FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

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NATURE AND PURPOSE

Budgeting for Local Units of Administration (LUAs) is an art, not a science. Absolute answers for the budget preparation are not available. There is not a single way to prepare an LUA budget. This chapter illustrates the various types of budget approaches that LUAs might use; it discusses the issues that a local board of education should consider when establishing budget policies; it reviews alternative budget processes; it provides assistance in estimating revenues and expenditures; and it discusses administration of the budget. This chapter also discusses the requirements governing Georgia LUA budgets.

What is a budget? Often it is described as a document that expresses the anticipated revenues and expenditures of an LUA for a fiscal year. A budget also might be classified as follows:

- A financial plan
- An allocation of resources for ongoing educational purposes
- An identification of revenues and expenditures
- A reflection of an LUA's goals, objectives and priorities
- A series of educational goals with price tags

- An instrument for securing efficiency
- A spending guideline or control
- A decision making guide

However a budget is classified, it should serve two primary purposes:

1. As an authorization to spend LUA resources.
2. To provide a vehicle to control spending.

BUDGETARY APPROACHES

Operating budgets may be developed using various approaches. This section covers the various approaches that an LUA can use in developing its operating budget. These budget approaches are generally identified as follows:

- Line-item
- Activity
- Program
- Performance
- Zero-base

Normally, however, most LUAs will use some aspects of each of these approaches.

Line-item Budgeting

Generally, line-item budgeting is considered the most traditional and the simplest because it parallels the object dimension of the LUA's expenditure format (i.e., what the LUA is purchasing). A large majority of LUA budgets are classified as line-item. A line item budget includes the type of data that the actual financial report includes (i.e., expenditures are classified by object within function and fund). Exhibit IV-32-1 is an example of a line-item budget for the business services function of an LUA.

EXHIBIT IV-32-1
LINE-ITEM BUDGET
SUPPORT SERVICES-BUSINESS
FUNCTION 2500

ACCOUNT NUMBER		
142	SALARIES (CLERICAL)	$ 26,800
190	SALARIES (OTHER)	50,000
200	EMPLOYEE BENEFITS (EMPLOYER COST)	30,000
	TOTAL SALARIES AND EMPLOYEE BENEFITS	106,800
443	RENTAL OF COMPUTER EQUIPMENT	4,500
530	COMMUNICATION	1,500
580	TRAVEL--EMPLOYEES	500
642	BOOKS AND PERIODICALS	300
730	PURCHASE OF EQUIPMENT	5,000
734	PURCHASE OF COMPUTERS	0
810	DUES AND FEES	500
	TOTAL OTHER	12,300
	GRAND TOTAL	$118,100

A line-item budget relates dollar amounts to categories of expenditures. In a sense, this budget approach is nothing more than a reproduction of a portion of an LUA's accounting system. This budget is built entirely on inputs to the fiscal process (i.e., dollars to be spent). The line-item budget does not show results (e.g., lower pupil/teacher ratios, higher test scores, clean buildings) but rather focuses upon the allocation of LUA resources by object of expenditure.

This approach ignores the importance of LUA actions to achieve goals and objectives. Program elements may not be coordinated and the evaluation of alternatives is not encouraged. With this approach, budget reviewers (e.g., school board members) tend to focus on the incremental changes from previous years' expenditures (e.g., the budget is increased 5% from last year). A line-item budget is straightforward, fairly easy to prepare and administer, and easy to understand.

Even though the level of detail in a line-item budget is required for reporting to the Georgia Department of Education (GA DOE), an LUA should not limit its budget approach to line-item budgeting.

<u>Activity Budgeting</u>

Activity budgeting typically is the next step up from line-item budgeting. Activity budgets tend to flow from departmental organizational structures but recognize that within a given department, there may be several activities. Activities should not be confused with programs, because the focus of an activity budget is on the organizational working unit, not its results.

