

GOVERNMENT ACCOUNTING OVERVIEW

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Alabama Association of School Business Officials Training

GOVERNMENT ACCOUNTING OVERVIEW AGENDA

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- **Introduction**
- **Conceptual Framework – GASB Concept Statements**
- **Government Budgeting**
- **GFOA Best Practices in School Budgeting**
- **Fund Accounting**
- **Activity Funds in Local Schools**

Common Acronyms in Presentation

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- ❑ **GASB** – Governmental Accounting Standards Board
- ❑ **GAAP** – Generally Accepted Accounting Principles
- ❑ **SLG** – State and Local Governments
- ❑ **SEA** – Service Efforts and Accomplishments
- ❑ **ALSDE** – Alabama State Department of Education

GOVERNMENTAL ACCOUNTING

Materials in this presentation were supplemented by the Governmental Accounting Standards Board (GASB) and supplemented by research/training attended and research by the presenter. The views expressed in this presentation are those of the presenter. Official positions of the GASB on accounting matters are reached only after extensive due process and deliberation.

Governmental Characteristics



- ❑ **When are organizations created by a government by statute or nonprofit corporation laws considered to be governmental?**
 1. Officers popularly elected or controlling majority of governing body appointed or approved by governmental officials.
 2. Power to enact or enforce tax levy.
 3. Power to directly issue “tax-exempt” debt.
 4. Another government may unilaterally dissolve and assume their assets and liabilities of created organization.

Governmental Accounting



- **Governmental accounting is fundamentally different from for-profits in a variety of ways including:**
 - Organizational purpose
 - How generate revenues
 - Stakeholders
 - Budgetary obligations
 - Going concern
- **Financial management system must allow stakeholders to:**
 - Assess accountability
 - Make political, social and economic decisions

Governmental Accounting Systems



A governmental accounting system must make it possible to do both:

- To present fairly and with full disclosure the financial position and results of financial operations of the funds and activities of the government in conformity with generally accepted accounting principles (GAAP); and
- To determine and demonstrate compliance with finance-related legal and contractual provisions.

Objectives of Financial Reporting for State and Local Governments

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**Governmental financial reports
are used primarily to**

Compare
actual
financial
results with
legally
adopted
budget

Assess
financial
conditions
and results
of
operations

Assist in
determining
compliance
with finance-
related
laws, rules
and
regulations

Assist in
evaluating
efficiency
and
effectiveness

Primary Source of GAAP for Governments and Not-for-Profits

Governmental
Accounting
Standards Board

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graph TD; GASB[Governmental Accounting Standards Board] --> SLO[State and Local Government Organizations]; GASB --> GNPO[Governmental Not-for-Profit Organizations];
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State and Local
Government
Organizations

Governmental
Not-for-Profit
Organizations

Governmental Accounting Standards Board (GASB)



- Rule 203 of the Code of Professional Conduct for the American Institute of Certified Public Accountants (AICPA) has given GASB the “authority to establish accounting principles” for SLG.**
- GASB was created in 1984.**
- GASB’s due process activities are designed to encourage broad public participation in the standards setting process (www.gasb.org).**
- GASB has issued 102 Statements to date with 67 standards issued since 2000.**
- GASB Statement No. 34 – June 1999**

GASB's Financial Reporting – Accountability Emphasis



- Should assist users in evaluating the operating results of the governmental entity for the year.**
 - ▣ Did financial position improve or deteriorate?**
 - ▣ Did entity meet its cash requirements?**
- Should assist users in assessing the level of services that can be provided and its ability to meet its obligations as they become due.**
 - ▣ Legal or contractual restrictions on resources?**
 - ▣ Risks of potential loss of resources?**

GASB Standards and Guidance

Concepts Statements

- intended to provide a **conceptual framework** of interrelated objectives and fundamental concepts that can be used as a basis for establishing consistent financial reporting standards.

Statements (102)

- issued by GASB to set generally accepted accounting principles (GAAP) for SLG. Statements are the most authoritative source for governmental GAAP.

Implementation Guides

- address questions about implementing GASB pronouncements.

GARS online

- content includes GASB Codification, Original Pronouncements and Comprehensive Implementation Guides

GASB Standards and Guidance



Implementation Guide Example

Short-Term Leases

4.1. Q—A lease contract states that it will remain in effect for three years unless terminated before then. The contract allows the lessee to terminate the lease for any reason with 60 days' notice. The contract allows the lessor to terminate the lease with 60 days' notice only if the lessee defaults on payments. Is this a short-term lease?

A—No. The lessee has an unconditional right to terminate and, therefore, has an option to terminate. The lessor does not have an unconditional right to terminate because the lessor is allowed to terminate the lease only on the condition that the lessee defaults on payments and, therefore, does not have an option to terminate. Accordingly, there are no periods for which both the lessee and the lessor have an option to terminate and, therefore, no cancellable periods to exclude from the maximum possible term, which is three years.

GASB Concepts Statement No. 1

Objectives of Financial Reporting



□ Characteristics of the governmental environment




- ▣ Representative form of government and separation of powers**
- ▣ Federal system of government intergovernmental revenues**
- ▣ Relationship of taxpayers and services received**
- ▣ Budget as an expression of public policy and financial intent as a method of providing control**
- ▣ Use of fund accounting**
- ▣ Significant investment in non-revenue-producing capital assets**

GASB Concepts Statement No. 1

Objectives of Financial Reporting



Users of financial reports

-  Citizenry – those to whom the government is primarily accountable
-  Legislative and oversight bodies – those who directly represent the citizens
-  Investors or creditors – those who lend or who participate in the lending process

GASB Concepts Statement No. 1

Objectives of Financial Reporting





- ❑ **Financial reporting is used in making decisions and in assessing accountability**
 - ❑ Comparing actual financial results with legally adopted budget
 - ❑ Assessing financial condition and results of operations
 - ❑ Assisting in determining compliance with finance-related laws, rules, and regulations
 - ❑ Assisting in evaluation efficiency and effectiveness



GASB Concepts Statement No. 1

Objectives of Financial Reporting

Accountability

-  “Being obliged to explain one’s actions, to justify what one does”
-  Providing information to assist in evaluating whether the government was operated within legal constraints imposed by the citizenry

Interperiod Equity

-  Balanced budget; “live within their means”
-  Current generation of taxpayers should not be able to shift the burden of paying for current-year services to future-year taxpayers (intergenerational equity)

GASB Concepts Statement No. 1

Objectives of Financial Reporting






- ❑ **Basic characteristics of financial reporting:**
 - ❑ **Understandability**
 - ❑ **Reliability**
 - ❑ **Relevance**
 - ❑ **Timeliness**
 - ❑ **Consistency**
 - ❑ **Comparability**

GASB Concepts Statement No. 1

Objectives of Financial Reporting



Financial Reporting Objectives

-  Should assist in fulfilling obligation to be publicly accountable and should enable users to assess that accountability
-  Should assist users in evaluating the operating results of the governmental entity for the year
-  Should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet obligations as they become due

GASB Concepts Statement No. 2 and No. 5 – SEA Reporting

- Service Efforts and Accomplishments Reporting and amended by Concepts Statement 5 (an amendment of Concept Statement 2 (11/2008))
- Three different types of SEA performance measures
- Measures of service efforts
 - ▣ Amount of financial and non-financial resources applied to a service
- Measures of service accomplishments
 - ▣ Outputs & outcomes
- Measures that relate service efforts to service accomplishments
 - ▣ Service costs to outputs (e.g. cost per lane-mile maintained)
 - ▣ Service costs to outcomes (e.g. cost per lane-mile maintained in good or excellent condition)

GASB Concepts Statement No. 2 and No. 5 – SEA Reporting

- Comparisons
 - ▣ To prior years, targets, progress towards goals, norms and standards, other parts of entity, other comparable jurisdictions
- Unintended effects
 - ▣ Significant indirect consequences that occur as a result of providing a service
- Demand for services
 - ▣ Level of resources committed may reflect what is required to satisfy need
- Factors that influence results – internal & external
- Narrative information

GASB Concepts Statement No. 2 and No. 5 – SEA Reporting

EDUCATION

Inputs



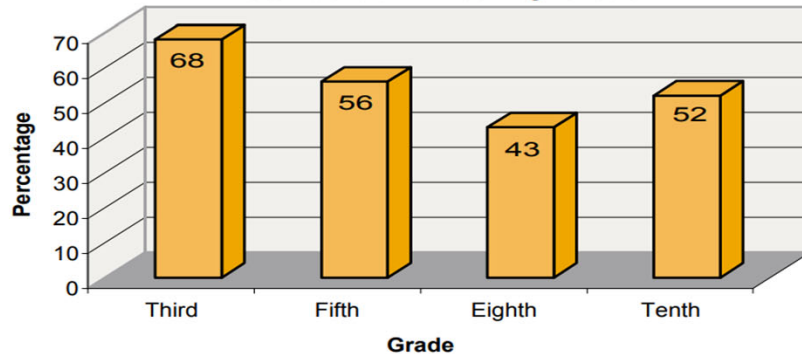
Agency	FY1998 Expenditures	FY1999 Expenditures	% Change
Elementary & Secondary	\$ 5,288,719,384.52	\$ 5,803,406,361.14	9.7%
Board of Higher Education	81,563,274.83	95,073,549.97	16.6%
Chicago State University	34,105,265.21	36,990,598.99	8.5%
Eastern Illinois University	41,870,385.97	45,987,482.07	9.8%
Governors State University	22,721,692.76	23,890,897.76	5.1%
Illinois Community College Board	284,526,016.02	304,974,150.98	7.2%
Illinois Math & Science Academy	14,289,845.91	15,735,632.37	10.1%
Illinois State University	75,799,126.36	81,022,202.19	6.9%
Illinois Student Assistance Commission	483,287,253.72	552,553,888.01	14.3%
Northeastern Illinois University	36,079,025.12	39,171,277.75	8.6%
Northern Illinois University	97,403,600.00	101,100,744.31	3.8%
Southern Illinois University	199,595,246.98	210,898,448.34	5.7%
State University Civil Service Merit Board	1,124,794.03	1,002,358.21	-10.9%
University of Illinois	659,160,526.69	686,348,979.28	4.1%
Western Illinois University	52,442,337.49	55,108,212.03	5.1%
Total:	\$ 7,372,687,775.61	\$ 8,053,264,783.40	

