Accounting for a Fire
Introduction
This guide references “fire” but applies equally to other major property damage caused by earthquakes, hurricanes and other disasters. There are many aspects of disaster response that are not covered here. This guide deals mostly with accounting and related issues. The code sections and account numbers relate to California. You will need to adapt these references to your own state’s statutes and account coding system.

Emergency Contracts
When disaster strikes, the California Public Contract Code (section 10340) can assist you. The requirement to go out to bid or get prior board approval for contracts may be temporarily suspended, until the Board of Education has a chance to meet. Contracts that might be entered into without prior board approval are:

- Remediation services, provided by companies such as, such as ServPro, Servicemaster, and others
- Perimeter fencing
- Security Services
- Temporary classrooms
- Rental or purchase of student desks
- Purchase of replacement textbooks

These contracts will need subsequent board ratification.

Coding for Emergency Contracts
In order to enter Purchase Requisitions or contracts into your system, you will need to establish account strings and budgets almost immediately. Keep tabs on these initial purchases. Subsequent discussions with the insurance company may lead you to modify your coding system. Normally, there is time between contract entry and payment. If you modify your coding system, try to do so prior to payment of these initial contracts.

Coding decisions will revolve around the following:

- Is this an instructional cost that cannot be recorded in the building fund?
- Will this be part of an insurance buyout, or will a reimbursement claim be required?
- What resource number and project number will you use to record all fire activity?
- In what categories will the insurance company record claims?

Work with the Insurance Company Immediately
Get an idea of how the company will process claims, and what is likely to become a buyout and what is likely to be reimbursement for documented costs. Assign a staff member to be the insurance accounting liaison. The main claims adjuster will probably not be your main contact for all accounting related questions. They will assign an accountant to your case.

Start Developing a Teacher Reimbursement Process Immediately
Some teachers who have lost their classrooms will be traumatized. Your claims process might become a focal point where a small minority of teachers could focus their anger. Train staff on how to deal with irate customers compassionately. Assign a particularly patient and kind staff member to be the single point of contact for all teacher-reimbursement issues. Depending on the size of the loss, this person may need to be released from other duties for several months. Work with the insurance company to ensure that his or her salary will be reimbursed by insurance for those months.
Claiming Personal Items
Teachers will need to create two lists. The first list will be everything that was lost that they purchased out of pocket. In many cases there will be no records for these items, unless they have detailed photos or videos of their classrooms (a GREAT idea for all teachers to do periodically). Teachers may have to go through catalogs to be reminded of items that they purchased with their own funds. They may need to look at other teachers’ lists to jog their memory. They may not remember that an item is lost until they get to that part of the instructional year where they normally used the item. This process can be very time consuming. Remember that lesson plans have been lost, so compiling this list may not be their highest priority. So set a firm deadline. About 6 months after the loss occurred is reasonable.

Make sure that the teacher does not claim as personal property any school-acquired items, or items for which they were reimbursed. These need to be listed as well, but separately.

Once the teacher has developed their personal list, the insurance company may discount some items for age. When a dollar amount is arrived at the teacher will receive a reimbursement check. This money can be spent however they choose. They do not need to buy replacement classroom items with these funds, as this is a reimbursement for lost personal items. If they want to use the funds to pay their mortgage or go on a trip, that is their choice.

Recreating Lesson Plans
Lost lesson plans will not be given a dollar value. Instead, negotiate with the insurance company to pay for a reasonable number of extra-duty hours so that teachers can collaborate to re-create lessons. Determine how the insurance company plans to pay for this (buyout or documented time). Storing lesson plans in the cloud is a great “lesson learned” from a school fire.

Log Your Time
Everyone involved with the fire should log their time. If the person will be paid (i.e. for overtime) then a special timesheet needs to be developed. Develop a time log for people working within their normal day, or who get compensating time off, or are management staff not compensated for extra hours.

Calculating Losses
You will almost certainly have a person in the Purchasing department assigned to negotiate all the issues associated with contents replacement.

