The following information was adapted from Pennsylvania Department of Education's Manual of Accounting and Financial Reporting for Pennsylvania Public Schools

The Budgeting Process

The annual general fund budget is one of the most important legal documents at your school and budget adoption is one of the most significant functions of the school board. The Board-approved budget presents expenditure appropriations, which may not be exceeded without an amendment.

The general fund fiscal year budget must be adopted before expenditures may be made from that fiscal year. Without a Board-approved budget, the school has no new spending authority for that fiscal year. Adoption of the budget should also be done prior to setting the tax rate for the budget year.

Presented herein is a typical budget process for schools and a discussion about such important concepts as:

- Objectives Of Budgeting;
- Legal Requirements;
- The Budget Cycle;
- Estimates;
- The Budgetary Reserve; and
- Forecasting and Planning.

Purpose And Procedure

The Pennsylvania Public School Code requires all Local Educational Agencies (LEA) to prepare, present, and adopt an annual General Fund Budget. The budget is a financial plan prepared to estimate the revenue and expenditures required to achieve the educational programs of the school entity for the next fiscal year. Each school entity may also adopt other budget documents to govern all special revenue funds, proprietary funds; such as, cafeteria operations, and capital facilities. The capital budget will encompass not only the next fiscal year but also several future fiscal years. The budget document is essential to ensure the raising of revenues and expenditures of resources consistent with provisions of the constitutions, federal and state laws, statutes, court decisions, board decisions and administrative actions. The budget, when adopted, is also the basis upon which tax rates are set. It is the legal document that places restrictions on amounts spent for stated purposes; it serves as an important management tool; and it can be an excellent public relations tool.

A budget is an outline of educational programs and services with costs affixed to specific purposes to effectively direct the administration in achieving the LEA's goals and objectives. Formal budgets play a far more important role in the planning, control and evaluation of an LEA's operations than in those of the private sector. In schools, the adoption of a budget implies that a set of decisions have been made by school board members and administrators which culminate in matching a school's resources with its' operational needs. The budget also provides an important tool for the control and evaluation of a school district's sources and uses of resources. With the assistance of the accounting system, administrators are able to execute and control the activities that have been authorized by the budget and evaluate performance based upon comparisons between budgeted and actual operations.

In the educational context, budgeting is a valuable tool in both planning and evaluation processes. Budgeting provides a vehicle for translating educational goals and programs into financial resource plans. Thus, planning to meet student educational requirements and goals should be the basis for determining budgetary allocations. This link between instruction and financial planning is critical to effective budgeting. In addition, such a budgeting practice will enhance the evaluation of budgetary and educational performance since resource allocations are closely associated with instructional plans. In this way, the annual general fund budget is not only the financial plan, but also the educational plan expressed in dollars.

GASB Codification 1700.107 states, "The *annual* budget authorizes, and provides the basis for control of, financial operations during the fiscal year. This is the type of budget recommended, whether or not required by law, and that should be appropriately controlled through the accounting system to assure effective budgetary control and accountability." The preparation and Board review process for an annual budget must be conducted and completed prior to the commencement of each new fiscal year. Section 687 of the Public School Code of 1949 requires the adoption of the budget and the necessary appropriation measures required to put it into effect. Section 687 also requires proposed budgets to be prepared at least 30 days prior to the adoption of the annual budget.

Budgets should be prepared on a basis consistent with the basis of accounting used by the LEA. Without a Board-approved annual budget, the school has no new spending authority for that fiscal year.

OBJECTIVES OF BUDGETING

The purpose of budgeting is to provide the best possible educational opportunities for every student in an educational institution. Budgets should also reflect the administration's ability to manage the financial affairs of the school. Budgets are required to:

- Be balanced so that current revenues are sufficient to pay for current services;
- Be prepared in accordance with all applicable federal, state and local legal mandates and requirements; and
- Provide a basis for the evaluation of the school's service efforts, costs and accomplishments.

BUDGET PROCESS OVERVIEW

The budgeting process is comprised of three (3) major phases: planning, preparation and evaluation. The budgetary process begins with sound planning. Planning defines goals and objectives for the LEA's administration and support services and develops programs to attain those goals and objectives. Once these programs and plans have been established, budgetary resource allocations are made to support them. Budgetary resource allocations are the preparation phase of budgeting. The allocations cannot be made, however, until plans and programs have been established.