GASB Concepts Statement No. 2 and No. 5 – SEA Reporting

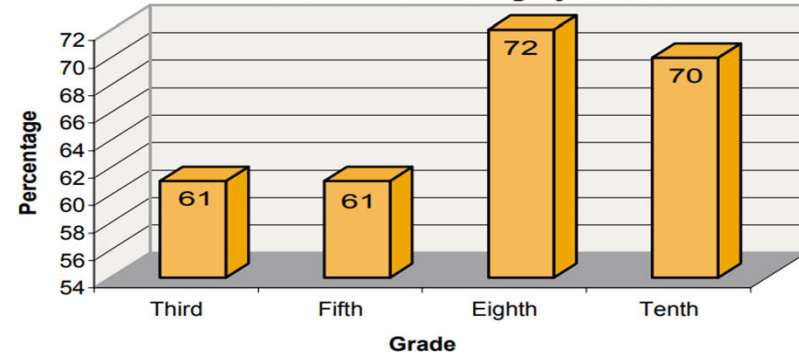
Outcomes



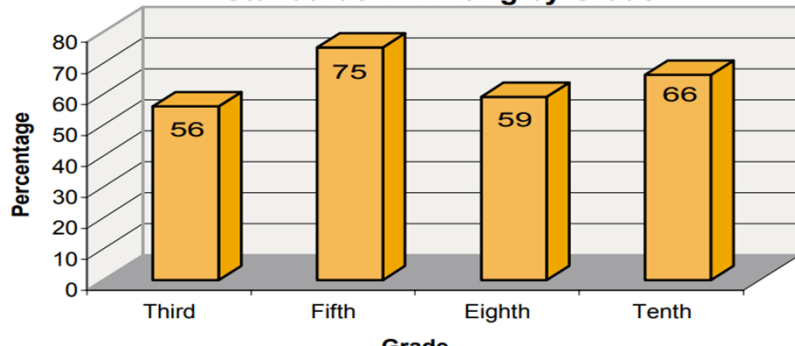
Percentage of Students Meeting or Exceeding State Standards in Math by Grade



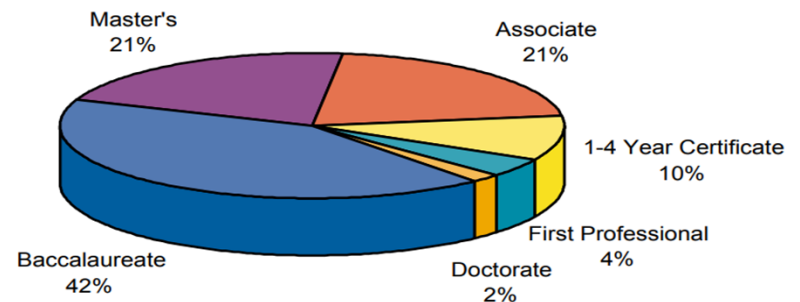
Percentage of Students Meeting or Exceeding State Standards in Reading by Grade



Percentage of Students Meeting or Exceeding State Standards in Writing by Grade



Fiscal Year 1998 Degrees Conferred at Illinois Colleges and Universities



GASB Concepts Statement No. 2 and No. 5 – SEA Reporting

state goals for math in third grade. An average of \$2,691 was spent per child for the 1997-98 school year compared to \$2,460 the prior year.

For parental training, \$5.9 million was expended in the 1997-98 school year, an increase of \$2.0 million or 51.3 percent. There were 139 programs funded in 1997-98 with 283 personnel paid by the grant money compared to 91 programs and 274 personnel paid the prior year. A total of 34,948 parents received direct services through 13,406.6 hours of instruction. On average, \$169 per parent was spent for direct services compared to \$158 the year before.

The Prevention Initiative Program had spending of \$4.3 million (an increase of \$2.3 million or 115.0%) to fund 31 programs. The number of children and family enrolled in 1997-98 totaled 2,184 and 1,840 respec-

tively while the number of non-enrolled families receiving services totaled 3,438. One outcome of the program is 126 parents acquired a high school diploma or GED in the 1997-98 school year compared to 75 the previous year. The program expended \$2,337 per family enrolled and \$1,969 per child enrolled for the most recent year data was available.

For the Reading Improvement Program \$47.4 million was spent, \$2.0 million or 4.4 percent more than the prior year. 566,815 students from 793 school districts received reading services from this program. Of the students who utilized this program, 72.0 percent met or exceeded state goals for reading and 87.0 percent met or exceeded state goals for writing in third grade. The average expenditure for each child in the program was \$84 in school year 1997-98, \$3 more than the prior year.

GASB Concepts Statement No. 3



- ❑ Communication Methods in General Purpose Financial Reports that Contain Basic Financial Statements
- ❑ Communication method to be used should be determined based on the following order
 - ▣ Recognition in basic financial statements
 - ▣ Disclosure in notes to basic FS
 - ▣ Presentation as RSI
 - ▣ Presentation as supplementary Information

GASB Concepts Statement No. 3



- Criteria for reporting items in a FS
 - ▣ Provide reliable representation of the effects of transactions and other events
 - ▣ *Recognition*: recording an item into a FS as an asset, liability, revenue, expense, expenditure or other element
 - ▣ Items that are elements of financial statements and are measurable with sufficient reliability

GASB Concepts Statement No. 3



- Notes to financial statements provide:
 - ▣ Descriptions of the accounting and finance-related policies underlying amounts recognized in FS
 - ▣ More detail or explanations about amounts in FS
 - ▣ Additional information about elements not recognized
- Criteria for disclosing information in notes to FS
 - ▣ Essential to a user's understanding of information in the financial statements (i.e. indispensable to user)
 - ▣ Notes do not include subjective assessments on future financial position or predictions about the effects of future financial events on future financial position

GASB Concepts Statement No. 3



- Required supplementary information
 - ▣ Supporting information that GASB has concluded is essential for placing basic financial statements and notes to financial statements in appropriation operational, economic or historical context
- Criteria for presenting information items in RSI
 - ▣ Clear and demonstrable relationship to information in FS and notes
 - ▣ May include explanations of recognized amounts, analysis of known facts or conditions, or other information essential for placing FS & notes in context

GASB Concepts Statement No. 3



- **Supplementary information**
 - ▣ Supporting information that is useful for placing financial statements and notes in operational, economic, or historical context
 - ▣ Not required by GASB but may be required by law or regulations
 - ▣ Supplementary information should follow any applicable GASB-issued or GASB-cleared guidance regarding format and content
 - ▣ Example: Schedule of Expenditures of Federal Awards (SEFA)

GASB Concepts Statement No. 4



- ❑ *Concepts Statement No. 4* provides key definitions of items appearing in financial statements.
- ❑ Assets, liabilities, and net position (residual equity) are each defined.
- ❑ Introduces elements that do not appear in the balance sheets of nongovernmental organizations: deferred inflows and deferred outflows of resources.

GASB Concepts Statement No. 4



- Assets — resources with present service capacity that government presently controls
- Liabilities — present obligations to sacrifice resources that the government has little or no discretion to avoid
- Deferred outflows of resources — consumption of net assets applicable to a future reporting period
- Deferred inflow of resources — acquisition of net assets applicable to a future reporting period
- Net position — residual of all other elements presented in a statement of financial position

GASB Concepts Statement No. 4



- Outflows of resources – consumption of net assets applicable to the reporting period
 - ▣ Decrease in net assets in excess of any related decrease in liabilities
 - ▣ Increase in liabilities in excess of any related increase in assets
- Inflows of resources – acquisition of net assets applicable to the reporting period
 - ▣ Increase in assets in excess of any related increase in liabilities
 - ▣ Decrease in liabilities in excess of any related decrease in assets

GASB Concepts Statement No. 6



- *Concept Statement No. 6* examines the issue of when it is most appropriate to measure assets and liabilities at historical cost and when it is more appropriate to re-measure assets to fair value or settlement amount.
- In general, re-measurement is appropriate for assets that will be converted to cash and liabilities where there is uncertainty over the timing and amount of payments

GASB Concepts Statement No. 6



- ❑ Initial-Transaction-Date Based Measurement
 - ▣ Transaction price or amount when asset was acquired or liability was incurred
- ❑ Current-Financial-Statement-Date Measurement
 - ▣ Amount assigned when an asset or liability is remeasured on the financial statement date

GASB Concepts Statement No. 6



- ❑ **Four measurement attributes used in FS**
 - ▣ **Historical cost** – price paid to acquire an asset or amount received pursuant to incurrence of a liability
 - ▣ **Fair value** – price would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants
 - ▣ **Replacement cost** – price that would be paid to acquire an asset with equivalent service potential
 - ▣ **Settlement amount** – the amount at which an asset could be liquidated with the counterparty other than in an active market

GASB Concepts Statement No. 7 – Issued June 2022



- ❑ *Concept Statement No. 7* provides a framework of interrelated objectives and fundamental principles that can be used to establish consistent accounting and financial reporting standards for notes included in basic financial statements.

GASB Concepts Statement No. 7



- Types of information in notes to financial statements
 - Descriptions of the accounting and finance-related policies underlying amounts recognized in financial statements
 - More detail about or explanations of amounts recognized in financial statements
 - Information related to financial position or inflows and outflows of resources that does not meet the criteria for recognition
 - Other finance-related information associated with the accountability of the government.

GASB Concepts Statement No. 7



- ❑ The following types of information are not appropriate for notes to financial statements:
 - ❑ Subjective assessments of the effects of reported information on the government's future financial position
 - ❑ Predictions about the effects of future events on future financial position
 - ❑ General or educational information that is not specific to the government

GASB Concepts Statement No. 7



- ❑ Notes to financial statements are essential to users in making economic, social, or political decisions or assessing accountability
- ❑ Characteristics of essential information
 - ▣ Information has or is expected to have a meaningful effect on users' analyses for making decisions or assessing accountability
 - ▣ A breadth or depth of users utilize or are expected to utilize the information in their analyses for making decisions or assessing accountability
- ❑ Each item disclosed should possess the characteristics of essentiality

GAAP Hierarchy for LEAs – GASB 76

Effective for periods after June 15, 2015

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Category	Sources	Due Process
A	GASB Statements	Formally approved by GASB Board for the purpose of creating, amending, superseding, or interpreting standards AND exposed for a period of public comment
B	GASB Technical Bulletins and Implementation Guides; AICPA Literature specifically cleared by GASB	Cleared by GASB Board , specifically made applicable to state and local government entities AND exposed for a period of public comment

GASB 76 – Sources of Non-Authoritative Literature

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When Category A and B DO NOT provide needed guidance may consider non-authoritative literature with MUCH documentation

Sources of non-authoritative accounting literature include:

- GASB Concepts Statements;
- Pronouncements and other literature of the Financial Accounting Standards Board, Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, and International Accounting Standards Board, and AICPA literature not cleared by the GASB;
- Practices that are widely recognized and prevalent in state and local government;
- Literature of other professional associations or regulatory agencies; and
- Accounting textbooks, handbooks, and articles.

Measurement focus and basis of accounting in government



- **Accrual Basis/Economic Resources Measurement Focus:**
 - ▣ General business concepts of revenue and “expense” apply when recording exchange-like transactions
- **Modified Accrual Basis/Current Financial Resources Measurement Focus:**
 - ▣ Applies to funds financed by taxes and other involuntary contributions

Recognition Concepts



The **measurement focus** of a specific financial statement determines *what* items should be reported as elements of that financial statement.

The related **basis of accounting** determines *when* those items should be reported.

