

# The Basics of School Finance

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## **School Finance: Asking the right questions**

**This course will address the following competencies:**

1. Recognize and understand the relationship of the budget to district goals or strategic plan.
2. Know the present and future financial commitments of the school district and the revenue sources available to it including bonds and state grants.
3. Understand the state's funding formulas and legal requirements for building and approving a budget.
4. Know how to monitor a budget and interpret district financial status reports.

## Competency 1

Recognize and understand the relationship of the budget to district goals or strategic plan.

### Budget skills for board members

Today's economic climate requires increased accountability of both school administrators as well as school board members. Citizens expect to see improved student outcomes and more efficient use of resources. School board members need specific skills in the finance and budgeting processes to:

- a. Develop budget policies, which describe how the financial resources of the district are raised, allocated, managed, and controlled.
- b. Understand and analyze budgets, particularly in terms of the relationship between educational objectives and program expenditures.
- c. Build budgets based on district objectives and the anticipated costs of achievement.
- d. Identify program alternatives and their costs. There may be more than one way to accomplish a given objective.
- e. Appreciate the elements of cost-effectiveness (durability, usability, applicability), recognizing that the best alternative is not always the cheapest.
- f. Consider the budget as a plan that needs continuous review and revision.
- g. Evaluate and make changes based on student achievement.

### The school board's role in the budget process

The School Board is a governing body. Its function is not to operate the school district, but to see that the district is run effectively. Effective boards concentrate their time and energy on determining what the district should accomplish and developing policies to carry out these goals. They avoid day-to-day administrative questions except to ensure that the administration of the district is effective and efficient, and that it reflects the policies established by the board. This is probably one of the most important, and most difficult, concepts for board members to accept and follow consistently.

## Board functions in the budget process:

- Policy development
- Planning
- Budget parameters and assumptions
- Budget implementation and oversight

## Policy development

The budget process is part of an overall policy framework which guides and coordinates the various services and functions of the district. The budget serves a central role in that policy framework by allocating, on an annual basis, the available financial resources to the programs which have been established to achieve the district's overall policies.

Budget and financial policies should:

- a. Address the management of financial resources;
- b. Set financial goals;
- c. Establish financial priorities; and
- d. Provide financial continuity between budget years.

## Examples of budget policies

- The district budget shall be based on a five year plan of goals and objectives to be implemented by schools and departments.
- The district should accept ongoing service obligations for new educational programs only when adequate funding is available.
- The district shall maintain an unreserved fund balance average at 4% of expenditures.
- Allowable indirect costs will be charged to federal and state grants.

School district budgets must also comply with state law, WAC 392-123. Of particular importance is WAC 392-123-070, which states that school directors, officers, or employees who knowingly or negligently over-spend budget appropriations shall be liable for damages and may be forced to resign their positions.

## Competency 2

Know the present and future financial commitments of the school district and the revenue sources available to it including bonds and state grants.

### Planning

School boards should develop long-range financial plans including timetables for implementation. These long-range plans should be for at least five years.

Long-range plans should include:

- Tentative operating budgets needed to finance planned educational programs.
- Methods of financing building needs to accommodate projected enrollment growth. Such planning should include possible bond sales, availability of state matching grants, alternative school years, etc.
- Projections of assessed valuations to determine the impact of property tax levies on district patrons.
- Projections of other revenue sources.

## Budget planning assumptions

When preparing a district's annual budget, certain items should be considered:

1. Educational program and district goals/mission statement.
2. Enrollment projections for the district, buildings, and courses.
3. Staffing levels for classroom, support, and administrative staff.
4. Class size at varying grade levels.
5. Financial impact of salary negotiations including base salaries, supplemental salaries, staff in-service, leaves and vacations, sick leave buy-outs and employee benefits.
6. Allowance for inflation.
7. Equity in spending among schools of similar grade patterns including school supplies and instructional materials.
8. Equipment replacement schedules and needs.
9. Transportation - mandatory and optional.
10. Operational allocations including maintenance, custodial, administrative offices, food services, and categorical programs.
11. Fund balance level.
12. Evaluation of projected revenues (tuition, building rental, activities fees, grants, property taxes, state apportionment, etc.).
13. Levels of extracurricular activities.

