School Board’s Roles & Responsibilities in District Finance: Funding, Budget Development, Financial Management, and Audit

New School Board Members Conference
12:15 – 1:30
Purpose of this Session:

To inform School Board members of the basic concepts of school finance and to satisfy the required training for annual school audits.
Today we will talk about:

✓ Budgeting
✓ The numbers to which you need to pay attention
✓ The annual audit
Before we get going...

- Do you come from a background in accounting?
- Do your eyes cross when you see a page of numbers?
- Do you know what to look for when someone hands you a page full of financial hog-gob?
IT’S SO CONFUSING!!!
Your grandchild

- Suppose you were in a crowded mall with your grandchild.
- Somehow he got separated from you.
- You look around at 100s of people but none of them are as important as your little bucket of treasure.
- What do you focus on? What’s most important???
Your grandchild – your district

- You will see 100s of numbers – what are the ones that are important to you? Which ones do you need to latch on to?
Numbers

- Numbers are not the most important thing in a school – kids are!
- But...you can’t take up books if you can’t pay your bills.
THE BUDGET
What is a Budget?

- A budget is a financial plan.
- A budget is a plan for raising and spending money.
- A budget reflects the values and culture of the organization.
We spend our TIME and our MONEY on what we VALUE.
What is the purpose of a budget?

- To keep an organization relatively on track
- To satisfy requirements of state, local and federal governments.
What Funds are you responsible for?

- Funds
  - 1. Teacher Salary Fund
  - 2. Operating Fund
  - 3. Building Fund
  - 4. Debt Service Fund
  - 5. Capital Outlay Fund
  - 6. Federal Fund
  - 7. Activity Fund
  - 8. Food Service Fund
Key Budgeting Principles

Budget revenue low and expenditures high.
Key Budgeting Principles

There is not an infinite amount of money out there.
Submitting the Budget to ADE

- Budget must be submitted to ADE via APSCN by September 30
- Before it is submitted, the local School Board must approve that budget
- The format that your Superintendent or Business Manager chooses to present the budget to you is not set by law
- The real budget from APSCN would be pages and pages and pages of hard to understand numbers.
WHAT NUMBERS
TO PAY
ATTENTION TO
A number is meaningless in isolation.
Trend data is the most important
What numbers matter?

- THE number 1 most important number you need to look at is
  - **Unrestricted legal ending balance**
    - Restricted vs. Unrestricted
  - Why is this number important?
    - Fiscal Distress
    - “Bankruptcy”
- All other numbers lead to this one and every number impacts this number.
What numbers matter?

- Overall Ending Balance
  - A percentage of the total operating budget – usually 6 to 10%
  - Should grow as your budget grows
  - The larger the budget, the lower the percentage may need to be.
What numbers matter?

- Student ADM
- Growing district
- Losing district
What numbers matter?

- Personnel
  - # of staff members vs. Standards
    - Overall FTE (Full-Time Equivalency)
  - Pupil/Teacher Ratio
What numbers matter?

- Assessed Value
  - Growing or steady?
  - How much is it growing?
What numbers matter?

- Unrestricted Legal Balance
- Overall Ending Balance
- Student ADM
- Personnel FTE
- Assessed Value
Revenue = Expenditures

- Expenditures that consistently exceed revenue will lead to declining balances and fiscal distress
Check Points

- Ending balance is the most important check point but you should look at intermediate reports to verify whether your budget is on target or not.
Monthly Reports

- You should be receiving a report each month from the Superintendent or Business Manager that gives you a good look at the district’s current financial position.
- Don’t be as concerned (yet) with the details but do be concerned about the big numbers and the big trends.
Monthly Board Reports

- Big budget numbers – not the smaller budget units
- Fund Balances
- Statement of Revenue
- Statement of Expenditures
- Year-to-date compared to last year
- Check Registry.
What Matters Most?
Students First

- The next time you are in Walmart or going to Sunday School and you see a student in your district, think this:

“\textit{I’m doing this for you.}”
Superintendent/Board Relations

- A good relationship between the Superintendent and the School Board begins with mutual trust.
Quotes about Trust

“Trust everybody, but cut the cards.”

- Finley Peter Dunne
Quotes about Trust

“Trust but verify”
- Ronald Reagan
We learn from our experiences.