Modified Accrual Basis



- **Revenues are recorded when “measurable and available”**
 - ▣ For example, property taxes revenues are recorded as revenues if levied this year and collected this year, or soon enough after the year end to still pay current year bills
- **Outflows are called “expenditures”**
 - ▣ Expenditures are recorded in the fund when a liability is incurred

GASB 102, Certain Risk Disclosures

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- GASB 102, Certain Risk Disclosures
 - ▣ Issued December 2023
 - ▣ Effective Date: Fiscal years beginning after June 15, 2024 (FY 2025)
 - ▣ Statement establishes financial reporting requirements for risks related to vulnerabilities due to certain concentrations or constraints

GASB 102, Certain Risk Disclosures

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- Government may be vulnerable to risks from certain concentrations or constraints that limit its ability to acquire resources or control spending
- **Concentration** is a lack of diversity as to an aspect of significant inflow/outflow of resources
 - ▣ Employers
 - ▣ Industries
 - ▣ Inflows of resources
 - ▣ Workforce covered by collective bargaining agreements
 - ▣ Providers of financial resources
 - ▣ Suppliers for material, labor, or services

GASB 102, Certain Risk Disclosures

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- **Constraint** is a limitation imposed by external party or by formal action of government's highest level of decision-making authority
 - ▣ Limitations on raising revenue
 - ▣ Limitations on spending
 - ▣ Limitations on the incurrence of debt
 - ▣ Mandated spending

GASB 102, Certain Risk Disclosures

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- Government should disclose in notes to FS if all criteria are met
 - ▣ A concentration or constraint is known to the government prior to issuance of FS
 - ▣ The concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact
 - ▣ An event or events associated with the concentration or constraint that could cause a substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of issuance of FS

GASB 102, Certain Risk Disclosures

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- For each concentration or constraint that meets all the criteria, governments should disclose
 - ▣ The concentration or constraint
 - ▣ Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur prior to the issuance of the FS
 - ▣ Actions taken by the government prior to the issuance of the financial statements to mitigate the risk

GASB 102, Certain Risk Disclosures

Note X. Concentration of Employer for the Year Ended June 30, 20X5

McFarland Air Force Base is a large employer in Example County that employs nearly 2,000 military personnel and 850 civilians. The various tax revenues received by the County directly or indirectly related to the operations of the Base represent ZZ percent of the County's resources for the year ending June 30, 20X5. On November 15, 20X5, the U.S. Congress directed the U.S. Department of Defense to initiate a closure of the Base within two years (November 15, 20X7) and to complete all of the closure actions within six years (November 15, 20Y1). The County Commissioners have approved various economic incentives aimed at encouraging the redevelopment of the property associated with McFarland Air Force Base.

Financial Reporting Model Reexamination

What?

In September 2018, the Board proposed improvements to the financial reporting model— Statements 34, 35, 37, 41, and 46, and Interpretation 6

Why?

A review of those standards found that they generally were effective, but that there were aspects that could be significantly improved

When?

Exposure Draft issued June 2020 –
Comments due February 26, 2021
Final Statement expected

Financial Reporting Model

Improvements

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□ Unusual or Infrequent Items

- Event/transaction abnormal and unrelated to ordinary or typical activities
- Event/transaction would not be reasonably expected to recur in foreseeable future
- ▣ Present individually unusual OR infrequent items as the last presented flow(s) of resources prior to net change in resource flows; Statement 34 required unusual AND infrequent
- ▣ Display unusual or infrequent items as the last presented flow of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.
- ▣ Disclose the program or function or identifiable activity to which an unusual or infrequent item is related; whether within the control of management

Other Improvements to Financial Reporting

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Budgetary Comparisons

- Presented as RSI for general fund and each major resources fund with legally adopted budget
- Includes variance columns for original to final budget and final budget and actuals
- Variance explanations in Notes to RSI

Major Component Units

- Governments should present each major component unit in a separate column in Statements of Net Position and Statement of Activities
- If separate presentation reduces readability, include combining statements after fund FS

Required Supplementary Information
Sample City
Budgetary Comparison Schedule
Transportation Special Resources Fund
for the Year Ended June 30, 20X5
(amounts expressed in thousands)

Current and noncurrent format is not a requirement.

	Budgeted Amounts		Variance Final Budget— Over (Under) Original Budget	Actual Amounts (Budgetary Basis)	Variance Final Budget— Over (Under) Actual Amounts
	Original	Final			
BUDGETARY INFLOWS OF RESOURCES FROM CURRENT ACTIVITIES					
Taxes	\$ 49,825	\$ 49,825	\$ —	\$ 51,442	\$ 1,617
Intergovernmental	29,750	29,750	—	30,337	587
Charges for services	6,720	6,720	—	6,848	128
Investment earnings	1,900	1,900	—	2,295	395
Total budgetary inflows of resources from current activities	88,195	88,195	—	90,922	2,727
BUDGETARY OUTFLOWS OF RESOURCES FROM CURRENT ACTIVITIES					
General government	58,665	61,555	(2,890)	60,535	1,020
Public works	16,265	16,945	(680)	16,934	11
Total budgetary outflows of resources from current activities	74,930	78,500	(3,570)	77,469	1,031
Net change in fund balances	13,265	9,695	(3,570)	13,453	3,758
Budgetary fund balance, July 1	4,024	4,024	—	4,024	—
Budgetary fund balance, June 30	\$ 17,289	\$ 13,719	\$ (3,570)	17,477	\$ 3,758
Reconciliation to GAAP basis					
Total fund balance GAAP basis				\$ 17,477	

Required Supplementary Information
Notes to Budgetary Comparison Schedules
(amounts expressed in thousands)

Note A—Actual Budget Results

	<u>General Fund Over (Under)</u>	<u>Transportation Fund Over (Under)</u>
BUDGETARY INFLOWS OF RESOURCES FROM CURRENT ACTIVITIES		
Differences—final budget to actual:		
The City experienced an increase in inflows of resources for taxes from budgeted amounts primarily due to the opening of the new shopping center 3 months earlier than expected.	\$ 6,170	\$ 1,617
Actual amounts of interest inflows of resources exceeded budgeted amounts as the City saw higher interest rates than expected.	3,692	395
BUDGETARY OUTFLOWS OF RESOURCES FROM CURRENT ACTIVITIES		
Differences—original budget to final budget:		
The original budget was amended for public safety as the new police station #453 was completed 7 months behind schedule. The original budget included salaries and benefits for new officers and administrative staff, in addition to noncapital building outflows of resources. Station #453 will be opening in the next fiscal year and these outflows of resources have been included in the next year's budget.	\$ 4,526	\$ —
UNUSUAL OR INFREQUENT ITEM		
Differences—original budget to final budget:		
The City experienced flood damage during the current fiscal year. During the year, the City increased the original budget to account for the spending required to address the damage.	\$ (7,500)	\$ —

Note: This explanation of significant differences is shown in a tabular format. Governments can show this information in other styles such as paragraph form if they choose.

Revenue and Expense Recognition



What?

The Board is redeliberating stakeholder input on an Invitation to Comment as part of developing a comprehensive model for recognition of revenues and expenses

Why?

Guidance for exchange transactions is limited; guidance for nonexchange transactions could be improved and clarified

When?

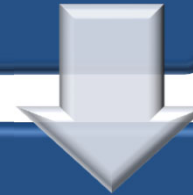
Preliminary Views issued June 2020

Revenue and Expense Recognition Model



Categorization

Identify the *type* of transaction



Recognition

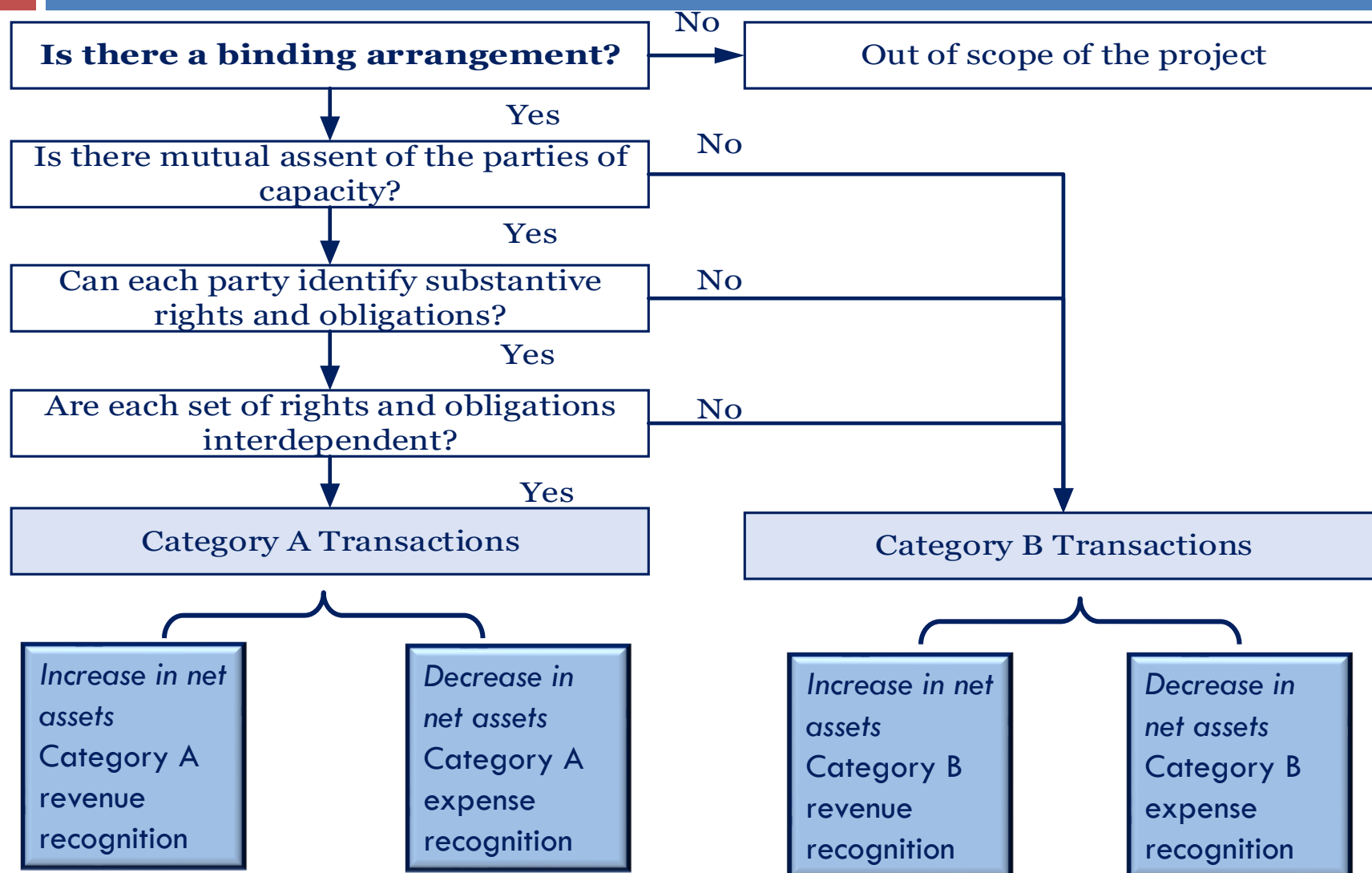
Determine *what* element should be reported and *when*