Finally, the budget is evaluated, after the close of the year, for its effectiveness in attaining the LEA's goals and objectives. Evaluation typically involves an examination of how funds were expended, what outcomes resulted from the expenditure of these funds, and to what degree the outcomes achieved the objectives stated during the planning phase. This evaluation phase is important in determining the following year's budgetary allocations. In summary, budget preparation is not a one-time exercise to determine how a school entity will allocate funds. A school entity's budget preparation is part of a continuous cycle of planning and evaluation to achieve the school's goals.

Legal Requirements For Budgets

Pennsylvania Public School Code	LEA
Section 687	School Districts 2nd, 3rd, and 4th Class
Section 918-A	Intermediate Units, Summary and Program Budgets
Section 1850.1	Area Vocational Technical Schools

Title 50, Mental Health, P.S. 4201(5) of the Pennsylvania Public School Code requires an annual budget from intermediate units for State-Funded Early Intervention Programs.

Each Section of the Pennsylvania Public School Code listed above mandates specific procedures in completing budgets for each type of school entity.

Section 687 requires:

- annual budgets from 2nd 3rd and 4th class school districts;
- a proposed ensuing year budget at least 30 days prior to adoption of the annual budget on a form provided by the PDE. This budget presents estimates at the service area, major object category, however, many school entities budget to a much greater detail level and may choose to present a more detailed budget to the school board and public;
- public notice must be given at least ten (10) days before any final action is taken on the ensuing year's budget;
- a proposed budget must be made available to the public for inspection at least twenty (20) days before the school board plans to meet and vote on adopting the budget; and
- a final adopted budget must be filed with the PDE within fifteen (15) days of board adoption on PDE prescribed forms.

Section 687 also:

- ***Prohibits*** deficit financing; that is, the total amount of the budget may not exceed the amount of funds available for school purposes, including the proposed annual tax levy and State appropriations. Appropriations and reserves must be equal to or less than the fund balance and all estimated revenues available for the budget year.

- ***Allows*** unencumbered balances to be transferred from one budget category to another during the last nine (9) months of the fiscal year while prohibiting transfers during the first three (3) months.
- ***Prohibits*** funds not appropriated in the budget from being unavailable throughout the year unless placed in budgetary reserve in the original budget.
- ***Allows*** the board to change the budget to accommodate emergencies such as epidemics, floods, fire or other catastrophes. The funds, therefore, shall be provided from unexpended balances in existing appropriations, from unappropriated revenue, if any, or from temporary loans. When temporary loans are made, they have to be approved by a two-thirds vote of the board of school directors.

Section 918-A requires intermediate units to submit annual budgets on or before May 1st, which estimate the cost of operating and administering the intermediate unit programs and services for the subsequent school year.

Section 1850.1 subsection (19) requires the area vocational-technical school board to prepare and submit a budget of proposed expenditures for the subsequent year to the PDE for approval on or before the first day of July of each year.

Section 2509.1 contains several detailed procedures for payment on account of transportation for exceptional and institutionalized children. Each year before July 1, every intermediate unit must submit an estimate of the cost of transportation for pupils attending classes and schools for exceptional children, whether or not conducted by the intermediate unit.

Section 609 provides that districts may receive and expend **state and federal** funds for their intended purposes whether or not they were included in the budget. This allows school boards to augment the original budget and authorize the administration to expend these funds without re-opening the budget.

In addition to the Public School Code of 1949, LEAs are expected to abide by statements and interpretations of the Governmental Accounting Standards Board (GASB). In GASB Statement #1, NCGA Statement 1, Principal 9 was adopted, which addresses the budget and budgetary accounting for all governmental entities, including special-purpose governments. Principal 9, found in Budgeting, Budgetary Control, and Budgetary Reporting Codification, Section 1100.109, includes the following three (3) provisions:

- Every LEA should adopt an annual budget(s);
- The accounting system should provide the basis for appropriate budgetary control; and
- Budgetary comparisons should be included in the appropriate financial statements and schedules for governmental funds for which an annual budget has been adopted.

The Budget Cycle

PREPARATION

The beginning of the budget cycle should be started early in the year preceding the budget year. The organizational structure of a school, the size and complexity of its administrative structure, and the level of centralization in budget development will affect the budget development process and the time required to adopt the final budget document. Beyond the budgetary requirements for federal and state programs, an LEA's preparation process and the related budget responsibilities largely will be determined by the school board and the chief school administrator.