Exhibit IV-32-2 is an example of an activity budget for the business services activity of an LUA:

EXHIBIT IV-32-2
ACTIVITY BUDGET - FUNCTION 2500
SUPPORT SERVICES - BUSINESS

ACCOUNT NUMBER		
	ACCOUNTING ACTIVITY:	
142	SALARIES (CLERICAL)	$ 6,800
190	SALARIES (OTHER)	15,000
200	EMPLOYEE BENEFITS (EMPLOYER COST)	10,000
530	COMMUNICATION	500
580	TRAVEL	200
642	BOOKS AND PERIODICALS	100
730	PURCHASE OF EQUIPMENT	2,000
810	DUES AND FEES	200
	TOTAL ACCOUNTING	$ 34,800
	PAYROLL ACTIVITY	
142	SALARIES (CLERICAL)	15,000
190	SALARIES (OTHER)	20,000

200	EMPLOYEE BENEFITS (EMPLOYER COST)	10,000
530	COMMUNICATION	500
580	TRAVEL	200
642	BOOKS AND PERIODICALS	100
730	PURCHASE OF EQUIPMENT	1,000
810	DUES AND FEES	100
	TOTAL PAYROLL	$45,900
	BUDGETING ACTIVITY	
142	SALARIES (CLERICAL)	$ 5,000
190	SALARIES (OTHER)	15,000
200	EMPLOYEE BENEFITS (EMPLOYER COST)	10,000
443	RENTAL OF COMPUTER EQUIPMENT	4,500
530	COMMUNICATION	500
580	TRAVEL	100
642	BOOKS AND PERIODICALS	100
730	PURCHASE OF EQUIPMENT	2,000
810	DUES AND FEES	200
	TOTAL BUDGETING	$ 37,400
	TOTAL	$118,100

Therefore, as partially illustrated in Exhibit IV-32-2, an activity budget for the business office could include activities such as administration, accounting and financial reporting, payroll, risk management, purchasing, and food service.

Activity budgets do tend to introduce specific goals and objectives or at least define the purpose of the budgetary unit and the activity itself. One of the advantages of activity budgets is that each activity matches exactly to one organizational unit (e.g., food service). This budgeting approach provides unusually detailed expenditure data to enable an LUA to better manage its resources.

Program Budgeting

Program budgeting is an attempt to combine planning with the costs of functions or activities. A complete program budget requires that the total costs (i.e., direct and indirect) of a function be presented as an independent program without regard to the organizational units or different accounting funds. This method crosses organizational structure and focuses on the delivery of services and specific functions. Accounting becomes complicated because cost allocation becomes necessary (i.e., to allocate indirect costs to programs).

The program budget is the most basic of the output budgets. Its focus is on policy planning and resource allocation. The program budget assumes that in an environment of scarce resources, LUA management must choose between different types of services. The program budget focuses on choices at the output level, rather than how the resources are spent to obtain that level of service.

Another strength of program budgeting is its focus on delivery of services. Decision-makers are able to make judgments on the level of program activity, with the implicit assumption that more or less might be appropriate.

Historically, program budgeting evolved during a period of growth in the public sector mainly because this method appeared to be an effective means of controlling costs. However, when budget reductions are necessary, this budget approach may not work as well as line-item budgeting. One of the chief administrative weaknesses of program budgeting is the difficulty in reducing staff in one program area without accomplishing similar reductions elsewhere. In short, personnel adjustments tend to be accomplished along organizational lines, not programmatic lines.

Exhibit IV-32-3 is an example of a program budget for general administration of an LUA.

EXHIBIT IV-32-3
PROGRAM BUDGET
GENERAL ADMINISTRATION

SUPERINTENDENT'S OFFICE	$100,000
BOARD RELATIONS	10,000
LEGAL SERVICES	50,000
CURRICULUM	75,000
FEDERAL PROGRAMS	60,000
TOTAL ADMINISTRATIVE PROGRAM	$295,000

Performance Budgeting

The performance budget became very popular several years ago, and was viewed as a positive step upward from line-item budgeting. This budgeting approach relates units of output (accomplishments) with inputs (budgeted resources). In other words, how much educational opportunity can we provide with so many dollars? Performance budgeting is not a complete system, but rather a technique for including productivity measures within the budget. The performance budgeting system does assign responsibility for programs and seeks to hold school boards accountable for the efficiency of operations assigned to them. However, performance budgeting has at least two primary deficiencies:

- This technique requires extensive data gathering at low levels within an LUA, thus diverting operations staff from performing other tasks.