Measurement

Determine the *amount* to report

Categorization Component



Model Outcomes

Category A	Category B
Fees for specific services (water, electricity, lottery, tuition)	Taxes (property tax, income tax, sales tax)
Expenditure-driven grants	Purpose-restricted grants (and donations)
Research grants and revolving loans	Donations (unrestricted donations, pledges, perpetual trusts)
Medicaid fees for services	Punitive fees (fines, penalties, forfeitures)
Most expenses	Special assessments (capital and service)
	Regulatory fees (driver's licenses, building permits, marriage licenses, professional service licenses)
	Capital fees (passenger facility charges, impact fees)

Revenue and Expense Recognition

Step 2: Recognition

- **Category A**

- Revenue should be recognized when (or as) a government satisfies its performance obligation(s) at a point in time or over time

- **Category B**

- Revenue should be recognized based on compliance with time requirements. Absent time requirements, when a legally enforceable claim arises.
- Derived revenue transactions: income and sales tax
 - Recognition when underlying transaction or activity on which the tax or fee is imposed occurs
- Imposed revenue transactions – assessments by governments on nongovernmental entities: property taxes; fines and penalties
 - Property tax revenue – legally enforceable claim exists when governing body takes action to:
 - Impose a property tax rate or
 - Identify the total amount of property tax that is apportioned to specific property owners

Revenue and Expense Recognition

Step 3: Measurement



- **Revenues and expenses should be measured based on the most liquid item in a transaction**
 - ▣ Revenue transactions – measured relying on the amount of consideration received or receivable
 - ▣ Expense transactions – measured relying on the amount of consideration paid or payable

Disclosure and Classification of Certain Capital Assets – Exposure Draft

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- Issued September 2023
- Effective Date: Fiscal years beginning after June 15, 2025 (FY 2026)
- Objective
 - ▣ Provide users of government financial statements with essential information about certain types of capital assets in a disaggregated format

Disclosure and Classification of Certain Capital Assets – Exposure Draft

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- For note disclosures about capital assets required by GASB 34, disclose separately
 - ▣ Capital assets held for sale, by major class of asset
 - ▣ Lease assets reporting in accordance with GASB 87
 - ▣ Subscription assets reported in accordance with GASB 96
 - ▣ Intangible assets other than lease assets and subscription assets, by major class of asset

Code of Alabama - Title 16: Education - Section 16-13A-6 - Required reports (2016)

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- a. The State Board of Education shall by regulation provide for various financial and other information which local superintendents of education shall have prepared for the local boards of education, including, but not limited to, the following:
 - (1) **A monthly financial statement showing the financial status of the local board of education accounts with itemized categories specified by the State Board of Education.**
 - (2) **A monthly report showing all receipts and the sources thereof.**
 - (3) **A monthly report showing all expenditures with itemized categories specified by the State Board of Education.**
 - (4) An annual projected budget.
 - (5) Monthly and/or quarterly reports showing expenditures relative to such projected budget.
 - (6) A yearly report of the fixed assets inventory of the local board of education with itemized categories specified by the State Board of Education.
 - (7) Financial and other information necessary to participate in national statistical studies on education.

Code of Alabama - Title 16: Education - Section 16-13A-6 - Required reports (2016)

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- b. The financial information required in subsection (a), as well as any other financial information which the State Board of Education shall require, shall be submitted in writing and/or electronically to the Chief Education Financial Officer **by the 15th day of the month following its presentation to the local board of education.**
- c. All local boards of education shall be required to implement a **standardized financial accounting program** as determined by the State Department of Education to collect the information required by this chapter and to provide for ease of input by local boards of education and ease of monitoring by a local board of education, its chief school financial officer, and the State Department of Education. **If a local school system's financial report is found to be in conflict with generally accepted accounting principles, the State Department of Education shall issue a notice to that school system informing it of such and request that proof of correction of conflict be forwarded to the State Department of Education and approved by the State Superintendent of Education within a reasonable time thereafter.**
- d. All financial documents, in whatever source maintained, are public documents, and shall be open to inspection and accessible to the public. An annual budget and monthly financial statements with supporting spread sheets as submitted to the State Department of Education shall be made available to the general public at the local school system Internet site.

Financial Statement Checklist

1. Cover Page with original signature of the Superintendent submitted _____
2. Financial Statements submitted (F-I-A through F-VI-8) _____
3. Completed Supplemental Report I submitted _____
4. Completed Supplemental Report II submitted _____
5. Completed Supplemental Report III submitted with required signatures _____
6. Completed Supplemental Report IV submitted _____
7. FY 2023 Schedule of Debt _____
8. Flexibility Form (If Applicable) _____
9. State Refunds (If Applicable) _____
10. Upload the financial data file via web portal “process” _____
11. Completed Desk Review submitted – signed and dated _____

Code of Alabama - Title 16: Education - Section 16-13A-7 - Audits(2016)

- **Audits. (a)(1) The yearly business and financial transactions of a local board of education shall be audited as early as possible after the end of the fiscal year.**
- (2) The audits of the books and accounts of local boards of education shall be conducted by the Department of Examiners of Public Accounts. The Department of Examiners of Public Accounts shall audit, review, and otherwise investigate the receipts and disbursements of funds of each local board in the same manner as audits are performed on other agencies and departments of the State of Alabama.
- (3) Any local board of education governing a city school system, other than those city systems required by law to be audited by the Department of Examiners of Public Accounts on June 1, 2006, may employ a certified public accounting firm or firms or use the Department of Examiners of Public Accounts to perform its yearly financial audit of its books and accounts including a legal compliance audit and program compliance audit. The foregoing to the contrary notwithstanding, a city system which has had any financial form of intervention by the State Superintendent of Education shall be audited by the Department of Examiners of Public Accounts, or if any such intervention should become necessary at any future date, such city system shall be audited for three future years by the Department of Examiners of Public Accounts. The Department of Examiners of Public Accounts or the certified public accounting firm or firms shall perform a yearly legal compliance audit in accordance with Chapter 5 of Title 41, and if the compliance audit results in adverse findings by the Department of Examiners of Public Accounts or the certified public accounting firm or firms, the adverse findings shall be reported to the State Superintendent of Education. If the adverse findings involve misappropriation or theft, such findings shall also be reported to the appropriate district attorney and the Attorney General.
- (b) Legal compliance audits and program compliance audits performed by a private certified public accounting firm shall adhere to the standards of the Department of Examiners of Public Accounts for each respective type of audit. The Department of Examiners of Public Accounts shall provide these standards to the private certified public accounting firms. Any adverse findings shall be noted in the audit report and reported to the State Superintendent of Education. Such adverse findings shall, upon request, be provided to any member of the public.
- (c) A local board of education may request an audit of system funds under control of the same local board by the Department of Examiners of Public Accounts whenever there is a permanent change in the position of local superintendent of education or chief school financial officer.
- (d) A local board of education by majority vote may unilaterally request an audit of any school or school system account under control of the same local board by the Department of Examiners of Public Accounts, if the board deems such action is in the best interest of the school system.
- **(e) The findings of audits conducted pursuant to this section shall be presented to the local board of education in a board meeting. The State Superintendent of Education shall be sent a copy of the audit to review and shall be notified of the time, place, and location of the meeting at which the findings will be presented to the local board of education. Audits are public records.**

BUDGETING IN LOCAL EDUCATION AGENCIES

Materials in this presentation were supplemented by the GFOA Budgeting Guidance for Local Education Agencies and supplemented by presentations/training attended and research by the presenter. The views expressed in this presentation are those of the presenter.

What is a government budget?



- A government budget is a **fiscal policy document** that outlines revenues and expenditures an organization needs to carry out some specific functions during the fiscal year.
- **Three Roles originate from government budgets:**
 - **Allocation** - What services will result from allocation?
 - **Distribution** - Who will benefit from the distribution and who will pay for the services?
 - **Economic Development** - What level of income and job growth are required to maintain stability?

Functions of a Government Budget



- **Accountability** - used to determine if an organization has accomplished its objectives.
- **Control** - legislators appropriate the money strategically, but they have the legal right to withhold funds.
- **Plan** - by organizing costs around some function or activity, agencies have some estimates of what their tasks will cost and how to go about carrying out those tasks.

GASB Budgeting, Budgetary control, and Budgetary Reporting principle

- Provides that:
 - a. **An annual budget(s) should be adopted by every governmental unit.**
 - b. The accounting system should provide the basis for appropriate budgetary control.
 - c. **Budgetary comparison should be presented for the General Fund and each major special revenue fund that has a legally adopted annual budget.** Governments are encouraged to present such budgetary comparison information in schedules as part of RSI. The budgetary comparison should present both (1) the original and (2) the final appropriated budgets for the reporting period as well as (3) actual inflows, outflows, and balances, stated on the government's budgetary basis.

Budgetary Accounting



- While GASB standards guide the format of this comparison, the **GASB does not prescribe budgetary accounting practices** and does not require governments to maintain budgetary accounts.
- GASB allows governments to choose whether to present the Budgetary Comparison Schedule after the notes to the financial statements as RSI or as a basic financial statement that compares budgeted to actual operating performance.
- **Budgetary accounts do not appear** in the general-purpose financial statements.

2013 Code of Alabama - Title 16 Education – Chapter 13 - Section 16-13-140

Established for county and city school systems; form of annual budget required; public hearings required.

- a.** There shall be a budget system for the public schools of each county and city for the purpose of promoting economy and efficiency in the finances of the public schools.
- b.** The State Department of Education shall prepare proposed annual budget forms for each local board of education and shall make the forms available to each local superintendent of education by August 1 of the first year of each legislative quadrennium and by July 1 of each subsequent year of each legislative quadrennium for use with public hearings. The forms shall be clear, uniform, and concise in order to promote understanding by the general public of the budget process.

2013 Code of Alabama - Title 16 Education –

Chapter 13 - Section 16-13-140

- c. Each local board of education shall hold at least two open public hearings pertaining to its proposed annual budget. Copies of the proposed budget shall be provided to the public at each hearing on forms provided by the State Department of Education. Each board shall seek input from the public concerning the proposed budget and the allocation of resources. Each hearing shall be held during a scheduled board meeting in a place and at a time convenient for the general public to attend. The chair of each board shall publicize the date and time of each hearing in the local media in advance of the hearing. In addition, notice of each hearing shall be posted in a conspicuous place at the offices of the local board of education, the county courthouse, the main municipal building, and at each affected school. The proposed budget shall reflect the total amount of resources available to the board from all funding and revenue sources. The projected enrollment and the total proposed expenditure by each board and for each school shall be available at the public hearings. The proposed budget shall clearly delineate the number of teachers, librarians, counselors, administrators and other support personnel projected to be employed at each school. The proposed budget shall clearly list the operating costs by category or function at each school. The proposed budget shall delineate by school those operating resources earned, including, but not necessarily limited to, those items contained in the Instructional Support Program of the Foundation Program, designating the amount of funds earned at each school per item based on average daily membership. After at least two public hearings have been held, the local board and superintendent shall cause a final budget to be developed consistent with the laws of this state and shall make copies of the final budget available to the public upon request. Copies of the budget and other financial documents may be secured from the superintendent at a cost not to exceed the cost of production of the document.