Preparing the budget is not synonymous with preparing a cash flow statement. The budget projects the amount of resources available to meet the prospective financial obligations of an LEA. A cash flow statement, on the other hand, is prepared to ensure sufficient cash is available to pay the obligations of the LEA as they become due. A cash flow statement is a projection of cash only and is not integrated into the accounting system as is a school's budget.

An effective budget system must be conducted on a year-round basis. Preparations should include an assessment of the past to see if actual and estimated revenue resulted in favorable or unfavorable results. There should also be projections based on past experiences as well as future expectations such as new program needs, taxable property projects, new businesses and industry, anticipated enrollment trends, inflation, etc. This analysis may require personnel officers, transportation coordinators, food service managers, plant managers, federal program coordinators and at times assistance from outside consultants.

The budget preparation and analysis are followed by board review and adoption of the budget. The remainder of the year is devoted to budget control, which is comprised of comparing estimated revenues and appropriations with actual transactions and evaluating budget adjustment requests. This process is called the operating budget cycle.

Budget preparation and administration are important aspects of overall district operations. Providing adequate resources for programs within the constraints of available funding presents administrators with a significant challenge. The budgeting process is the beginning of the financial cycle of the LEA.

BUDGET ESTIMATES

The two categories of financial resources that will be available for the upcoming budget year are beginning fund balances available for appropriation and projected revenues for the upcoming year. Both estimates are critical and accuracy is of extreme importance to the entire budget process.

Business managers should be extremely careful when appropriating amounts from the fund balance. Fund balance amounts may result from a one-time funding source, e.g. sale of assets and therefore will not be available to fund ongoing programs. If there is any uncertainty that the resources will materialize we recommend placing the estimated fund balance amount as of July 1 in the budgetary reserve account when adopting the budget. **Fund balance should be appropriated for one-time expenditures only** and should be placed in the estimated ending fund balance on the proposed budget if the LEA's fund balance policy requires this amount to be reserved for future year's projects.

Because a larger proportion of the total financial resources of an LEA is acquired from revenue, the revenue estimate has a more critical impact on the overall budget. However, there are normally many different categories of revenue: a shortage of receipts in one (1) category can often be completely offset by greater than expected receipts in another. There can be significant differences between actual revenue and estimated revenue in individual categories, but total receipts must come very close to the total estimate or adjustments must be made to appropriated amounts.

The three (3) basic resources used in developing revenue estimates are: (1) historical trends; (2) national, state and regional economic conditions; and (3) identifiable local events that will materially affect the LEA's income.

A staff budget committee is often formed to handle the consideration of these and many other factors in projecting revenue for the upcoming year and trends in longer-term income estimates. This committee should consist of key management and the professional staff who are closest to the various factors affecting the most important revenue sources.

The same basic methods used to project revenues are used to estimate expenditures. The first step is usually the analysis of historical trends. Second is a detailed analysis, which includes identifying past expenditure patterns at each activity level over several years and projecting the need for new programs, program enhancements, salary adjustments, position adjustments, program cuts, and debt service needs, and any other unusual cost adjustments expected in the coming year.

The business manager then determines whether the budget balances by comparing the available resources for the upcoming year with the requested appropriations and required reserves. If there are any amounts budgeted in excess of available funds, the business manager can assign various department guidelines for reduction of requested appropriations or propose new revenues to resolve the imbalance.

A budget that is balanced and reflects the priorities of the administration, i.e., the LEA's board of directors, and the general constituency, should be produced by the end of the business manager's review.

THE BUDGETARY RESERVE

A budgetary reserve is usually set aside to cover unexpected expenditures, to provide for sufficient cash flow, and to cover potential increases in employee salaries or benefits. In addition to the appropriations, it is a sound management practice to provide for operating contingencies through a Budgetary Reserve. Experience indicates that there are certain variables over which control is impossible regardless of the care with which the budget is prepared. These variables include unpredictable changes in the costs of goods and services, and the occurrences of events which are vaguely perceptible during the time of budget preparations, but which nevertheless, may require expenditures by the LEA during the year for which the budget is being prepared.

Even though the operating contingencies for which provision is being made may contain certain unknowns, the Budgetary Reserve should be composed of components for which estimates are made. For example, there may be Federal, State or local programs, which may or may not, require expenditures by the school system in the fiscal year for which the budget is being prepared.