- Performance budgeting asks questions about the efficiency of an operation (i.e., whether the same tasks can be accomplished at a lower costs). However, performance budgeting does not ask whether the tasks or function itself is worthwhile.

Exhibit IV-32-4 is an example of a performance budget for an LUA's transportation function.

EXHIBIT IV-32-4
PERFORMANCE BUDGET
TRANSPORTATION
FLEET OF 10 BUSES

BUS ROUTES			
NUMBER OF ANNUAL MILES			$360,000
COST PER MILE			27 cents
TOTAL ANNUAL COST		$ 97,200	
BUS MAINTENANCE			
WASHING (36 WASHINGS)			$ 1,800
TUNEUPS (20 @ $50)			1,000
TIRES (30 PER YEAR @ 125)			3,750
INSURANCE (ANNUAL PREMIUM)			10,000
MISCELLANEOUS			2,000
TOTAL ANNUAL COST		$18,550	
TOTAL	$115,750		

Zero-base Budgeting

Zero-base budgeting (ZBB) requires that all programs compete for budget resources from year-to-year on an equal footing, regardless of whether or not they have been approved in prior fiscal years. In other words, it seeks to avoid incremental decision-making (e.g., increasing last year's budget by 5%) and each program or activity must be justified on its own merit annually. This budgeting approach requires the development of various levels of service (i.e., decision packages) with estimated costs for each level.

Decision units (e.g., program elements) are established within organizational subunits with a designated manager who has responsibility and authority for a specific set of activities. Decision packages are devised for each decision unit at alternative levels of funding. A package should identify the mission and goal of the unit, outline different ways to deliver the services, and describe the benefits of each alternative. In most cases, funding levels are stated in percentages of current year funding (e.g., 90%, 100%, 110%). The selected packages of the decision unit are ranked and then implemented until the resources are exhausted. Those decision units not funded are not implemented in the budgeted fiscal year.

One major problem with the ZBB approach is that it requires massive paperwork if implemented in its pure form. In addition, a major weakness of the ZBB system is its lack of relationship to the accounting function. Typically the budget must be converted entirely after its adoption in order to fit the accounting system.

Even if an LUA chooses not to implement ZBB in its entirety, the concept should not be overlooked in the development of the budget. Just because a department received a budget allocation for a particular expenditure in the current year, it may not be necessary in the subsequent year. ZBB does not work as well with the QBE program since all the state resources allocated to a particular program must be spent in that program area. However, there may be better ways to deliver at least the same level of service at lower costs. Exhibit IV-32-5 is an example of part of a zero-base budget for a municipal police department. The budget contained seven decision packages, but only one is illustrated along with the rankings.

EXHIBIT IV-32-5
ZERO-BASE BUDGET

DECISION UNIT: Junctionville Police Department

DECISION PACKAGE: 1 (of 7)

1. BENEFITS THAT WILL RESULT FROM DECISION PACKAGE

This package provides minimal police protection for Junctionville. It permits employment of five patrol officers sufficient for a three shift, seven days a week coverage of the city by one patrol officer with some extra time. It permits only 16 hours a day, seven days a week dispatching service. It does not provide for an investigator, a juvenile officer, or more than minimal administrative services. It would not give adequate police protection to the city if more than one patrol officer is needed at a particular time. It would leave eight hours a day uncovered for dispatching. This is the bare minimal police protection that this city can afford to have.

2. RESULTS OF NOT APPROVING THE DECISION PACKAGE

There would be no city police and very serious law enforcement problems would occur in this city.