2013 Code of Alabama - Title 16 Education – Chapter 13 - Section 16-13-140

- ❑ Shall hold at least two open public hearings
- ❑ Copies of budget provided to public using forms provided by ALSDE
- ❑ Seek input
- ❑ Publicize in local media the date/time of hearing
- ❑ Notice posted in a conspicuous place
 - ▣ Board of education offices, county courthouse, main municipal building, and at each affected school

2013 Code of Alabama - Title 16 Education – Chapter 13 - Section 16-13-140

- Proposed budget shall reflect
 - ▣ Total amount of resources available from all funding and revenue sources
 - ▣ Projected enrollment
 - ▣ Total proposed expenditure by each board and for each school
 - ▣ Clearly delineate number of teachers, librarians, counselors, administrators and other support personnel by school
 - ▣ Clearly list operating costs by category and function at each school
 - ▣ Delineate by school operating resources earned (e.g. Instructional Support Program and Foundation Program)


2013 Code of Alabama - Title 16 Education – Chapter 13 - Section 16-13-140

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- d. On or before October 1 of each year, each local board of education shall prepare and submit to the State Superintendent of Education the final annual budget adopted by the local board of education, which budget shall be prepared and submitted according to the classifications and items specified on forms provided therefor and in accordance with the regulations of the State Board of Education.**
- e. No local board of education, or superintendent thereof, shall approve any budget for operation of the school for any fiscal year which shall show expenditures in excess of income estimated to be available by the various state and other officials, as required in Sections 16-13-141 and 16-13-142, plus any balances on hand, except under conditions set forth by the laws of the state governing the issuance of school warrants.**


— BUDGET SUBMISSION

[FY 2024 Desk Review Annual Budget](#) 

[FY 2024 Budget Business Rule Cross Reference](#) 

[FY 2024 Salary Schedule for Teachers](#) 

[FY 2024 Salary Schedule for TEAMS](#) 

[FY 2024 Salary Schedule for Nurses](#) 

[FY 2024 Flexibility Form](#) 

[FY 2024 Detailed Budget Instructions](#) 

[FY 2024 Budget Cover Page](#) 

[FY 2024 Budget Exhibits BI and BII](#) 

[FY 2024 Budget Submission Checklist](#) 

[FY 2024 Budget Form - CNP Verification and Certification](#) 

[FY 2024 Budget Millage Rates](#) 

[FY 2024 Fractional Units Assigned](#) 

Budget Submission Checklist

1. Cover Page with original signature of the Superintendent submitted _____
2. Budget Exhibits submitted (B-I-A through B-II-A) _____
3. Schedule of Millage Rates _____
4. Salary Schedules for **all** types and classifications of employees _____
5. Budget File uploaded _____
6. Completed Desk Review submitted – signed and dated _____
7. CNP Verification and Certification _____
8. Notification of Intent to Exercise Flexibility _____
9. Assignment of Foundation Units _____

Code of Alabama - Title 16: Education - Section 16-13A-6 - Required reports (2016)

- a. The State Board of Education shall by regulation provide for various financial and other information which local superintendents of education shall have prepared for the local boards of education, including, but not limited to, the following:
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 - (2) A monthly report showing all receipts and the sources thereof.
 - (3) A monthly report showing all expenditures with itemized categories specified by the State Board of Education.
 - (4) **An annual projected budget.**
 - (5) **Monthly and/or quarterly reports showing expenditures relative to such projected budget.**
 - (6) A yearly report of the fixed assets inventory of the local board of education with itemized categories specified by the State Board of Education.
 - (7) Financial and other information necessary to participate in national statistical studies on education.

Code of Alabama - Title 16: Education - Section 16-13A-6 - Required reports (2016)

- b. The financial information required in subsection (a), as well as any other financial information which the State Board of Education shall require, shall be submitted in writing and/or electronically to the Chief Education Financial Officer **by the 15th day of the month following its presentation to the local board of education.**
- c. All local boards of education shall be required to implement a standardized financial accounting program as determined by the State Department of Education to collect the information required by this chapter and to provide for ease of input by local boards of education and ease of monitoring by a local board of education, its chief school financial officer, and the State Department of Education. If a local school system's financial report is found to be in conflict with generally accepted accounting principles, the State Department of Education shall issue a notice to that school system informing it of such and request that proof of correction of conflict be forwarded to the State Department of Education and approved by the State Superintendent of Education within a reasonable time thereafter.
- d. All financial documents, in whatever source maintained, are public documents, and shall be open to inspection and accessible to the public. **An annual budget and monthly financial statements with supporting spread sheets as submitted to the State Department of Education shall be made available to the general public at the local school system Internet site.**

LOCAL EDUCATION AGENCY BUDGETS IN ALABAMA

- A school budget is an instrument that provides a definite financial policy for direction of the business operations of a school district.
- The budget is **one of the most important legal documents** of an Alabama school district.
- It is **not a static document but rather a working document** that changes throughout the year, **through board approved budget amendments**, as actual financial data change.
- The budgeting cycle (preparation, adoption, implementation, operation, control, and evaluation) is a **continuous process**.
- Preparation for the next fiscal year must be carried on while implementation, operation, control, and evaluation of the budget for the current year are proceeding to completion.

GOVERNMENT BUDGET CYCLE



- A budget cycle is a period in which the budget must be prepared and executed.
- The budget cycle has **three phases**:
 1. Budget preparation – executive phase
 2. Legislative approval
 3. Budget execution – audit/evaluation part of this cycle

Definitions of Budgetary Accounts

- ***Estimated Revenues*** are expected resource inflows from activities that constitute the normal, operating activities of the entity.
- ***Unallotted Appropriations*** are the legal spending limits set by legislative authority which specify planned resource outflows (expenditures) and obligations to be incurred from activities that constitute the normal, operating activities of the entity.
- ***Allotted Appropriations*** are the portion of the planned spending amount that are available for commitment by the agency or program.
- ***Estimated Other Financing Sources*** are expected resource inflows from events other than estimated revenues.

Definitions of Budgetary Accounts



- ***Estimated Other Financing Uses*** are planned resource outflows or obligations to be incurred from activities other than appropriations.
- ***Estimated Equity Transfers In*** are planned nonrecurring resource transfers between funds.
- ***Estimated Equity Transfers Out*** are planned nonrecurring resource transfers between funds.
- ***Budgetary Fund Balance*** is the expected net change to fund resources from anticipated revenues and expenditure activity.

Budgeting and Accountability



- *Accountability* to citizens often is stated explicitly in state laws and constitutions, **it is a cornerstone of budgeting and financial reporting.**
- *Accountability* is often established by incorporating these **objectives into legal mandates that require state and local public sector budgets to be balanced** (i.e., with current revenues sufficient to pay for current services); **be prepared in accordance with all applicable federal, state, and local laws; and provide a basis for the evaluation of a government's service efforts, costs, and accomplishments.**

Common Terminology and Classification



- A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports.
- Showing budgetary compliance as well as financial position is an important component of government's accountability.
- Readers of financials should be able to assess financial position, ability to provide services, debt load, etc.

Budgetary Approaches - National Center for Education Statistics (NCES)



- Line-Item Budgeting
- Performance Budgeting
- Program Budgeting
- Zero-Based Budgeting
- Site-Based Budgeting
- Outcome-Focused Budgeting

Line-Item Budgeting



- Line-item budgeting is still the most widely used approach in many organizations, including schools, because of its simplicity and its control orientation.
- It is referred to as the "historical" approach because administrators and chief executives often base their expenditure requests on historical expenditure and revenue data.
- This method budgets by organizational unit and object and is consistent with the lines of authority and responsibility in organizational units.
- The most severe criticism is that line-item budgeting presents little useful information to decision makers on the functions and activities of organizational units.

Performance Budgeting

- In a strict performance budgeting environment, budgeted expenditures are based on a standard cost of inputs multiplied by the number of units of an activity to be provided in a time period.
- Performance budgeting also includes narrative descriptions of each program or activity—that is, it organizes the budget into quantitative estimates of costs and accomplishments and focuses on measuring and evaluating outcomes.
- Performance budgeting eases legislative budget revisions because program activities and levels of service may be budgeted on the basis of standard cost inputs.
- Performance budgeting is limited by the lack of reliable standard cost information inherent in governmental organizations.

Program Budgeting



- ❑ Program budgeting refers to a variety of different budgeting systems that base expenditures primarily on programs of work and secondarily on objects. It is considered a transitional form between traditional line-item and performance approaches, sometimes referred to as modified program budgeting.
- ❑ Focus of program budgeting is on long-range planning.
- ❑ Budget requests and reports are summarized in terms of a few broad programs rather than in the great detail of line-item expenditures or organizational units.
- ❑ Several conditions can limit the implementation of this approach, including changes in long-term goals, a lack of consensus regarding the fundamental objectives of the organization, a lack of adequate program and cost data, and the difficulty of administering programs that involve several organizational units.

Zero-based Budgeting



- Program activities and services must be justified annually during the budget development process.
- The budget is prepared by dividing all of a government's operations into decision units at relatively low levels of the organization. Decision units are then ranked by their importance in reaching organizational goals and objectives.
- Each budgeting/planning period, leadership considers the elimination of outdated efforts and expenditures and the concentration of resources where they are most effective.
- Proper development requires a great deal of staff time, planning, and paperwork.

Site-based Budgeting

- Typically used in conjunction with other four budgeting approaches and emphasizes the decentralization of budgetary decision making.
- Site-based budgeting places local managers and other staff at the center of the budget preparation process, making them responsible for both the preparation and the maintenance of the budget.
- Resources are allocated to the site, with budget authority for programs and services granted to the school's principal and staff. Campuses are normally allocated a certain level of resources that they have the authority to allocate to educational and support services.
- Another potential advantage of site-based budgeting is the increased level of participation of the public and staff in budget development – members have a voice during budget process rather than in a public budget hearing.
- Site-based budgeting may be burdensome to some local managers, may increase conflict between staff or departments, or may limit the organization's ability to ensure quality and sufficiency in the services it provides.

Outcomes-focused Budgeting



- ❑ Outcome-focused budgeting is the practice of linking the allocation of resources to the production of outcomes.
- ❑ The objective is to allocate government's resources to those service providers or programs that use them most effectively.
- ❑ Outcome-focused budgeting is closely linked to the planning process. For a government entity to focus on outcomes, goals and objectives must be identified and tied to budget allocations for the achievement of those objectives.