Rather than provide for such contingencies by "padding" the functional appropriations, it is preferable to limit the functional appropriations to amounts that are supportable by estimates based upon financial, enrollment and other statistics as related to the more definite educational plans and programs for the budget year, and earmark a reserve for the less predictable requirements. The Budgetary Reserve should be reasonable in amount and in proper proportion to the known operating requirements of the LEA.

Expenditures may not be made against the Budgetary Reserve, but only against the line items, which appear throughout the functional appropriations. Whatever may be needed from the Budgetary Reserve may not be used until after transfer from the Reserve to the line items against which the expenditures are to be charged. Each such transfer requires the prior authorization of the Board of School Directors, and may be made only during the last nine (9) months of the fiscal year.

To the extent that the contingencies for which the Budgetary Reserve has been provided fail to materialize in the budget year, there will be a balance remaining in the Budgetary Reserve at the close of the budget year. If covered by revenues realized during the budget year, as it should be in all school systems operating on a pay-as-you-go basis, such a balance becomes a part of the total resources available for application against the requirements of the next fiscal year.

Financial Forecasting And Planning

Financial forecasting is the practice of projecting the quantitative impact of trends and changes in a school district's operating environment on its future operations. It uses current and historical data to predict changes that could impact a school's status in the future. It is, therefore, an integral part of a school district's ongoing planning efforts.

Financial forecasting is important for several reasons.

- First, forecasting facilitates planning efforts by quantifying the future costs / benefits of strategic decisions. Thus, budgetary priorities may be evaluated based upon their long-term impacts.
- Second, forecasting makes clear trends, need, and issues that must be addressed and evaluated in the preparation of budgets.
- Finally, forecasts provide valuable insight into future issues that may affect the LEA allowing administrators to deal with them proactively, rather than reactively.

Although financial forecasting is an ongoing process, it is most important as a component of budget development. The reasons for this importance are two-fold. First, forecasting for both financial and related items (e.g. enrollment projections), creates a basis for assumptions made in the preparation of budgets. Forecasts of projected enrollments, property tax base and revenues, costs associated with salary adjustments, etc. are important elements in setting baseline budgetary guidelines for the school district. Second, forecasting provides fiscal impact analysis that may be integrated into the budget development process. Thus, current budgetary decisions may be evaluated for their long-term results.

A variety of financial and related forecasts are prepared during the budget development process. These forecasts include, but are not limited to:

- *Student enrollment projections* (can help project state aid, classroom size, number of classrooms and buildings needed, number of faculty and staff needed, *types and numbers* of students to be educated).
- *Revenue projections* (projects future local, state, and federal resources). During the budget development process, revenues and expenditures should be forecasted for the subsequent three (3) to five (5) fiscal years. This forecasting period captures the long-term impact of budgetary decisions necessary for evaluation.
- *Expenditure projections* (capital costs, operating costs, and state mandates). Forecasts of capital improvement costs should be based upon a maintenance planning process that is a component of overall district planning, rather than ad hoc estimates. Expenditure forecasts should project costs for the following major expenditure categories: (1) payroll, (2) professional and contracted services, (3) supplies and materials, (4) other operating costs, (5) debt service, and (6) capital outlay. Student enrollment projections are critical in estimating many of these expenditures since salaries and benefits are based partly on enrollment projections and state mandates concerning class size, minimum salaries, etc. Other expenditures such as supplies and materials also may be based upon student enrollments. Costs not related to enrollment levels such as utilities, insurance and maintenance costs are based upon historical data incorporating anticipated volume / rate changes.

In preparing revenue and expenditure forecasts, some basic assumptions must be made. These may include assumptions concerning levels of state and federal funding, inflation rates, growth rates, class size, fund balance levels, etc. Historical data and using a number of data sources may be used to aid in the development of these assumptions These assumptions should be developed and reviewed by district administrators. When the budget process is reviewed by the board, such base assumptions should be made explicit. This information allows the board to understand those forecast areas that may be revised at some future date due to changes in their base assumptions.

Review And Approval Of The Budget

The final review of the budget before it is presented to the school board is made by the chief school administrator who may consult with the business manager and others involved with preparation of the budget. In addition to its value as a review of budgetary allocations, this review familiarizes the superintendent with all aspects of the preliminary budget for his / her presentation of it to the school board.