## Competency 3

Understand the state's funding formulas and legal requirements for building and approving a budget.

### Budget Calendar

	1st Class	2nd Class
1. Set budget time schedule	Oct 31	Oct 31
2. Establish budget management assumptions	Nov 30	Nov 30
3. Establish budget development assumptions	Nov 30	Nov 30
4. Establish a fund balance level	Jan 31	Jan 31
5. Establish staffing ratios	Jan 31	Jan 31
6. Establish budget allocation formula	Jan 31	Jan 31
7. Develop budget priority list	Feb 28	Feb 28
8. Prepare enrollment projection	Mar 15	Mar 15
9. Establish salary increase assumptions	Mar 31	Mar 31
10. Establish employee benefit assumptions	Mar 31	Mar 31
11. Set fee rates	Apr 15	Apr 15
12. Set staffing allocations	Apr 15	Apr 15
13. Set non-staffing allocations	Apr 15	Apr 15
14. Develop revenue projections	May 1	May 1
15. Prepare non-staff budget	May 15	May 15
16. Prepare staffing budget	May 15	May 15
17. Compile budget	Jun 1	Jun 1
18. Revise budget via priority list	Jun 15	Jun 15
19. Final date to prepare budget *	Jul 10	Jul 10
20. Final date for budget to be available to public *	Jul 10	Jul 10
21. Final date for budget adoption	Aug 31	Aug 1



In addition to the tasks and completion dates on this calendar, the person having primary responsibility for each task should be identified. Throughout the budget calendar, the board, staff, and community members share information and concerns about the developing budget document. The credibility of the final budget is enhanced by these collaborative discussions. NOTE: The last 3 dates are specified in statute.

\* The July 10th date may be delayed by OSPI if the state's operating budget is not finally approved by the Legislature until after June 1st.

## **Making your school district's budget successful**

1. Establish fiscal policies to clarify board expectations.
2. Establish budget priorities based on the district's strategic plan or long-range goals.
3. Involve administrators in budget preparation 6 to 12 months before budget adoption.
4. Keep the community involved throughout the budget process.
5. Assign budget responsibilities and deadlines.
6. Prepare a "popular" budget in a format that facilitates understanding of the educational, revenue, and expenditure plans, and how they relate to previous and future budget plans.
7. Use historical information to develop projections for long-range planning.
8. Determine and monitor indicators of financial difficulty.
9. Compile and review financial reports.
10. Make interim adjustments to minor budget difficulties. Budget transfers may be made at any time as long as the total approved expenditure amount is not increased. The level of control should be determined by the board.

## Competency 4

Know how to monitor a budget and interpret district financial status reports

### A look at a school district budget

Financially speaking, a school district is a group of funds. **What is a fund?** A fund is fiscal and accounting entity with a self-balancing set of accounts to record assets, liabilities, and equities and changes therein. A fund must operate within legal guidelines.

#### General fund

The general fund is used to account for all financial resources of the district except those required to be accounted for legally or by sound financial management in another fund.

#### Capital projects fund

The cost of constructing or remodeling school buildings or acquiring certain other property is accounted for in the capital projects fund. If the school district sells bonds to finance school construction or remodeling, the bond proceeds are deposited in this fund.

#### Transportation vehicle fund

This fund is used to account for the purchase, major repair, and rebuilding of pupil transportation vehicles.

#### Debt service fund

The debt service fund is used to accumulate resources for the payment of long-term debt principal and interest. Property taxes levied for this purpose are deposited in this fund.

#### Associated student body fund

This is a special revenue fund used to account for activities of the associated student body. Revenue from student fund raising activities is used for sports, clubs, and various student activities.

## Overview of revenue sources

A school district's revenue comes primarily from three sources:

### State revenues

State revenues are allocated to each school district based primarily on enrollment and average experience and education of the teaching staff. This is the largest source of revenues for the general operation and maintenance of the district. In addition to apportionment for basic education, districts receive state revenues for specific purposes such as handicapped education, gifted programs, pupil transportation, learning assistance programs, bilingual education, block grants, property tax levy equalization, and school construction.

