposes is “the costs of insurance agreements under section 296.7.” Iowa Code section 296.7 provides that a school district may enter into agreements or mechanisms to “protect the school district from tort liability, loss of property, environmental hazards, or any other risk associated with the operation of the school district.”

In *Iowa Association of School Boards v. Iowa Department of Education*, 739 N.W.2d 303 (2007), the Iowa Supreme Court considered what kind of risk school districts could protect against using the Management Fund. The Court concluded that the statute restricts use of the Management Fund to protection from “risk of loss,” not any risk. The Court found that a risk of loss is the risk of destruction, loss or injury of something in which the insured has an interest. *Id.* at 310. The Court also noted that the other specific contingencies against which the school district could protect itself using an insurance agreement—tort liability, loss of property, and environmental hazard—all contain elements of injury or damage, consistent with the definition of risk of loss. The court found that the Iowa Joint Utilities Management Program (IJUMP) fleet services program did not protect a district against a risk of loss, but rather, against the risk of unexpected increases in costs of fuel.

Another permitted use for a district’s Management Fund is “to establish and maintain a local government risk pool.” Iowa Code section 296.7(1). The Iowa Supreme Court held in *Iowa Association of School Boards* that local government risk pools are alternatives to insurance that are also designed to protect against the risk of loss. *Id.* at 311. In risk pool arrangements, members set aside money to form a pool from which losses will be paid. *Id.* Additionally, the Court opined that “the legislature’s use of the term ‘insurance agreements’ in both statutes demonstrates its intent that self-insurance programs and risk pools permitted by section 296.7(1) be alternatives to traditional insurance and not arrangements with a wholly different purpose.” *Id.* at 311. Entering into a fixed price contract to purchase commodities is not a risk pool, because the arrangement does not protect against the risk of loss, although it may mitigate the risk of increased commodity prices. Several districts joining together to enter into contracts with a commodity supplier does not create a risk pool under Iowa Code.

Since the *Iowa Association of School Boards* case provided guidance on the use of the Management Fund in 2007, the Legislature enacted Iowa Code section 274.3 (board exercise of powers, also referenced as “limited home rule”). As noted in the [June 2017 School Leader Update](#), this section of Code “provides more flexibility for school districts in their exercise of powers where the law or administrative rule does not already

prescribe or prohibit action. However, a school district's exercise of home rule power may not be inconsistent with the state or federal law." Here, Iowa Code sections 298.4 and 296.7 provide a specific, exhaustive set of uses for the Management Fund, and "limited home rule" cannot be used to expand the statute. The article also states that if there is an Iowa Supreme Court or Iowa Court of Appeals case that pertains to the action being considered, that case is controlling and a district's actions must be consistent with that ruling. The Iowa Supreme Court's decision in the *Iowa Association of School Boards* case is controlling and prevents the use of a district's Management Fund to pay for commodities.

Correction of Transaction Coding

If a district has coded expenditures to the Management Fund (Fund 22) in the current year that should have been to the General Fund (Fund 10), this can be treated as an error. Expenditures are backed out of Fund 22 and re-entered in Fund 10. Cash must follow.

Fund 10
DR Expenditures
CR Cash

Fund 22
DR Cash
CR Expenditures

If a district has coded expenditures to the Management Fund (Fund 22) and is making the correction in the following year, *and it was reported properly in the audit*, correct as follows:

Fund 10
DR Downward Adjustment to Beginning Fund Balance Function 6900 Object 990
CR Cash

Fund 22
DR Cash
CR Upward Adjustment to Beginning Fund Balance Source 5900

If a district has coded expenditures to the Management Fund (Fund 22) and is making the correction in the following year, *and it was not reported properly in the audit*, correct as follows:

Fund 10
DR Interfund Transfer to Management Fund Function 6222, Object 910
CR Cash

Fund 22
DR Cash
CR Interfund Transfer from General Fund Source 5210