Trust is the residue of promises fulfilled.
Trust and Fiscal Responsibility

- A trusting relationship between the Superintendent and School Board is imperative to the financial health of a district.
REVENUE & EXPENDITURES
REVENUE
Key Components to the Budgeting Process

- Revenue
  - How much revenue will we receive and from where?
  - Up or down from last year?
Revenue

- What are the main sources of revenue for school districts?
  - Property Tax
  - State Aid
  - Federal Aid
  - Other.
Property Taxes
Types of Property Tax

- Real Estate
- Personal Property
- Utility
Real Estate Taxes

- Millage Rate
- Appraised value vs. Assessed value
  - Appraised value x 20% x millage rate = taxes due and payable.
Calculating Property Taxes

- Assume a house with an appraised value of $100,000 in a school district with a millage rate of 36 mills.
- The assessed value is $20,000 (20%)
- $20,000 \times 0.036 = $720 due in property taxes

- Does not include additional property taxes assessed by the city or county.
Calculating Property Taxes

- By law (Amendment 74 to the Arkansas Constitution), each district must assess at least 25 mills for the purpose of the maintenance and operation of the district.
  - Called the Uniform Rate of Tax (URT)

- Additional Mills
  - Additional Maintenance & Operation
  - Debt Service Mills
    - Excess Debt Mills
  - Dedicated Mills/Capital Outlay Mills
Calculating Property Taxes (con’t)

- All homeowners may apply for a homestead tax credit – only applies one time per household
- Those homeowners who are over 65 may have their property taxes on their homestead frozen and are not affected by future assessments.
  - They would be affected by future millage increases and any improvements they might have made on the property (pool, additional garage).
Personal Property

- Vehicles, motorcycles, four wheelers
- Boats, ski boats
- Farm equipment
- Mobile homes, trailers
- Inventory.
Utilities

- Assessed on utility company assets
  - Nuclear reactor
  - Coal fire generating plants
  - Telephone poles
  - Length of cables
  - Cell phone towers
- Assessment is set by the PSC – “Public Service Commission”
Property Taxes

- Fiscal year vs. Calendar year
  - Fiscal year for all state entities including school districts is July 1 – June 30
  - Property taxes are collected in a calendar year
- Tax collector’s books are opened on March 1
- Taxes are paid annually – due and payable on October 15 of each year
  - Paid one year in arrears. In 2020, you will pay taxes that are due for the 2019 calendar year
Categories of Property Tax Revenue

- Current Property Tax
- Property Tax Relief/Sales Tax
- Delinquent Property Taxes
- Excess Commission
- Land Redemption
- Interest
State Aid
State Aid

- Where does the revenue produced at the state level come from?
  - Income Tax
  - Sales Tax
  - Corporate Tax
  - Fees & Permits
  - Etc.
State Aid

- Foundation Funding
  - ADM
- Student Growth Funding
- Declining Enrollment Funding
- Isolated Funding
- Categorical Funds
- Enhanced Transportation Funding
- Bonded Debt Assistance
For 2020-21, every school district in Arkansas will be guaranteed to receive $7,018 per ADM (average daily membership) from the first three quarters of 19-20 school year.
Calculating State Foundation Aid

$114,220,419 \text{ (total assessed value)} \\
\times 0.025 \text{ (URT)} \\
\times 98\% \\
+\text{PY Miscellaneous Funds @100\%} \\
\quad (\$131,369) \\
\div 1,490.79 \text{ (PY 3 qtr ADM)} \\
= \$1,965.25 \text{ Local Revenue per student} \\
\$7,018 - \$1,965.25 = \$5,052.75 \text{ per student of Foundation Funding}
Categorical Funds

- Professional Development
- Alternative Learning Funding
- English Language Learner
- National School Lunch – NOW ESA

- Must be placed in special funds so that revenue and expenditure may be tracked more accurately
- Must be used for its intended purpose
- May be transferred between categories.
Expenditures
Three major categories of Expenditures

- **Salaries/Benefit**
  - (70-80% of a district’s total operating budget is in personnel)
- **Supplies/Equipment/Capital Expenditures**
- **Debt Service**
Key Components to the Budgeting Process

- Expenditure - Set vs. variable expenditures
  - Set
    - Debt Service
  - Sort of set
    - Salaries and Benefits
    - Utilities
  - Variable
    - Supplies
    - Equipment
    - Buses
    - Maintenance Projects
Expenditures

- One-Time Expenditures
- Recurring Expenditures

*** Make sure you know the long-term impact of any new expenditures that you approve.
Ups and Downs of Revenue vs. Expenditures