### Federal revenues

Federal grants provide another fairly large source of revenue for many districts. Districts receive federal revenues for the school lunch program, headstart, Chapter I remedial education programs, math and science programs, handicapped education, vocational programs, youth programs, etc. Districts that have federal installations receive federal revenues to mitigate the impact of reduced property taxes and increased educational programs created by Indian reservations and military bases.

### Local revenues

Local revenues include property tax levies, non-high payments, traffic safety fees, school lunch charges, investment interest, etc. School districts tax levies are called "excess levies" or "special levies" and require voter approval. School districts may levy taxes for general maintenance and operation purposes (M & O levies), capital needs, and to redeem bond principal and interest.

## Apportionment funding formula

According to the Washington Research Council, 78% of revenues for K-12 school districts come from the State. Several allocation formulas are used to distribute this money to districts. Most of this money is apportioned according to a funding formula included in the Basic Education Act of 1977.

As mentioned earlier, student enrollment and the average experience and education of the teaching staff are the two main factors in determining the amount of apportionment funding that a district receives.

Student enrollment determines how many teachers, administrators, and classified support staff the state will pay for.

For each 1,000 students, the state will pay for:

- 46 teachers for grades 5 thru 12;
- Up to 47.43 teachers for grade 4;
- Up to 53.2 teachers for grades K thru 3;
- 4 administrators;
- 1 classified support employee for every 58.75 students.

The average education and experience of the district's teaching staff determines the amount the State will pay for teacher salaries. Many districts have adopted the State's salary allocation schedule as the district's salary schedule. This greatly simplifies the bargaining process. The district simply passes on to the teaching staff the amounts received from the State.

Salaries for administrators and classified support staff are based on average funded salary as determined by the State Legislature.

A small amount is provided for substitute teachers.

The district may wish to hire additional teachers, administrators, and classified staff above the levels funded by the Legislature. The cost of this additional staffing is not paid for by the State and must be paid from other sources such as tax levies.

The formula also provides for employee benefits such as health insurance, retirement contributions, and social security.

The formula also funds non-employee related items such as supplies and materials, textbooks, lights, heat, travel, and equipment. These items are often referred to as NERCS.

The following is an example of the Basic Apportionment funding calculations:

## Local Levy

Washington's K-12 funding structure is the result of the legislature's response to lawsuits to two lawsuits brought against the state in 1978 and 1983. The major issue of both lawsuits was whether the funding of public schools met the requirements of the Washington State Constitution. The section of concern within the constitution is as follows:

**"It is the paramount duty of the state of to make ample provision for the education of all children residing within its borders..." (Article IX, Section 1)**

**"The legislature shall provide for a general and uniform system of public schools..." (Article IX, Section 2)**

The courts, in interpreting the meaning of the State Constitution in these two court cases established various requirements concerning the state's paramount duty, including that:

1. The State must define and adequately fund basic education through a general and uniform system
2. Special levies may not be used to offset the State's basic education funding responsibility directly or indirectly

The Basic Education and Levy Lid Act was implemented in 1977 to limit the maintenance and operation levy authority of school districts to 10 percent of state basic education allocations with a four-year timeline for districts with levies exceeding 10 percent to ramp down to 10 percent. The Act also contained a grandfather clause permitting districts with historically high reliance on levies to exceed the 10 percent limit but required all districts to phase down to 10 percent in four years.

Since 1977, the levy lid rate has been amended many times. Currently, the levy lid rate has been increased to at least 24 percent of most state and federal funds. The phase down that was to take place over four years for districts with historically high reliance on local levies has long ago been suspended.

The Board has a significant role in maintaining accountability and ensuring good stewardship of a school district's resources. While budget management and internal controls are the responsibility of the school district's management team, citizens expect a school board to ensure that operations of the district reflect the policies set by the board.

After State revenues, local levy funds are usually the second largest source of revenues for local districts. Unfortunately the ability to provide levy funds is not equal among all districts. Some districts are advantaged either in the total percentage they are allowed to collect and the tax rate assessed to individual tax payers.

Prior to 2010, authority for 199 of the state's 296 school districts was 24 percent of most state and federal revenues. The remaining 96 school districts had grandfathered levy authority ranging from 24.01 percent to 33.9 percent.