Key factors affecting Alabama local education agency budgets



- ☐ Enrollment
- ☐ Teacher/Student Ratios
- ☐ Salary and Benefits
- ☐ State Funding and Related Mandates
- ☐ Local Revenue Projections
- ☐ Federal Budget Constraints
- ☐ School Facilities/Assets
- ☐ Debt Load

GFOA BEST PRACTICES IN SCHOOL BUDGETING

Materials in this presentation were supplemented by the GFOA Budgeting Guidance for Local Education Agencies and supplemented by presentations/training attended and research by the presenter. The views expressed in this presentation are those of the presenter. Citation of materials - <https://www.gfoa.org/materials/best-practices-in-school-district-budgeting>

GFOA's Best Practices

School Budgeting Guidelines

- ❑ Centered on a comprehensive budget process framework focused on academic and financial collaboration to best **align resources and desired student outcomes.**
- ❑ Framework represents the culmination of a multi-year effort led by GFOA with input from school district officials and other education finance experts to develop better guidelines for better budgeting tailored specifically for school districts.
- ❑ Strategic plan drives budget with focus on student achievement rather than limited resources.
- ❑ Need for better alignment of budget process and student achievement goals
 - ❑ Desire is to move away from incremental changes in resource allocation
 - ❑ Desire is to be more pro-active rather than reactionary
 - ❑ Desire is to be more focused on multi-year strategies – not just current year challenges

GFOA's Best Practices School Budgeting Steps

1. Plan and Prepare
2. Set Instructional Priorities
3. Pay for Priorities
4. Implement Plan
5. Ensure Sustainability



Step 1 – Plan and prepare



- A. Establish a partnership between the finance and instructional leaders.
- B. Develop principles and policies to guide the budget process.
- C. Analyze current levels of student learning.
- D. Identify communications strategy.

Key - Establish a Partnership

- **Establishing governance and ownership over the budget process**
 - ▣ Budget process **MUST become a partnership** between the CFO/Budget Officer and the Academic Officer under the leadership of the Superintendent
 - ▣ **Maintain a single owner of the process** – CFO or Budget officer should remain the “owner” of the budget process and is ultimately responsible for making sure the process moves forward and stays on schedule.
 - ▣ Governance structure that **recruits executive leaders from different functions** from within the school district to work as a committee is KEY.
 - ▣ These committee members **HELP the OWNER of the budget process make key design decisions for the budget process, AT THE BEGINNING OF THE BUDGET PROCESS**, such as:
 - How other stakeholders will be involved
 - What methods will be used to identify the district’s performance goals
 - How budget request will be gathered and prioritized

Establish criteria and measures for success of the budget process

- School districts should define a **limited set of measures** within three broad categories:
 - ▣ **Time** – duration of the budget process and budget decisions
 - ▣ **Cost** – amount of time and effort spent on the budget process
 - ▣ **Quality** – extent to which the budget process fulfilled its intended purpose – three dimensions to quality:
 - **Financial** – did the budget produce financially sustainable decisions?
 - **Engagement** – did the process substantively engage a WIDE variety of stakeholders?
 - **Decisions** – did the budget process result in good decisions being made for the students/schools/stakeholders?

Goals for student achievement should drive the budget process

- ❑ **Decisions should be driven by data** – adhere to evidence-based decision making
- ❑ Base resourcing decisions on the **TOTAL VALUE created for students**
- ❑ Critically **RE-EXAMINE patterns of spending** – develop and implement a program review and sunset process
- ❑ Ensure **EQUALITY of opportunity** for students
- ❑ Take a **LONG-TERM perspective** – multi-year funding plan should be a goal
- ❑ **Make transparency part of the budget process:**
 - ❑ Make performance data readily available to stakeholders
 - ❑ Consider all costs in evaluating the cost of educating students
 - ❑ Use a consolidated budget
 - ❑ Be clear on what actions are being funded and their **INTENDED OUTCOMES**

Recommended budgeting policies in school districts (beyond state laws)

- General Fund Reserve – maintained as a reserve to hedge against risk
- Definition of a Balanced Budget – budget where recurring revenues equal or exceed recurring expenditures with parameters for achieving and maintaining structural balance in the adopted budget
- Financial Emergency Policy – how to address a financial crisis
- Long-Term Forecasting – typically covering five years or more
- Budgeting and Management of Categorical Funds (Title I, IDEA, etc.)
- Program Review and Sunset/Alternative Service Delivery – minimum time frame/regular review of programs/services with the objective of identifying those that are not cost-effective and repurposing the funds after review
- Year-End Savings – try to avoid “use it or lose it” mentality with a goal for more strategic use of underutilized funds if allowable by law
- Funding New Programs – Pilot or experimental periods with rigorous evaluation

Analyze current levels of student learning in school district

- Districts should collect data from student assessments (both summative and short-cycle/formative) and other sources in order to establish a well-rounded perspective on student performance.
- **Data must be:**
 - Relevant
 - Consistent
 - Ability to be disaggregated
 - Compared against a standard of proficiency
 - Show whether relative performance was achieved from beginning of year to end of year
 - Examined over multiple years for change between grades – **three-year time frame is minimum; five-year time frame is considered best**
 - Consider developing and monitoring measures of post-secondary outcomes

Identify communications strategy



- Communication with stakeholders, both internal and external, is necessary to achieve transparency – needed information on:
 - Budget process – how does the district develop its budget, including key dates and deadlines, how decisions will be made, and the process through which the public can provide input.
 - District should also communicate at the outset what principles and strategic priorities will guide the budget process.
 - To be effective, district should:
 - Identify the target audience and tailor messages accordingly
 - Select communication channels
 - Gather feedback and adjust/respond accordingly – failure to respond to feedback can severely harm the credibility of the budgeting process

Step 2 – Set Instructional Priorities



- A. Develop goals.
- B. Identify root cause of gap between goals and current state.
- C. Research and develop potential instructional priorities.
- D. Evaluate choices amongst instructional priorities.

Key - Develop Goals



- Goals for student achievement are the starting point for a school district's budgeting process.
- **District should develop its goals using SMARTER method – Specific, Measurable, Achievable, Relevant, Time-Bound, Engaging, and Resourced.**
 - ▣ Establish goals at district level and school level
 - ▣ Goal setting should be collaborative and include a range of stakeholders
- Understand what can be reasonably achieved over the short and long-term. Identify interim milestones to assess if progress is being made.
- Identify the current performance level of individual schools and identify the different needs or existing gaps across individual schools – compare those against the district-wide goals and performance in order to set individual school goals.

Identify root cause of gap between goal and current state

- What and how of instruction – organization of curriculum and how instruction is delivered
- Professional capacity – addresses the ability to recruit and retain quality staff, provide a constructive organizational culture, provide quality professional development, and whether a professional community exists between faculty
- School learning climate – order and safety and expectations of students coupled with support in areas where struggling and disadvantaged students are identified
- School's parent-community ties – are parents engaged directly?
- School leadership and management – are they able to make positive changes
- Physical Plant – condition, location, layout of physical facilities; functionality of equipment and technology; adequacy of learning aids such as textbooks
- Measurement Systems – does not provide an accurate gauge or influences the subject of the measurement to behave differently than it would otherwise

Step 3 – Pay for Priorities



- A. Applying cost analysis to the budget process
- B. Evaluate and prioritize use of resources to enact the instructional priorities

Applying cost analysis to the budget process

- Cost of service analysis – identifies the cost of providing a service by highlighting key cost drivers
 - ▣ Fully loaded compensation – must consider salary and benefits, direct costs (materials and equipment used by teachers/service), and indirect costs (overhead costs).
 - ▣ Per unit costs – cost per student served will provide a basis for comparing the relative resource requirements of different services (core courses; elective courses)
 - ▣ Cost effective measurements
 - Cost per outcome – what were costs in pursuit of desired outcome divided by number of proficient students
 - Relative cost per outcome – school site's actual cost divided by the expected cost of the school site if all funding was allocated purely on per student basis
 - Academic Return on Investment (A-ROI) – cost of a given programmatic element divided by the student outcomes achieved as a result of spending on the programmatic element.

Cost Per Outcome

Teacher	Course/activity	Minutes/week	Enroll	Salary & Benefits	Stipend	Salary per activity	Cost per student
#1	Algebra 1, Sec 1	300	28			\$15,000	\$536
	Algebra 1, Sec 2	300	29			\$15,000	\$517
	Algebra 2, Sec 3	300	23	\$75,000	N/A	\$15,000	\$652
	Geometry, Sec 6	300	22			\$15,000	\$682
	Geometry, Sec 7	300	21			\$15,000	\$714
#2	Art, Sec 2	300	18			\$15,000	\$833
	Art, Sec 3	300	16			\$15,000	\$938
	Health, Sec 5	300	29	\$60,000	N/A	\$15,000	\$517
	Health, Sec 6	300	26			\$15,000	\$577
#3	Volley ball, Team 1	270	12			\$6,000	\$500
	Volley ball, Team 2	270	12	N/A	\$12,000	\$6,000	\$500

Academic Return on Investment

Basic formula: $\frac{((\text{Learning increase}) \times (\text{Number of students helped}))}{\text{Dollars Spent}}$

	<u>Architecture</u>	<u>Engineering</u>
Students Enrolled	80	125
Certificates Granted	64	62
% Receiving Certificates	80%	50%
Cost of program:		
Teacher Salary plus Benefits	\$ 75,000	\$ 75,000
Supplies, etc.	\$ <u>13,000</u>	\$ <u>25,000</u>
Total	\$ 88,000	\$ 100,000
Cost per child	\$ 1,100.00	\$ 800.00
ARO	0.0007273	0.0006200

Evaluate and prioritize use of resources

- After analyzing the cost of its programmatic elements and/or instructional priorities, a school district will often find it does not have sufficient resources to fund all current and proposed items. **Three basic ways in which a school district might find resources:**
 - ▣ Revenues – analyze current revenue sources including a 3 to 5-year revenue forecast
 - ▣ Sunset programs – actively seek to identify and discontinue services that are not aligned with its instructional priorities or that are not cost-effective
 - ▣ Find efficiencies – actively investigate possibilities for providing existing services more efficiently
- **Must weigh trade-offs – does the benefit justify the cost**
- Overcome constraints on change – determine whether constraint is real or perceived by those who are resistant to change

Step 4 – Implement Plan



- A. Develop a strategic financial plan
- B. Develop a plan of action
- C. Allocate resources to individual school sites
- D. Develop budget presentation

Develop a strategic financial plan

- Strategic financial plan communicates the district's **intended instructional priorities for the next three to five years** and how the district plans to fund those priorities. Plan will document the trade-offs between the gains in student achievement with the costs associated with raising new resources or economizing existing programs.
- The sources of evidence used in the Strategic Financial Plan should measure outcomes that make a significant difference in the lives of students such as graduation rates, degree of college and/or career readiness, math/reading skills.
- Strategic financial plan should be comprehensive, reflecting all district resources.
- Strategic financial plan becomes an agreement among stakeholders about what defines success in the district and what it takes to meet that definition of success.
- Should be communicated in a concise, understandable, and interesting format.