3. COST OF DECISION PACKAGE

Salaries and Wages	$161,020
Personnel Benefits	37,729
Supplies	8,930
Contractual Services	8,890
Capital Outlay	6,200
Total	$222,769

RANKING OF DECISION PACKAGE

Decision Unit	Decision Package Number	Cost of Package	Cumulative Cost
Junctionville	1	$222,769	$222,769
Police Department	2	57,107	279,876
	3	17,118	296,994
	4	39,737	336,731
	5	26,094	362,825
	6	19,593	382,418
	7	2,600	385,018
		$385,018	

DEVELOPING BUDGETARY FINANCIAL POLICIES

As Chapter IV-1 indicates, financial policies are the guidelines that school boards should establish and follow when making financial decisions about the future of their LUAs. The school board should concern itself with overall budgetary and programmatic policy. School board members can be most effective when they use the budgetary process to establish the scope and direction of LUA services through the adoption of budgetary policies. Annually, school boards should establish and review budget policies long before the LUA budget process begins.

For example, it is the school board's decision on whether to approve a growth or no-growth budget, to increase taxes to afford higher expenditure levels, or to incur 100% of bonded indebtedness to finance the capital needs of an LUA. However, the school board should make these decisions before the budget process begins.

Budget policy issues that school boards must consider are implicit in the following questions:

- What types of budgets should be adopted?
- Which fund types should be budgeted?
- Must revenues equal expenditures?
- What budgetary basis of accounting should LUAs use?
- Do appropriations lapse at year-end?

- Should contingencies be budgeted?
- How much fund balance should be maintained?
- What level of budgetary control should be maintained?

__What types of budgets should be adopted?__

There are two types of budgets: annual operating budgets and project budgets.

An annual operating budget is the budget the school board adopts for the LUA's fiscal year, that is, for a 12-month period consistent with the LUA's fiscal year (i.e., July 1 - June 30). This is the type of budget that every Georgia LUA adopts. O.C.G.A. specifies that the fiscal year is July 1 - June 30.

A project budget is a budget a school board adopts for a specific project without regard for the period of time the project will last.

In some states, LUAs use project budgets for selected grants which have a fiscal year which differs from the LUA's fiscal year. For example, a federal grant may have a 12-month budget period which differs from the 12 months of the LUA's fiscal year (e.g., for the Federal government's fiscal year October-September). The LUA would adopt the budget for the federal grant period. This budget is classified as a project budget rather than an annual operating budget.

LUA's must adopt annual budgets for state and federal grants. If a grant period applies to portions of two LUA fiscal years, the appropriate portion must be budgeted in each of the LUA's two fiscal years.

Capital project funds include construction projects which may require a number of years to complete. When the school board adopts a project budget, the total cost of construction is authorized (i.e., without regard to the number of years required to complete the project) and subsequent annual budgets for the same project are not necessary. It can be a problem for LUA officials to prepare an annual budget for a multi-year project because it may be difficult to determine when (i.e., in which fiscal year) the actual costs of construction will occur.

However, an operating budget for capital project funds may be adopted on a project basis. For example, assume that an LUA is going to build an addition to a high school at a cost of $5 million and it is anticipated the project will span three of the LUA's fiscal years. A single budget for the project (i.e., $5 million) would be adopted by the school board in the year the project initially will begin. A note would be made in the budget that the project budget is for three years. In the second and third years of the project period, no formal budget adoption would be required by the school board. Project budgets would be reported in the legal advertisement of the budget and in budget information submitted in the year the project budget initially was adopted.

Although a school board may adopt either an operating budget for capital projects (estimated portion to be completed in the fiscal year) or a project budget (the entire capital project cost in the initial year) the GA DOE strongly recommends the adoption of a project budget as described above for capital projects.

Which Fund Types Should Be Budgeted?

Currently, school boards must adopt annual operating budgets for all fund types that they maintain except fiduciary funds. Annual operating budgets mean that school boards may not adopt project budgets for federal grants which have a fiscal year different from July 1 - June 30.