In 2004, enactment of Substitute Senate Bill 6211 increased the levy authority of school districts for calendar years 2005 through 2007 by inflating the levy base of school districts to include what each district would have received from I-728 and I-732 had the two initiatives been implemented by the legislature as originally passed by the voters. When the legislature enacted SSB 6211, the legislature negated the levy impact of state revisions in the provisions of I-728 and I-732 by letting school districts have the local levy revenue but not the state revenue.

Senate House Bill 2893 increases the levy lid by 4 percent and increases the levy equalization percentage from 12 percent to 14 percent. The legislation also extended the expiration deadline (from the end of calendar year 2011 to the end of calendar year 2017) for allowing school district levy bases to include revenue that would have been received by districts if reductions had not been made to initiatives I-728 and I-732. The legislation further includes the Kindergarten to 4th grade staffing enhancement funds in the levy base, regardless of whether funding for the enhancement is included in the budget.

Levy funds are intended to fund enrichment programs. It is difficult to determine what activities should be considered enrichment in the state accounting system. Due to this difficulty, many levy expenditures are completely imbedded into regular general fund expenditures.

While many districts have difficulty completely separating levy expenditures from the regular expenditures, it is easily determined that levies are a vital source of revenues.

## Levy Calculation

Since levy expenditures are so vital to many districts, it is important that districts achieve the maximum amount of collection. Every district has its own key factors to consider when determining what the appropriate amount of levy dollars will be. Some districts are very tax rate conscious. Other districts anticipate asking for more than they are allowed by law with the intent of rolling back excess taxes. All of these factors and how they are determined will be discussed.

## Levy Authority Percent

Each district has a maximum allowable percent of levy authority. Of the 295 school districts in the State of Washington, 198 districts have a maximum allowable levy authority of 28%. The remaining 97 school districts have grandfathered levy authority ranging from 28.01% to 35%. It is important for board members to know the maximum allowable levy percentage for their district.

## Levy Base

After the levy authority percent a board member should determine the maximum levy authority that can be requested of voters. Total levy authority can be determined by multiplying the levy percentage by the levy base. The levy base is the amount of state and federal funds received for the following programs:

### A. State

3100	Basic Education
4121	Special Education
4155	Learning Assistance Program
4165	Transitional Bilingual
4166	Student Achievement
4174	Highly Capable
4198	School Food Service
4199	Transportation — Operations
4499	Transportation — Depreciation
SSB	6211 2+1.6 Percent Salary Increase plus Benefits for Formula Staff [OSPI Calculation]
SSB	6211 \$157 Increase per Student for Student Achievement

**B. Federal**

6121	Special Purpose Medicaid Reimbursement
6124	Special Education Supplemental
6138	Secondary Vocational
6146	Skills Center
6151	Remediation
6152	School Improvement
6153	Migrant
6154	Reading First
6164	Limited English
6176	Targeted Assistance
6177	Eisenhower Professional Development
6198	School Food Services

**C. Federal Other (From Prior Year)**

5200	General Purpose Direct Grants
6100	Special Purpose SPI
6200	Direct Special Purpose Grants
6264	Bilingual
6267	Indian Education JOM
6268	Indian Education ED
6300	Federal Grants thru Agencies
6310	Medicaid Administrative Match
6367	Indian Education – JOM
6998	USDA Commodities



To calculate the total levy base, combine the total revenues from A.-State, and B.-Federal. Additionally, the total of C.-Federal should be multiplied by the Implicit Price Deflator from the previous 12 months. The total of A., B., and C., times the Implicit Price Deflator are multiplied by the % increase in Basic Ed. Funding per pupil for current year as compared to the previous year.

**Example:**

Total 10/11 School Year State Allocation	\$ 25,000,000
Total 10/11 School Year Federal Allocation	<u>\$ 1,000,000</u>
	\$ 26,000,000
 Total 09/10 School Year Federal Allocation	 \$ 500,000
Implicit Price Deflator – Prior 12 Months	<u>X 1.020</u>
Total Federal Revenue adjusted by Price Deflator	\$ 510,000
 Total Revenues	 \$ 26,511,000
% Increase in Basic Ed Funding, 09/10 to 10-11	4.0%
Excess Levy Base	
[Total Revenues * (1 + (.040/.55))]	\$ 28,437,807
{1.07272}	
Excess levy base X Levy Authority % = Levy Authority	
\$28,437,807 X 28%	\$ 7,692,586

### Calculation of Local Effort Assistance

Not all districts are equal in regard to their ability to raise local revenues through maintenance and operation levies. Some districts have a tremendous advantage due to higher property values. Further, if those higher property values are due to large number of businesses comprising the assessed valuation base, then the district is even further advantaged. In order to assist the districts that are disadvantaged, the state provides Local Effort Assistance.