During the review process the school should review the budget data for the following characteristics:

- The reported amounts are for the current fiscal year only.
- All applicable funds are reported.
- For each reported fund, revenues, expenditures, other resources, other uses and fund balances are reported, if applicable.
- Reported budget amounts are consistent with amounts reported in prior years or, if

amounts are inconsistent, the school can identify a valid reason for the inconsistency.
- Budgeted fund balances are the balances estimated as of July 1 of the current fiscal year. This amount should be the same as or close to the closing fund balances on June 30 of the fiscal year immediately preceding the budget year.
- If the audit for the prior fiscal year is complete, the budgeted fund balances should be audited figures; if the audit is not complete, the budgeted fund balances are the unaudited or projected amounts.
- In addition, schools should analyze certain budget amounts for account codes with special significance, such as taxes.

The presentation of the preliminary district budget to the school board may take the form of budget workshops or retreats. These working sessions familiarize board members with the budget process, preliminary budget and significant budgetary issues (e.g. state or local revenue shortages). At this stage of budget review, it is important for the school board to reach consensus on the objectives and priorities of the budget and to provide feedback to district staff on proposed revisions. The school board also should consider the long-term implications of resource allocations, expenditure trends and tax rates. When a tentative budget has been established, the LEA should investigate funding options. Funding for a program may come from multiple sources, such as local taxes and one or more federal grants. As funding options are evaluated, the initial budget plan may have to be adjusted to reflect more realistic funding levels.

ADVERTISING, PUBLIC HEARINGS AND ADOPTION OF THE BUDGET

Advertising the budget and public hearings are the final steps in the budget development process. These actions are legally mandated by the Pennsylvania Public School Code of 1949, as amended. The hearings serve as the final opportunity for public review of the proposed budget. They typically include a presentation of a summarized version of the proposed budget by the board president, the chief school administrator or the business manager. Significant budgetary issues such as tax rate changes and student enrollment trends may be similarly reviewed before the board hears public testimony.

- **For 2nd, 3rd and 4th Class school districts,** the school board shall prepare a proposed budget at least 30 days prior to the adoption of the annual budget. Final action shall not be taken on any proposed budget until after ten days public notice.

  The proposed budget must be printed, or otherwise made available for public inspection to all persons who may interest themselves; at least 20 days prior to the date set for the adoption of the budget. In addition, the school board must publish a notice that the budget has been prepared and is open to public inspection at the office of the board. This notice must appear at least once in two (2) newspapers of general circulation printed in the municipality in which the school district is located. The advertisement must also include a notice of public hearing on the proposed budget, scheduled for at least ten (10) days before final action is taken upon any budget.

NOTE: GASB Codification 2400.105, specifies, "Where financial statements prepared in conformity with GAAP do not demonstrate finance-related legal and

> contractual compliance, the governmental unit should present such additional schedules and narrative explanations in the comprehensive annual financial report as may be necessary to report its legal compliance responsibilities and accountabilities. In extreme cases, preparation of a separate legal-basis special report may be necessary."

Following these presentations, individuals and interest groups are given the opportunity to present their testimony / feedback on the proposed budget. Following the completion of the public hearings, the school board may legally adopt the budget. Once the budget is legally adopted, funds are then considered available for expenditure.

BOARD ADOPTION OF THE BUDGET

The board of school directors will adopt the budget and the necessary appropriation measures required to implement it after making any necessary revisions and changes. The total amount of the budget cannot exceed the amount of funds available.

A majority of the members of the board of school directors, also known as a quorum, must vote in favor of the budget in order to approve it. Section 508 of the School Code stipulates that the affirmative vote of a majority of the members of the board of school directors in every district, duly recorded (roll call), showing how each member voted, shall be required in order to take action on a number of subjects including adopting the annual budget and levying and assessing taxes.

Failure to have five (5) affirmative votes renders action of the board void and unenforceable. Failing to adopt a budget by July 1st causes the district to lose authority to expend funds.

MONITORING THE BUDGET

As budgeted funds are expended, periodic monitoring of the budget should be conducted. The school's accounting system normally generates expenditure and encumbrance information at least on a monthly basis. To review budget performance, this information is compared with spending plans. Annualized budget summaries which project the impact of current expenditures on year-end results are useful in this effort.

In most schools, reviews of budget-to-actual comparisons are done monthly. Reporting periodic budget / actual results to the school board is customary in most districts. This reporting relationship should not be interpreted to mean that the board manages budget implementation. That responsibility is ultimately the chief school administrative officer's; however, school board members should be given periodic updates on budget results and be informed of significant budgetary issues.