Develop a plan of action



- Plan of action should identify
 - ▣ Who is responsible for implementing the action steps
 - ▣ How the district will ensure that the actions are being implemented on schedule and with fidelity
 - ▣ Clearly identify the when and how the implementation progress is reviewed and adjusted.
- Should be comprehensive and include all district resources.
- Should describe any critical resourcing assumptions such as targeted class sizes, number of teacher workdays, number of teachers and other key positions per school site, and/or per pupil spending for non-personnel resources.

Allocate resources to individual school sites

- ❑ School district should allocate its budget in a way that makes it clear how resources will be used to achieve increased student success at the district's individual school sites including the allocation of resources to school sites and the actual dollars allocated.
- ❑ To show greater transparency and to provide better support for decision making, a district should move beyond basic line-item budgeting for allocating dollars.
 - ❑ Allocate to programmatic elements rather than just objects of expenditures
 - ❑ Show the full cost of personnel compensation
 - ❑ Consider actual versus average compensation costs in the budget
 - ❑ Consolidate all funding in the budget – even those subject to categorical or formulaic restrictions – provides a comprehensive approach to student achievement
 - ❑ Allocate the majority of the funds to school sites rather than district-wide budgets

Develop budget presentation

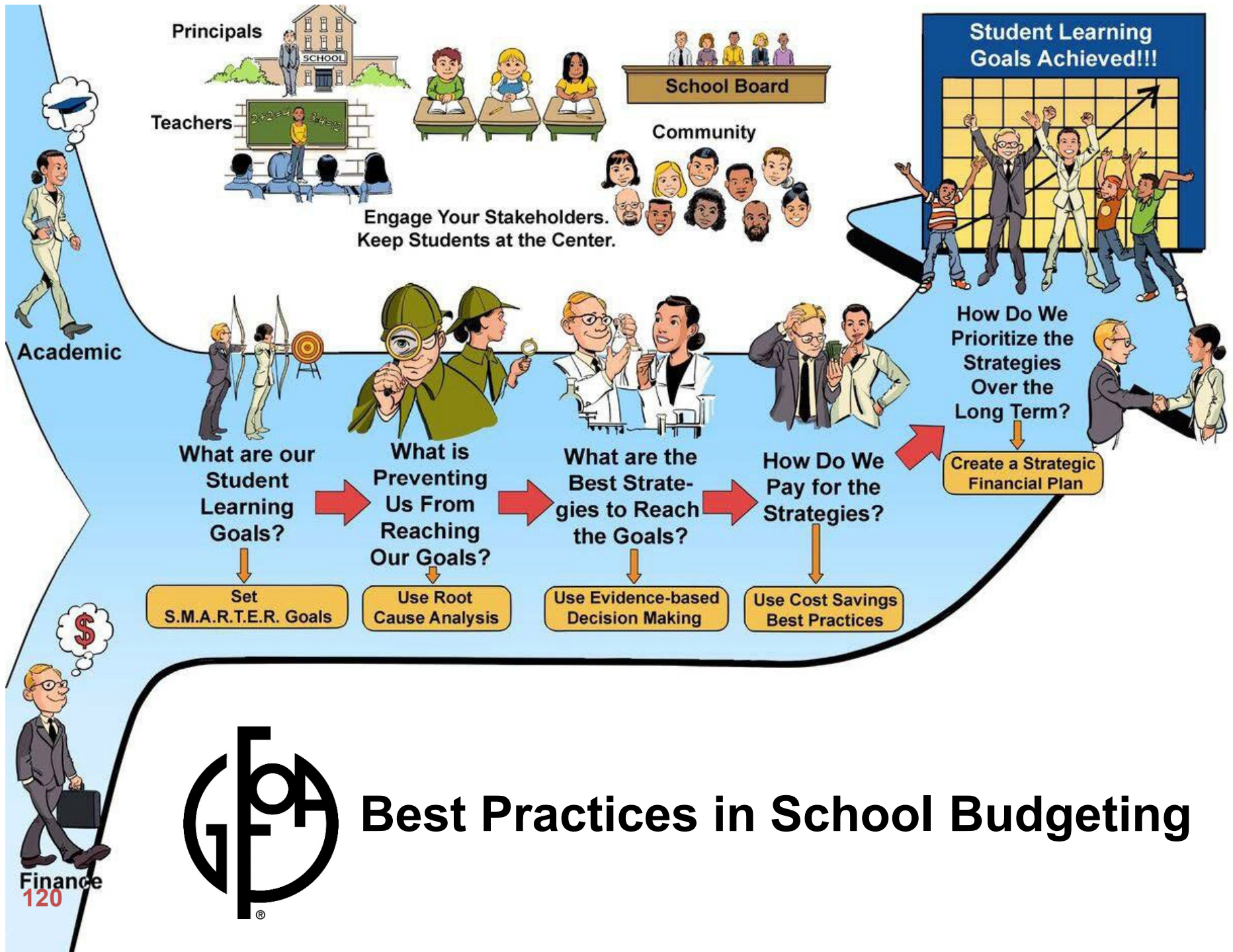


- ❑ **The budget presentation is one of the school district's most important policy documents**
- ❑ Recommended that the budget is organized in five major sections
 1. Challenges faced by the school district
 2. Goals
 3. Strategies and initiatives being pursued
 4. The financial plan
 5. Risks to long-range financial sustainability
- ❑ Also, would include all funds in the budget, detailing full costs of services, providing contextual information such as enrollment figures, number of teacher workdays, personnel time budgeted for critical strategies, etc.

Step 5 – Ensure Sustainability

A. Put the strategies into practice and evaluate results

- Monitor all processes associated with implementation and collect and evaluate interim performance results.
- Monitoring system should identify the responsible parties to carry out and oversee the plan of action's implementation and to manage specific elements and initiatives within the plan including milestone dates for necessary steps to put into practice, and a reporting process to inform administrators and the Board.
- Throughout the year, the school district should evaluate student progress towards academic achievement goals. Consider whether any adjustments are needed
 - ▣ Actual results achieved should be “fed back” into the budget process for following year in order to make decisions on whether to continue, expand, or cut spending on a given program

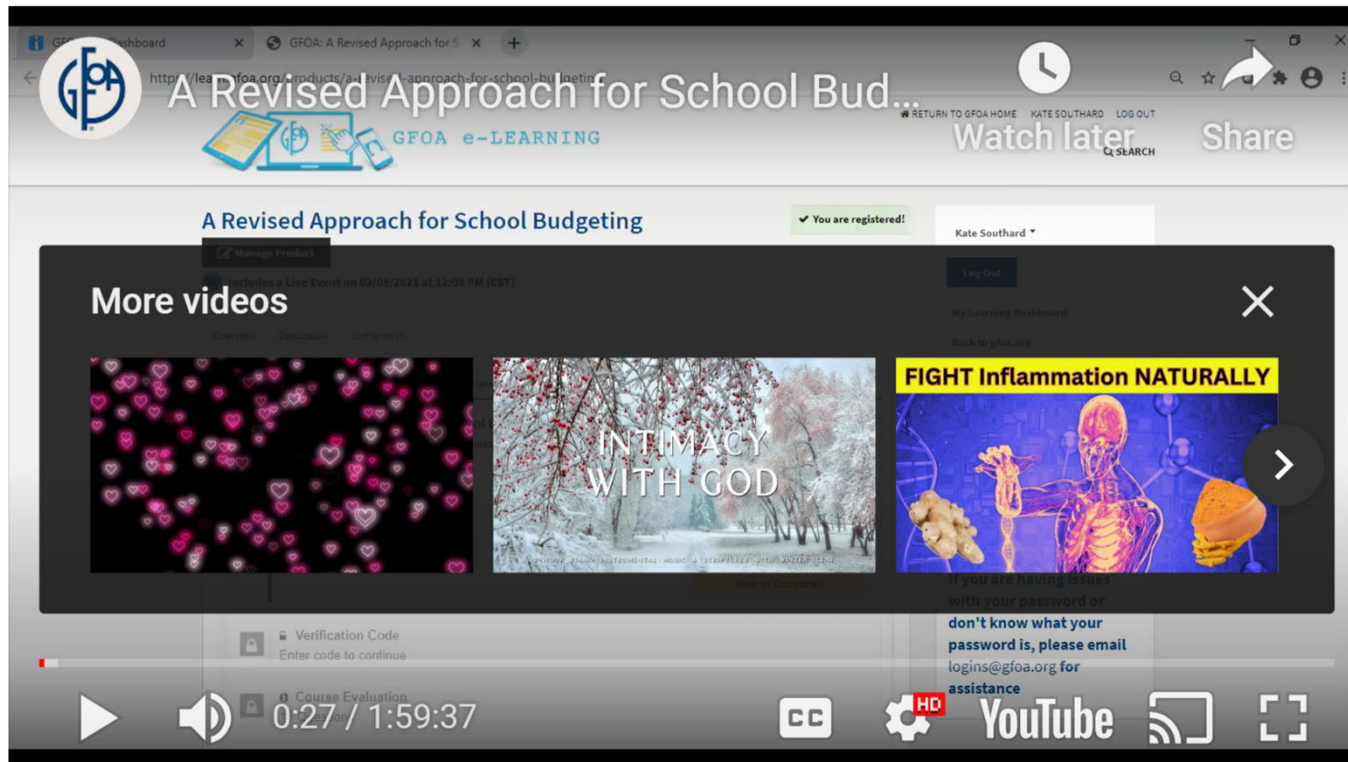


Resources that GFOA has provided to Local Education Agencies

- **Best Practices in School Budgeting** developed by GFOA with input of several districts and other experts - <http://gfoa.org/pk-12-budget>
- **Smarter School Spending initially** developed in partnership with four districts - resource library of examples, tools, etc. - <http://smarterschoolspending.org/>
- **Award for Best Practices in School Budgeting** is a new GFOA budget award based on the Best Practices in School Budgeting - <http://gfoa.org/school-budgeting>
- **Alliance for Excellence in School Budgeting** is an early adopter group of over 70 districts formed by GFOA to aid in implementing the new Best Practices - <http://gfoa.org/alliance-excellence-school-budgeting>

GFOA School Budgeting Webinars

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A Revised Approach for School Budgeting

Recorded February 9, 2021

<https://www.gfoa.org/school-budgeting-webinars>

Implementing the GFOA Best Practices



- Not meant as an outright replacement of existing budget process
- Framework to integrate current efforts to help move the bar forward
- Way to help identify areas that may need improvement
- Not a linear path - focus on areas of most immediate benefit to gain quick wins

FUND ACCOUNTING

Materials in this presentation were supplemented by the Government Accounting Standards Board (GASB) and supplemented by presentations/training attended and research by the presenter. The views expressed in this presentation are those of the presenter.

Fund Accounting Systems



- ❑ Governmental accounting systems should be organized and operated on a fund basis.
- ❑ GASB recommends that governments establish only the minimum number of funds needed to comply with legal requirements and to provide sound fiscal management.
- ❑ Minimum Fund Available to Governments – General Fund

Fund Accounting



- A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources (also non-financial resources if proprietary or trust funds), together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.
- The purpose of fund accounting is to segregate those financial resources that have constraints or limitations on their use so that the government may demonstrate compliance with those limitations.