Local Effort Assistance is calculated by determining what the tax rate would be if the district collected 12% of its levy authority. The amount of collection is determined for all 296 school districts. Those districts that are higher than average are deemed to qualify for local effort assistance. Unfortunately, qualification is not enough. Districts will only receive the assistance if they pass the levy.

A. Levy Authority	\$ 28,437,807
B. District 14% Levy	\$ 3,981,293
C. Assessed Valuation 2009	\$ 2,000,000,000
D. District 14% Levy Rate	\$1.99
$((B. * 1000)/C)$	
E. Statewide Average 14% Levy Rate	\$1.27
F. Maximum 2011 LEA	\$ 2,158,475
$((1.99-1.27)/1.27)*3,981,293*.9563$	
G. Certified Levy Needed to Qualify for Max LEA	\$ 1,724,182
$(3,981,293- (2,158,475/.9563))$	

### Tax Rate Planning

The final factor for consideration of levy planning is the impact of the tax rate. For some districts, the tax rate is the most important issue. If the tax rate does not remain constant or if the tax rate increases too much, local taxpayers in some districts will not support the levy. The tax rate is actually a very simple calculation:

$$((\text{Proposed Tax} * 1000)/\text{Anticipated Assessed Valuation})$$

Appendix A will provide an example of how many districts plan for tax rates over multiple years.

The easy part is the calculation. The difficult part is determining where the tax threshold is for the community. That question may not be answered until the election.

## TAX RATE PLANNING

Year	Total Dollars Requested					Bond and Levy Rates				Assessed Valuation	
	M & O	Existing Bond	New Bond	Tech Levy	Total	M & O	Bond	Tech	Total	AV	Growth
2009	6,500,000	2,000,000		1,000,000	9,500,000	3.25	1.00	0.50	<b>4.75</b>	2,000,000,000	
2010	6,750,000	2,000,000		1,000,000	9,750,000	3.55	1.05	0.53	<b>5.13</b>	1,900,000,000	-5.00%
2011	7,000,000	2,000,000		1,000,000	10,000,000	3.68	1.05	0.53	<b>5.26</b>	1,900,000,000	0.00%
2012	7,250,000	1,500,000	500,000	1,000,000	10,250,000	3.82	1.05	0.53	<b>5.39</b>	1,900,000,000	0.00%
2013	7,500,000	1,500,000	500,000	1,000,000	10,500,000	3.95	1.05	0.53	<b>5.53</b>	1,900,000,000	0.00%
2014	7,750,000	1,500,000	500,000	1,000,000	10,750,000	4.08	1.05	0.53	<b>5.66</b>	1,900,000,000	0.00%
2015	8,000,000	1,500,000	500,000	2,000,000	12,000,000	4.13	1.03	1.03	<b>6.19</b>	1,938,000,000	2.00%
2016	8,250,000	1,500,000	500,000	2,000,000	12,250,000	4.17	1.01	1.01	<b>6.20</b>	1,976,760,000	2.00%
2017	8,500,000	1,000,000	1,000,000	2,000,000	12,500,000	4.22	0.99	0.99	<b>6.20</b>	2,016,295,200	2.00%
2018	8,750,000	1,000,000	1,000,000	2,000,000	12,750,000	4.25	0.97	0.97	<b>6.20</b>	2,056,621,104	2.00%
2019	9,000,000	1,000,000	1,000,000	2,000,000	13,000,000	4.29	0.95	0.95	<b>6.20</b>	2,097,753,526	2.00%
2020	9,250,000	1,000,000	1,000,000	2,000,000	13,250,000	4.32	0.93	0.93	<b>6.19</b>	2,139,708,597	2.00%

## Budget implementation and oversight

After the budget has been adopted, the board takes on an oversight responsibility. The board monitors spending to ensure that expenditures are within the intent of the authorizations and for the goals previously established.