If an LUA reports athletic and student activity funds in the General fund, an annual budget is required. However, if the athletic and student activity funds are reported as agency funds, no budgets are required since agency funds do not report revenues and expenditures.

In summary, annual operating budgets must be adopted for governmental fund types, i.e., general fund, debt service funds, special revenue funds, and permanent funds. A project budget is recommended for capital projects funds. In addition, annual operating budgets must be adopted for internal service and enterprise funds. Annual operating budgets are not required for fiduciary funds.

A school board's policy for adopting budgets should contain these provisions:

> "Annual budgets (i.e., from July 1 - June 30) are adopted for all funds except capital project funds and fiduciary funds (e.g., athletic and student activity funds). Project budgets are adopted for major capital projects."

Must Revenues Equal Expenditures?

School boards must adopt balanced budgets. That is, estimated revenues equal estimated expenditures.

Estimated Revenues	$4,000,000
Estimated Expenditures	4,000,000
Difference	$ -0-

However, there are two instances when revenues and expenditures do not equal. For example, a school board could adopt the following budget:

Estimated Revenues	$4,200,000
Estimated Expenditures	4,000,000
Difference	$ 200,000

One could say that this budget is more than balanced (i.e., if everything occurs as planned, the fund balance will increase $200,000). A school board would adopt this type of budget when:

1. The school board wants to accumulate resources, usually for cash flow purposes, for capital items or for unforeseen emergencies (see discussion regarding the allowable amount of fund balance later in this chapter).

2. The school board has incurred a deficit fund balance (i.e., actual expenditures have exceeded revenues in prior years) and acts to reduce or eliminate this deficit. The primary method to eliminate or reduce deficits is to adopt a budget with projected revenues in excess of estimated expenditures and to spend only what is budgeted.

However, some school boards might attempt to adopt the following budget:

Estimated Revenues	$4,000,000
Estimated Expenditures	4,200,000
Difference	($ 200,000)

This budget is not acceptable since there is no means of financing the deficit.

A school board can adopt this type of budget only when it has an adequate fund balance (i.e., the accumulated excess of revenues over expenditures from prior years) to eliminate the anticipated deficit as follows.

Projected Fund Balance Beginning of Year	$ 200,000
Estimated Revenues	4,000,000
	$4,200,000
Estimated Expenditures	4,200,000
Difference	$ -0-

A fourth possibility exists. If it is known that in the current fiscal year extraordinary expenditures not included in the budget will cause the LUA to incur an unexpected deficit in its actual operations. Then the school board must eliminate the deficit with additional revenues or reduced expenditures in the succeeding year. In this instance the following budget must be adopted.

Actual Fund Balance	$(200,000)
Estimated Revenue	4,200,000
Estimated Expenditures	4,000,000
Difference	$ -0-

Or

Actual Fund Balance	$(200,000)
Estimated Revenues (no change)	4,000,000
Estimated Expenditures	3,800,000
Difference	$ -0-

In this instance, a portion of fund balance is budgeted as a source of funds in order to eliminate the deficit. The school board's budgetary policy should allow for all four options, however, the third option should be limited to a fund balance in excess of any required fund balance reserves as a result of a financial policy (see later discussion regarding the amount of fund balance). A school board's balanced budget policy should contain these requirements.

> "The budget must be balanced for all budgeted funds. Total anticipated revenues should equal total estimated expenditures. In the event anticipated revenues are insufficient to fund anticipated essential expenditures, a portion of the unassigned fund balance from previous years must be used to fund the shortfall. In the event there is insufficient unassigned fund balance from previous years to fund anticipated expenditures, then such expenditures must be reduced to equal anticipated revenues plus available unassigned fund balance. In the event it is known at the time the budget must be adopted that extraordinary expenditures in the current year will cause a deficit at the beginning of the year, such deficit must be eliminated by either additional revenues or reduced expenditures."

What Budgetary Basis of Accounting Should LUAs Use?