Funds have many purposes



- ❑ Each fund has its own accounting equation.
- ❑ Each fund has its own accounting records.
- ❑ Each fund can have its own financial statements.
- ❑ Each fund carries on specific activities or attains certain objectives in accordance with special regulations, restrictions or limitations.

Governmental Funds

General Fund	Accounts for all financial resources except those required to be accounted for in another fund.
Special Revenue Fund***	Account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purpose other than debt service or capital projects.
Capital Projects Fund	Accounts for and reports those financial resources restricted, committed or assigned to expenditure for capital outlays (other than those financed by proprietary and trust funds)
Debt Service Fund	Accounts for and reports those financial resources that are restricted, committed, or assigned to expenditure for principal and interest.
Permanent Fund	Accounts for legally restricted resources provided by trust in which the earnings but not the principal may be used for purposes that support the primary government's programs.

Proprietary Funds

Enterprise Fund

Accounts for operations that are financed and operated in a manner similar to private enterprises – where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, or other purposes.

Internal Service Fund

Accounts for financing of good or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost reimbursement basis.

Fiduciary Funds

Custodial Fund – GASB 84 changed from Agency Funds

to account for assets held by a governmental unit acting as agent for one or more other governmental units, or for individuals or private organizations.

Pension Trust Fund

to account for assets held by a governmental unit acting as agent for employee benefit contributions that will be paid to qualified retirees, beneficiaries, and disabled employees.

Investment Trust Fund

to account for the assets, liabilities, net assets and changes in net assets corresponding to the equity of the external participants.

Private-Purpose Trust Fund

to account for legally restricted resources provided by trust which will be used for private purposes.

GASB 54 Effect on Funds

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- **GASB 54 (2011) implemented a five-tier fund balance classification hierarchy** within governmental funds that depicts the extent to which a government is **bound by spending constraints imposed on the use of its resources.**
- **Not all of these classifications will be needed** in every governmental fund or by every LEA.
- The five classifications are:
 - Non-spendable
 - Restricted
 - Committed
 - Assigned
 - Unassigned

GASB 54

- Nonspendable Fund Balance – amounts that are (1) **not in spendable form** or (2) **legally or contractually required to be maintained intact**.
- Restricted Fund Balance – amounts that can be spent **only for the specific purposes designated by external providers, constitutionally, or through enabling legislation**.
- Committed Fund Balance – amounts that can only be used for the specific purposes **determined by a formal action** (legislation or ordinance) **by the government's highest level of decision-making authority** (Board of Education).

GASB 54



- ❑ Assigned Fund Balance – amounts **intended to be used by the government for specific purposes that are neither restricted nor committed**. Intent can be expressed in one of two ways – (1) governing body can express its intent to use resources for specific purpose or (2) governing body can delegate authority to a body (committee) or an official (Superintendent) to express intent to use for specific purposes.
- ❑ Unassigned – **residual amount for General Fund** and includes all amounts not classified as nonspendable, restricted, committed, or assigned. **Available for any purpose.**

GASB 54

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- **Nonspendable** – Inventories, prepaid assets, endowments
- **Restricted** - can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
 - Operating and capital grants that can be used only for specific purposes
 - Resources restricted by contractual arrangements such as debt proceeds
- **Committed** - amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.
 - Capital acquisition or construction
 - Funds set aside in Board minutes for maintenance, projects
- **Assigned** - intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.
 - Also any fund balances in special revenue, capital projects, debt service or permanent funds NOT identified as nonspendable, restricted, or committed
- **Unassigned** - the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications

As a reminder,

GASB 34 Effect on Funds

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- **Eliminated expendable and nonexpendable trust funds** to focus fiduciary reporting on resources held for parties external to the reporting government: individuals, private organizations, and other governments.
- Fiduciary funds **cannot** be used to support the government's own programs.
- **Created 2 new types of funds** – Permanent Funds (Governmental) and Private-Purpose Trust Funds (Fiduciary)

GASB 54 –Encumbrances

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Interpretation by GASB

- At the very least, the existence of an encumbrance suggests that the government has an expressed intent to use resources for a particular purpose and therefore these resources should not be classified as unassigned.
- Encumbrance accounting may also be used in the case of contractual obligations, such as construction contracts.
- Statement 54 requires that resources obligated to contractual obligations be classified as committed.

GASB 54 - Special Revenue Funds

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- Statement 54 makes clear that, for financial reporting purposes, a special revenue fund **may only be established around one or more revenue sources that are restricted or committed to purposes other than capital projects or debt service.**
- For example, a school district might report state and federal aid for elementary and secondary education in a special fund if those revenue sources **represent a substantial portion** of the fund's total inflows.

GASB 54 –Negative Balances

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- **GASB 54 does not permit the reporting of negative restricted, committed or assigned fund balances.** If this occurs, the government should reduce any assigned fund balances (in that fund) by the amount of the negative balance.
 - The rationale is that if expenditures exceed restricted or committed resources, then funds have in effect been reallocated to the purpose used.
 - If a deficit remains once all assigned fund balances are zero, the remaining negative amount should be reported as **unassigned fund balance.**

General Fixed Assets

- ❑ The general fixed asset account group is used to record the cost of all property, plant and equipment, other than those accounted for in the proprietary or non-expendable trust fund types.
- ❑ Know capitalization policy - \$5000/\$50000
- ❑ Fixed assets should be recorded at historical cost.
- ❑ Donated fixed assets should be recorded at their estimated fair value at time received.
- ❑ ALSDE utilizes Account Group 88 as a control account for reporting the accumulated cost/values of the fixed assets of land, land improvements, buildings, building improvements, equipment, construction in progress, capital leases, and other fixed assets.
- ❑ The account group should be monitored on a regular basis and updated for additions as well as items retired, destroyed, lost or stolen.

General Long-Term Debt



- General long-term debt account group is used to record the unmatured principal amount of all long-term liabilities excluding those of Proprietary and Fiduciary Funds.
- This includes bonds, warrants, warrant anticipation notes, capital leases, and compensated absences.
- ALSDE utilizes Account Group 89 as a control account for reporting the unmatured general long-term liabilities/debt obligations of the school system.

ACTIVITY FUND ACCOUNTING

Materials in this presentation were supplemented by the National Center for Education Statistics (NCES) and supplemented by presentations/training attended and research by the presenter. The views expressed in this presentation are those of the presenter.

Activity Funds – Local Schools



- Activity funds are established to direct and account for monies used to support co-curricular and extracurricular student activities.
- Co-curricular activities are any kinds of school-related activities outside the regular classroom that directly add value to the formal or stated curriculum. Co-curricular activities involve a wide range of student clubs and organizations.
- Extracurricular activities encompass a wide variety of other district-directed activities, typified by organized sports and other nonacademic interscholastic competitions.
- Each state may have their own classifications for co-curricular and extracurricular activities.

Activity Fund Classification



- District Activity Funds
- Student Activity Funds
- Parent Support or School
Related Organization Funds

District Activity Funds



- ❑ **District activity funds** are those funds that **belong to the district which are used to support its co-curricular and extra-curricular activities** and are administered by the school district.
- ❑ Disbursement of this type of funds rests only with the school board (designee).
- ❑ The local education agency **determines how district activity fund monies are spent** and the district programs that receive support.

Student Activity Funds



- ❑ **Student activity funds** are those funds that support activities that are based in student organizations.
- ❑ **Students not only participate in the activities of the organization, but also are involved in managing and directing the organization's activities.**
- ❑ An important distinction is that **disbursing monies from the student activity fund may be subject to approval by the student organization and its sponsor**, rather than by the board of education or principal.

Parent Support or School Related Organization Funds

- ❑ **Parent Support or School Related Organizations Funds- support curricular, co-curricular, and extracurricular activities.**
- ❑ Affiliated organizations include groups such as Parent-Teacher Associations (PTAs), Parent-Teacher Organizations (PTOs), school foundations, and athletic booster clubs.
- ❑ Contributions by these groups often include supplies, materials, equipment, and even school facilities, such as weight training rooms.
- ❑ **Financial records may be included in the school's books and classified as non-public funds or may be maintained outside the school records depending on the board's policy.**
 - ❑ **Additional procedures should be in place for those records maintained outside the school financial reporting system.**

Funds Maintained Within Local Schools under ALSDE



- Public - Fund 12
 - ▣ Special Revenue Fund
- Non-public – Fund 32
 - ▣ Fiduciary Trust Fund
- Various factors must be considered in **determining the proper classification**, which affects the degree of expenditure restriction.

Public Funds



- ❑ Funds are generally classified as public funds when the **following criteria are met:**
 - ❑ Money generated **school-wide**
 - ❑ Money that can be **used for all students**
 - ❑ Money controlled by the Principal or any school employee
- ❑ These funds are **restricted** to the **same legal requirements** as the Local Education Agency (Board of Education) funds.

Examples of Public Funds



- ☐ General
- ☐ Library
- ☐ Athletic
- ☐ Concession and Student Vending
- ☐ Fees
- ☐ Locker Fees
- ☐ Faculty Vending
- ☐ Donations

Allowable from Public Funds

□ Include:

- Professional development training.
- Refreshments expended for an open house at a school where the public would attend.
- Pregame meals for student athletes and coaches.
- Academic incentives for students.
- Athletic and band uniforms for students to participate in school activities.
- Memberships in professional organizations.
- School landscaping, maintenance, furnishings, and decorations.

□ ***Funds received from public (tax) sources or used for public purposes are public funds subject to the control of the school principal.***

Non-Public Funds



- ❑ Restricted for expenditures subject to the **intent and authorization of the organization's sponsors and officers.**
- ❑ **Not used for general operations of the school.**
- ❑ The principal **does not direct the use** of these funds but **does have the authority to prohibit inappropriate expenditures.**

Non-Public Funds



- Funds are generally classified as non-public funds when the **following criteria** are met:
 - ▣ Money generated for a particular group
 - ▣ Money used for that group
 - ▣ Money controlled by the students and/or a parental organization

Examples of Non-Public Funds



- ☐ Clubs and Classes
- ☐ Courtesy or Flower Fund
- ☐ Athletic Fundraisers
- ☐ Other School Related Organizations

Allowable Expenditures for Nonpublic Funds



- ☐ Food for social gatherings.
- ☐ Class prom entertainment.
- ☐ T-shirts for club members or faculty.
- ☐ Donations to various organizations.
- ☐ Transfers to other non-public accounts.
- ☐ Travel expenses to club events.
- ☐ Championship rings.
- ☐ Faculty appreciation gifts.
- ☐ Scholarships.
- ☐ Flowers for funerals.

Important to Note About Non-Public Funds



Non-public funds can become subject to the same expenditure restrictions as public funds if the accounting records do not maintain a separate account for each of the non-public funds.

Governmental Accounting Overview

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