### What does proper monitoring require?

1. Monthly review of financial reports — including budget status and balance sheet reports.
2. An understanding of the district's ongoing financial status.
3. Keeping an eye on school activity, athletic, and cafeteria accounts.
4. Being aware of budget transfers.
5. Being alert to the year-end condition of the budget.

### Asking the right questions

To adequately monitor the budget, what are some questions board members should ask?

1. How does actual enrollment compare to the budgeted amount?
2. How does actual staffing compare to the budgeted amount?
3. How does the actual beginning fund balance compare to the budgeted amount?
4. Are year-to-date revenues reasonable?
5. Are year-to-date expenditures reasonable?
6. Are revenue and expenditure trends consistent with historical patterns?
7. Is the ending fund balance adequate?
8. Did we budget sufficient amounts for individual programs?

## Indicators of financial difficulty

As you review your district's financial reports, you should be alert to indicators of financial difficulty. The board's role is to ask administrators for explanations of questionable items.

1. Is your district continually engaged in short-term borrowing? E.G.: Use of revenue anticipation notes, apportionment advances, interest-bearing warrants, LGO's?
2. Has your district experienced recent levy losses?
3. Is your district at its legal debt limit? What is the district's debt margin?
4. Has there been a decrease in year-end fund balance levels over the past few years?

5. Have expenditures exceeded revenues over the past few years?
6. Has the district been delinquent in paying: debt instruments? obligations to other school districts? salaries? payroll taxes and deductions?
7. Is the district involved in pending litigation that could adversely affect its financial condition?
8. Is enrollment declining?
9. Has the number of schools remained the same even though enrollment has declined?
10. Have cash balances levels decreased over the past few years?
11. Has the student/staff ratio decreased as enrollment declined? Smaller class sizes are preferable from an educational viewpoint, however, from the financial perspective they are more costly.
12. Has facility utilization dropped below 70% at any school site?
13. Has state ranking of cost-per-student increased?
14. Is the property tax collection rate 95% or less?
15. Have payments to vendors been delayed to solve cash flow shortages and minimize borrowing?
16. Has the number of building permits issued within your district declined?
17. Has there been an increase in the number of accumulated vacation and sick leave days per employee?
18. Has there been an increase in accounts payable at year end?
19. Has there been an increase in the ratio of bonded indebtedness to total assessed valuation?
20. Has there been a decrease in revenues from local sources?
21. Has there been an increase in fringe benefits as a percentage of total salary costs?

## School Finance: Test your knowledge

To provide you with a framework for today's workshop, we have prepared a short pre-test to assist you in determining your current knowledge of School Finance and Budgeting. Please take a few minutes to complete this test.

1. The school budget is:
  - a. A group of financial assumptions.
  - b. A management tool of available resources and their use.
  - c. A method of controlling spending.
  - d. All of the above.
2. The primary financial responsibility of the board is to:
  - a. Approve monthly expenditures.
  - b. Select, evaluate, and reward the financial experts of the district.
  - c. Develop district financial goals to support the district's educational plan.
  - d. Balance the educational needs of the students and the taxpayers' ability to pay.
3. The board approves all vouchers prior to payment unless:
  - a. They are approved by the board's finance committee.
  - b. The district adopts a policy permitting the superintendent to pay bills prior to the board's approval.
  - c. The amounts are under \$5,000.
  - d. The bills are more than 30 days old.
4. The largest portion of the school district's budget pays for:
  - a. Capital expenditures.
  - b. Debt service.
  - c. New programs and services.
  - d. Staff salaries.