The budgetary basis of accounting is the basis of accounting LUAs use to prepare their budgets. That is, the budgetary basis of accounting consistent with the accounting basis determines when revenues are recognized in the budget and when expenditures/expenses are charged against the budgetary appropriations. In some states, statutes prescribe the budgetary basis of accounting (e.g., the budgetary basis must be consistent with generally accepted accounting principles (GAAP). However in Georgia, state statutes do not prescribe the budgetary basis of accounting for LUAs. Therefore an LUA may determine its own budgetary basis. It is recommended that the school board adopts a policy prescribing the budgetary basis of accounting.

Annual financial reporting is much simplified if the LUA adopts a budget consistent with GAAP.

Remember, the budgetary basis does not necessarily relate to the data that is included on the financial information submitted to the GA DOE. The three most common bases of accounting that LUAs use include cash basis, modified accrual basis (i.e., a GAAP basis) and the modified accrual basis plus outstanding encumbrances.

Cash Basis Budgets. LUAs using cash basis budgeting recognize revenue when they receive cash and record costs when they issue checks. There are two advantages of using the cash basis, it's easy to understand (it operates just like a person's checkbook) and there will be cash available (at least by year-end) to pay for the expenditures.

However, as a general rule, cash basis accounting is not recommended because it allows LUA officials to decide when to charge costs against the budget. If LUA officials don't want to charge costs to the current year's budget, they can defer payment of invoices until the next budget year (i.e., assuming vendors allow this practice). The budgetary basis shouldn't allow LUA officials to determine the amount of fund balance by deciding whether to pay outstanding invoices in the subsequent year rather than in the current year.

The other issue with this method is the required reconciliation between the cash basis fund balance (i.e., probably the amount of cash in the bank) and the GAAP basis fund balance. Since LUAs must prepare GAAP-based financial statements, this reconciliation is required and may cause LUA accountants some difficulty. Generally, cash basis budgeting is considered an antiquated budgetary method.

GAAP Based Budgets. LUAs using the GAAP basis of accounting for governmental fund types (i.e., the modified accrual basis of accounting) would recognize revenues in the budget when the revenue source is considered measurable and available. Measurable means the amount of revenue can be determined, and available means that the revenue has been collected or will be collected soon enough after the end of the year to pay liabilities outstanding at year end.

Expenditures under the GAAP budgetary basis are recognized when:

- the transaction is measurable (i.e., the LUA can determine the amount of the expenditure, usually that is when the invoice is received)
- the liability has been incurred (i.e., the goods or services have been received)
- the liability has or will be liquidated from current revenues (i.e., the LUA pays the invoice in the current year or shortly thereafter)

Chapters I-7, I-9, and I-10 provide a detailed discussion of the modified accrual basis of accounting. This budgetary basis of accounting really is an extension of cash basis accounting. It includes all invoices paid in the current year that relate to the current year (i.e., cash basis) plus any outstanding invoices at year-end (i.e., accounts payable). The following illustrates this basis:

Invoices paid in current year and applicable to the current year	(cash basis budget)	$150,000
Add: Invoices outstanding at year-end applicable to the current year	(GAAP basis budget)	30,000
Total allowable expenditures charged against current year's budget		$180,000

LUAs using the GAAP budgetary basis for internal service and enterprise funds would record revenues when earned and expenses when incurred. The primary advantage of using a GAAP budgetary basis of accounting is that the LUA maintains a single set of accounting records and at year end there are no major adjustments to the accounting records to change from a non-GAAP budgetary basis to the GAAP basis.

Some LUAs adopt budgets on a GAAP basis, except QBE salaries and benefits are budgeted on a cash basis. This method is considered a variation of both the cash basis and modified accrual budgetary bases. The treatment of QBE salaries and benefits is covered in detail in the section on budgeting of specific revenue sources and expenditures later in this chapter.

GAAP Based Budgets plus Outstanding Encumbrances. In order to understand this budgetary basis of accounting, an encumbrance must be defined. The theoretical definition is "an obligation of an appropriation." In other words, the encumbered portion of the budget is "spoken for." Purchase orders and contracts result in encumbrances. If the LUA does not use purchase orders, the LUA has nothing to encumber and cannot use this method of budgeting.