When you lose a building, the effectiveness of your inventory/fixed asset system is put to the test. Items that should already be in an inventory system are:

- Textbooks and library books (usually in a stand-alone system such as Follett’s Destiny system)
- All non-capitalized equipment with a cost between $500 and your capitalization threshold (per California Education Code). Frequently these are computers, document cameras, smart-boards, copiers, printers.
- Capitalized Equipment and building.

You will probably find that the way to get a handle on your losses will be to assign one person to document the losses in each room. Teachers will document their classrooms. Other school staff will document the office, and common areas. These lists then need to be compared with the inventory system. Items that are not in that system need to be identified and catalogued as either school district property or personal property. An estimate of the age and condition of each item will be
made. The insurance company will probably require you to supply serial numbers and Purchase Order numbers so that the same equipment is not reimbursed twice.

Once a detailed list of losses is created, a determination of which items will or will not be replaced needs to be made. The district may negotiate a buyout payment for items it won’t replace.

You will find that you cannot replace computers like for like, as the model you lost is probably no longer in production. A “like for like” list needs to be negotiated so that an old “low end” is replaced with a new “low end” and so on. Depending on your policy, insurance may cover this replacement entirely, or they may want to discount for age. If you are not going to replace, then they will certainly discount their payment for the age of the items lost.

This person will also work with the company on lost supplies. For supplies (paper, pencils, staplers, and countless others), you may get a buyout, or you may develop a “standard” package of items to resupply each room. The company will reimburse you for the purchase of this package and then consider the “supply” issue closed.

**Buyout versus Replacement**

When you receive a buyout the items that you purchase with those funds will not be claimed for reimbursement. Therefore it is essential to identify two funding streams (buyout and claims) and buy items from each funding stream. As you can imagine, the first purchases you make may eventually become part of a negotiated settlement (“buyout”) and therefore will not be claimed. You may need to move costs between funding sources to keep this all straight.

**Accounting for Revenue**

Revenue sources are generally:

- Self-insured deductible (general fund)
- Insurance proceeds – buyouts/settlements
- Insurance proceeds – documented losses/claims
- Donations

Additionally, you may decide to add scope during the building replacement phase, requiring additional funds, such as bonds. This can occur if the building was slated for renovation, and bond proceeds are available. It is not likely that the school will want the exact same configuration after an older building is lost.

Each revenue source will have its own resource number (source of funds). Resources are treated as sub-funds, with their own balance sheets. Likely revenue sources will be:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Resource (Sub-fund)</th>
<th>Description</th>
<th>Object</th>
<th>Revenue Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>01-General</td>
<td>9xx1</td>
<td>Donations. Consider this as a possible source for your deductible.</td>
<td>8699</td>
<td>Miscellaneous Local (Restricted), earned when received</td>
</tr>
<tr>
<td>01-General</td>
<td>0xx1</td>
<td>Documented Insurance claims (for instructional items)</td>
<td>8979</td>
<td>Extraordinary Revenue, earned when spent</td>
</tr>
<tr>
<td>01-General</td>
<td>0xx2</td>
<td>Insurance buyout (for instructional items)</td>
<td>8979</td>
<td>Extraordinary Revenue, earned when received</td>
</tr>
<tr>
<td>21-Building</td>
<td>9xx2</td>
<td>Insurance (for building reconstruction) – this could be a negotiated buyout</td>
<td>8979</td>
<td>Extraordinary Revenue, earned when received</td>
</tr>
<tr>
<td>21-Building</td>
<td>9xx3</td>
<td>Insurance (for documented costs, such as temporary trailers)</td>
<td>8979</td>
<td>Extraordinary Revenue, earned when spent</td>
</tr>
<tr>
<td>21-Building</td>
<td>9xx4</td>
<td>Bond (for extra scope, if any)</td>
<td>8951</td>
<td>Proceeds of Bond Sales. Earned when received</td>
</tr>
</tbody>
</table>
You will be buying a lot of instructional supplies and equipment and will be paying teachers extra duty to set up their classrooms. Instructional costs cannot be coded to the Building Fund (in California anyway). Thus you will find you need to buy some of these items from the General Fund.