5. Debt service refers to:
  - a. Money to pay principal and interest on outstanding bonds.
  - b. Local tax determined by subtracting non-property tax revenues from expenditures.
  - c. Non-property tax revenues.
  - d. Budgeted revenues which are not used.
6. The board's role in the audit process is to:
  - a. Select and appoint the auditor.
  - b. Read, understand, and accept the audit report.
  - c. Implement the audit report recommendations.
  - d. All of the above.
7. The board's oversight role can best be carried out by:
  - a. Physically reviewing every voucher and bill.
  - b. Relying on the superintendent to tell them when something is wrong.
  - c. Questioning the superintendent and staff extensively about bills presented for payment.
  - d. Developing policies and procedures to address financial needs.
8. A board of education may hold a series of community meetings in an attempt to build community support for the budget, provided:
  - a. The board gets prior approval from the state board of education.
  - b. The meetings are announced well in advance.
  - c. The board allows time for public comment and opposing viewpoints.
  - d. The municipal authority is in agreement.
9. When asked to authorize a RAN (Revenue Anticipation Note), the board should:
  - a. Determine why short term borrowing is necessary.
  - b. Determine when the note will be repaid.
  - c. Determine what resources will be used to repay the note.
  - d. All of the above.

10. A district is in financial trouble when:
  - a. Fund balance is negative.
  - b. Non-voted debt is issued to purchase school buses.
  - c. Enrollment has declined.
  - d. There is an increase in accounts payable at year end.
11. The largest source of revenue for the general maintenance and operation of a school district is:
  - a. State apportionment.
  - b. Local excess levies.
  - c. Federal grants.
  - d. All of the above.
12. Reducing class size may involve:
  - a. Increased salaries and benefits for additional teachers or educational assistants.
  - b. A bond issue to obtain money to build new schools.
  - c. Issuance of non-voted debt to purchase portable classrooms.
  - d. All of the above.
13. A prudent board that issues long-term debt to purchase school buses:
  - a. Negotiates the loan with the bank.
  - b. Knows exactly what resources will be used to repay the debt.
  - c. Chooses an equipment leasing company.
  - d. Hopes to obtain federal grants to repay the loan.



**Pre-Test Answers:**

1.d     5.a     9.d  
2.c     6.b     10.a  
3.b     7.d     11.a  
4.d     8.c     12.d  
          13.b

**How knowledgeable are you in school finance? The results are for your eyes only:**

11 to 12 correct	You are about to be inducted into the Business Officials Hall of Fame.
9 to 10 correct	A financial wizard.
6 to 8 correct	With a little work you'll be fine.
3 to 5 correct	Get somebody else to balance your checkbook.
0 to 2 correct	Taking this workshop was a great idea!

## Case study on board financial responsibility

**After you have all read this article, take a few minutes at each table to discuss this district's financial condition.**

A grand jury charged with investigating the financial collapse of the Richmond Unified School District in California has laid most of the blame for the district's plight on its school board. "In the final analysis," the grand jury said in the report late last month, "the local school board has final authority over its budget."

The jury concluded, the ultimate responsibility for the district's need to seek bankruptcy protection belonged to a school board that failed to control the district budget. The board, it said, overspent after succumbing to "a large dose of wishful thinking" and pressure from school employees' unions and community groups.

Furthermore, although the district's revenues increased by about 49 percent between 1986 and 1990, its expenditures rose 76 percent during the same period, with the annual deficit increasing from \$1.4 million in 1987 to \$18.1 million in 1990.

Driving the deficit, which totaled \$29.5 million for the period from 1986 to 1990, was a 25 percent increase in certified staff members, the granting of salary increases that could not be funded by the state, excessive equipment purchases, and the use of long-term borrowing to finance operating deficits, the grand jury said.

The jurors recommended that school-board members be required to undergo training in financial management provided by county offices of education, and that the county education offices conduct public meetings in advance of school-board elections to tell potential candidates of members financial responsibilities.

### **What could the board have observed to prevent the situation?**

1. Spending patterns.
2. Fund balance condition.
3. Staffing levels.
4. Unfunded salary increases.
5. Large capital outlays.
6. Use of long-term borrowing for operating purposes.

**Financial assistance available to school districts**

- ESD Fiscal Officers;
- Other school district business managers;
- OSPI Division of School Business Services;
- Pre-audit assistance from the State Auditor's Office;
- Post-audit assistance from the State Auditor's Office.

**Commitment to make a difference**

List at least three things that you will do as a result of this training, to make a difference in your district.

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

For each of the items listed above, list available or potential resource(s) or contacts you will make.

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

**Personal commitment action plan**

Using the grid below, you could list more information including:

- Name of event or purpose of meeting
- Date
- Time
- Place
- People involved

Purpose of Event	Date	Time	Place	People Involved	Products or Outcomes