- In most homes, revenue and expenditures roughly parallel each other.
- Not in schools.
Quotes

- An ethical person ought to do more than he’s required to do and less than he’s allowed to do.
  - Michael Josephson
Quotes

- Every great mistake has a halfway moment, a split second when it can be recalled and perhaps remedied.
  - Pearl S. Buck
Arkansas School Boards Association
SCHOOL AUDIT REPORT TRAINING

AUDIT
Act 867 - Financial Audit Requirements

- Requires all schools use the exact same audit process, whether using legislative audit or private audit
- For school financial audits, the financial statements shall be presented on a fund basis format with, as a minimum, the general fund and the special revenue fund presented separately and all other funds included in the audit presented in the aggregate
- Financial statements shall consist of:
  - A balance sheet
  - A statement of revenues, expenditures, and changes in fund balances
  - A comparison of the final adopted budget to the actual expenditures for the general fund and the special revenue fund
- Notes to the financial statements
Act 867 - Financial Audit Requirements (Continued)

- Report shall include a report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with the Government Auditing Standards
  - Shall include as supplemental information a schedule of capital assets, including:
    - Land;
    - Buildings; and
    - Equipment
Audit training is part of the initial nine hours a new board member must receive by December 31 of the year after being elected.

Regardless of whether the board member was elected in May or November.
Acknowledgements

Freeman Wish, CPA, Business Manager/District Treasurer
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How to read your school’s audit report
Audit Training Requirement

- Annotated Code 6-13-629
- There is no hourly requirement
- There is no requirement after the initial training

NOTE: ASBA strongly suggests subsequent training in this area in order to keep abreast of auditing changes and to sustain continued growth of knowledge.
What is an audit?

An audit is the process by which an independent accountant reviews your financial records and procedures in order to express an opinion of the fair presentation of your financial statements.

- An audit is not designed to detect fraud.
What do auditors do?

Plan the Audit

Test the Accounting Records

Verify the Account Balances

Prepare the Audit Report
Why do we have an audit?

- Required by state law.
- Required by federal law.
- Required by debt agreements.
- Required by bonding companies.
- Patrons like them.
- Evaluation of the performance of management.
District Responsibility

- While the auditor does “prepare the report” the district is responsible for the preparation of the financial statements.

- The district needs to designate a qualified individual to be responsible for the oversight of the financial statements for the auditor (usually business manager or the superintendent).

- The auditor is to report on how fairly the financial statements are presented and to what extent the district complied with laws and regulations.
The Audit Report

- Independent Auditor’s Report
- Report on Internal Control
- Report on Compliance
- Management Letter
- Balance Sheet
- Statement of Revenues and Expenditures
- Budget to Actual
- Notes to Financial Statements
- Supplemental Information – Capital Assets, Federal Expenditure Schedule, Schedule of Findings, Federal Programs, Selected Information
Independent Auditor’s Report

- Types of Audits
  - Governmental Accounting Standards (GASB)
  - Regulatory Basis

- Types of Auditor Opinions
  - Unqualified Opinion
  - Qualified Opinion
  - Adverse Opinion
Management Letter

- You may or may not have a Management Letter attached to your audit report.
- This letter is intended for use by Legislative Audit Committee, local School Board, District Management, ADE and Federal Regulatory Agencies
- Details any violations of Federal or State laws
- Is still a part of the public audit report
Report on Internal Control

- What is Internal Control?
- NOT an opinion on Internal Control

- Findings of material weaknesses in Internal Control over financial matters are referenced in this letter

- References Financial Items
Things to Remember

- Audit Deadline: The audit report is due to be presented to the Board no later than nine months after the close of the fiscal year (end of March)
Things to Remember

- Audit Reports have to be reviewed by the Board of Directors at the first regular board meeting after the audit report is received and appropriate action must be taken.
- Reviewed but not voted on.
Things to Remember

Section 80.26(b)(3) of the U.S. Education Department General Administration Regulations (EDGAR) requires the Arkansas Department of Education (ADE) to ensure that...

when a public school district, open-enrollment charter school, or education service cooperative has an audit finding regarding an instance of noncompliance with federal laws or regulations, that an appropriate Corrective Action Plan (CAP) is implemented within six months after receipt of the audit report.
Audit Reports

To obtain current and prior years audit reports of your school district, you can go to the Arkansas Legislative Audit’s website and download copies.
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