Rule of thumb:

- Anything to do with the site will be recorded in the Building fund. This includes restoration, site security, site prep, relocatable trailers, all construction-related costs. Salaries of additional staff to conduct these activities. These are capital costs and will be taken into account when calculating asset replacement cost.
- Anything to do with contents will be in the General fund. This includes library books, instructional and office supplies, computers, furniture.

Donations

In the days and weeks immediately following a disaster, there will usually be an outpouring of donations. These will be of three types:

1. Cash or cash equivalents (e.g. store gift cards)
2. Newly purchased goods
3. Used items of generally dubious usefulness

The district’s public media liaison will generally do all communication about gifts, but it is up to the Business Department to account for and deposit cash donations. It is best to designate a drop off spot and keep a log of everything that is donated. If you receive gift cards, log those and keep them in your safe. You are probably going to hold on to them for a couple of months until the craziness subsides a bit. Then turn them over to the school principal. Generally the dollar amount is insufficient to attempt to account for these items any further.

The components of the log sheet will be date, name, address, check # (if applicable) and item description. Your board of education, superintendent, public information officer, and school principal are going to ask for details.

**FIRE DONATION LOG**

<table>
<thead>
<tr>
<th>Date</th>
<th>Title</th>
<th>First and Last Name</th>
<th>Mailing Address</th>
<th>Check Number</th>
<th>Donation Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/2014</td>
<td>Mr. Able J. Sample</td>
<td>1234 Sycamore Lane #56, Los Angeles, CA 91254</td>
<td>1234567</td>
<td>$10</td>
<td></td>
</tr>
</tbody>
</table>

Set aside a room at your drop-off point for “stuff”. Someone from your Curriculum and Instruction department should review the stuff as frequently as possible to determine if any of it can be used at the school. Organize a custodian to make frequent runs to a donation center or the local dump, as you will find that some people use this as an opportunity to clean out junk from their garages (sadly true). Useable items will generally need to be stored and delivered to the site at a later date, so you’ll need to organize a place for that as well.

**Sample Thank You letter for “Stuff”**

*On behalf of the students and staff of ABC Elementary School, I wish to thank you for your generous donation to our school.*
The XYZ School District is a local government agency. Gifts to governmental agencies, including public schools, are defined as charitable contributions under IRS Code Section 170(c)(1) if the contribution or gift is made exclusively for public purposes.

Please understand that the school district cannot place a value on donated items. You may wish to make a list of the items you donated along with their approximate value and attach it to this letter. That will be your documentation for tax purposes.

Please also understand that for many reasons, not all donated items will be able to be used at ABC. If your items cannot be used they will be further donated, if possible, to the Resource Area for Teachers (RAFT) or to another charitable organization such as Goodwill.

Yours sincerely,
M.S. Leader, Principal

While this letter purports to come from the principal, in reality it was developed by the business department and then run by the principal for her quick OK. Upon her approval it was then sent out by business office staff daily, as log sheets were collected. The principal and her staff will be way too busy to deal with such details.

Organizing Expenditures
Expenditures will follow the revenue categories listed above. You need to be able to generate a coding structure that will let you easily pull data according to the following categories:

- Costs to be reimbursed
- Costs associated with a settlement or buyout. You’ll want to record how the funds were used and how any unused funds were handled.
- How you paid your deductible
- What funds were donated, and how they were used
- What costs were not reimbursed and how this was funded

**Deductible:** Find one large contract at the start of the project (e.g. the fire remediation company) and code the deductible amount to a general fund source, to record your payment of the deductible. Identify this as a fire cost through the use of a “fire” project number or goal.

**Donations:** Create a donation account (resource), but do not use the fire project number or goal (except for the deductible portion if this is where you are funding the deductible). All other expenditures are not fire expenses, and should not be pulled into a data that you pull regarding fire costs. If you later must use some of the donated funding to cover unreimbursed costs, then do code these with the fire account.

**Buyout/Settlement:** Do not mix these expenditures with those you are going to claim for reimbursement. If you receive various settlements – e.g. library books and building replacement, these clearly need to be kept separate as well. If you get a settlement, say, for the library and after all library books are purchased you have a small remaining balance, contribute it to the unrestricted General Fund.

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIBRARY SETTLEMENT (Contribution to Unrestricted)</td>
<td>4,000</td>
</tr>
<tr>
<td>UNRESTRICTED (Contribution from Library Settlement)</td>
<td>4,000</td>
</tr>
</tbody>
</table>

If the buyout amount is insufficient, the contribution will of course go in the other direction.

**Claims:** You’ll find you have claims costs in both your general fund and your Building fund. You may receive a buyout for the building replacement, but then have to report progress payments anyway
Salaries: Salaries tend to be an item for special scrutiny. If you have staff already employed and do not add staff to backfill their “fire” activities you may encounter a reluctance to get paid for this time. These employees are on staff anyway, and are already being paid from another identified funding source. Keep track of all this time anyway, and see what you can negotiate. Say, for example, you have $70,000 in documented “regular” time that was spend on fire activities, how are you going to show this? Will you remove that amount of cost from their “regular” funding source and then code it to a fire account and set up a receivable? If you don’t do that, how will you account for the payment if it is received? Just take it in as miscellaneous general fund revenue? Try to get specific guidelines from the insurer about what they will and won’t pay for.

One option is to use a “fire” project number and journal the documented salary to that project number, within their existing funding source. If you get paid, recognize the revenue in the General Fund and then make a contribution to the various funding sources that incurred these costs. In this way you can always pull the full cost of the fire, including those items you may never be paid for.

For overtime or extra duty, make sure that the insurer has, in principle, agreed to pay. You don’t want to pay each teacher for 20 hours of extra duty to redevelop lesson plans and code this to a “fire” account, only to find out later that you are not going to be reimbursed.

Project Numbers
Your accounting system may have the ability to organize records around projects. There may be a project accounting module. It is recommended that any construction or major maintenance project be given a project number in any case. Your fire activities will be another project.

If you don’t have this capacity consider using the “Goal” field to track projects. You need to be able to easily pull all fire activity and dump it into Excel. Another possibility is to use unique Programs or Cost Centers.

Reconciling Claims
When you get a hold of the insurer’s ledger of paid and unpaid claims you can start to see how they group claim activities. This will not always correspond to how you have coded items in your system. Ultimately, you will probably need to dump all transaction data into Excel and code items by the insurer’s claim number, claim type, etc. Reconcile your totals to the insurer’s records to make sure that you did not fail to claim some items. Append to this file monthly at first and then quarterly to identify new claimable items and any unpaid or disputed claims. Follow up on old unpaid claims. You may see a category called “awaiting adjustment”. Don’t just leave that as a reconciling item. Follow up and see what the likelihood is that this will be paid.

Unpaid claims are going to show up as expenses with no associated revenue. Ultimately you will need to cover these by making a contribution from your unrestricted general fund (or from your donations account).

Accounting for Asset Loss
It is unlikely that the building will be replaced prior to the end of the fiscal year. At June 30, you will need to reduce your assets by the portion that was lost. So you may be carrying the school at a value of $5 million (construction cost in 1970), fully depreciated. If 50% is destroyed then the book value needs to be reduced to $2.5 million, fully depreciated. It may cost $15 million to replace the lost portion. Thus, after construction the building will be carried at $17.5 million, with $2.5 million depreciation.

Consult your external auditors, as these will become footnotes to your audited financial statements.
Asset Valuation for Insurance Purposes
When a district purchases fire insurance the insurer will ask for a valuation of district property. Often the book value will be cited. In the case above, the value of the lost portion may have been reported to the insurer as $2.5 million. Imagine their displeasure if they are now on the hook for $15 million. Your risk manager and insurance provider must work together to establish a reasonable insured value. If this is done properly every couple of years, you may find that your insurance premiums go up significantly.

Public Relations Issues
These are beyond the scope of this document. However, expect a lot of public outcry if your building(s) did not have sprinklers or monitored fire alarms. In discussions with our adjuster he said that sprinklers may sound like a good idea, but that there are many false alarms that set off sprinklers, and water damage is usually extensive and expensive. You are probably going to lose the public relations battle on that one.

Further Reading
http://eqgroup.com/ACV_explained.htm