Encumbered fund balance amounts should be included within the committed or assigned portion of fund balance of the balance sheet.

Under this budgetary basis, not only are cash payments and outstanding accounts payable charged against the budget, but all outstanding encumbrances applicable to the current year are charged against the budget, without regard to whether they are paid in the current year or the goods or services have been provided in the current year. The following illustrates this method:

Invoices paid in current year and applicable to the current year	(cash basis budget)	$150,000
Add: Invoices outstanding at year-end applicable to the current year	(GAAP basis budget)	30,000
Add: Encumbrances outstanding at year-end applicable to the current year	(GAAP basis plus encumbrances budget)	25,000
Total allowable charges against current year's budget		$205,000

This method is particularly helpful in dealing with outstanding orders made by school principals or departments (e.g., the maintenance department). For example, if a maintenance vehicle is budgeted in the current year, ordered in the current year, but not received by year-end, this order may not be charged against the current year's budget under the first two budget methods described above. The cost of the vehicle would have to be re-appropriated in the subsequent year. However under the third method, the cost of the vehicle can be charged against the current year's budget with no action required by the school board in the subsequent year.

Which budgetary basis of accounting that an LUA uses should be determined by its school board, however, the budget policy should address this issue. Before choosing a budgetary basis, the "estimating expenditures" section of this chapter should be read.

A sample budgetary basis financial policy follows:

> "All budgets will be adopted on a basis of accounting consistent with generally accepted accounting principles except for encumbrances or where prohibited by Georgia law. Revenues are budgeted when they become measurable and available and expenditures are budgeted when they become measurable and a liability has been incurred which will be liquidated with current resources. All outstanding encumbrances are charged to the budget appropriation in the year initially encumbered."

Do Appropriations Lapse At Year-end?

When the school board adopts a budget, it becomes an appropriation and the legal authority for LUA management to incur expenditures on behalf of the school board. But what happens if the adopted budget (appropriation) is not expended at year-end?

Before answering this question, one needs to identify the status of appropriations at year-end. At year-end, appropriations either are encumbered or unencumbered. Encumbered appropriations are those appropriations against which LUAs have issued purchase orders or contracts (see Chapter I-8 for additional discussion of encumbrances). Unencumbered appropriations are those appropriations for which no expenditures or encumbrances have been charged. In Georgia, all unencumbered LUA appropriations lapse at year-end.

The LUA's financial policy must address the status of encumbered appropriations. Some LUAs allow encumbrances to carry forward. In a balanced budget, i.e., revenues equal expenditures, this means that at the beginning of the next year, the line-items in the subsequent year's budget will be increased by the amount of the outstanding encumbrances. An equal amount of fund balance must be added to budgeted revenue to offset the amount of encumbrances added to budgeted expenditures, otherwise the budgeted expenditures would exceed budgeted revenues.

However, if an LUA chooses to lapse all appropriations (i.e., both encumbered and unencumbered) at year-end and re-establish outstanding encumbrances in the next year, necessary funding for these encumbrances will be required. If the orders are for small amounts, generally they are just charged to the next year's budget. However, if the outstanding encumbrances will be converted to expenditures in the next year and they are large amounts, the next year's budget must be amended (i.e., increased) to fund these encumbrances. The budget amendment will simply increase the line-items that the encumbrances relate to and the budgeted revenues will be increased by adding an equal amount from assigned or committed fund balance. This amendment is appropriate since the funds budgeted in the prior year to fund these items became part of the fund balance at year-end (i.e., the appropriation lapsed) (See the "Budget Amendments" section of this chapter).

It must be emphasized that all appropriations from all sources (local, state, federal) not obligated in accordance with GAAP become part of the unassigned fund balance except those funds that must either be refunded to the grantor (e.g., the GA DOE or other grantor) or reserved if legally required or permissible, committed by the board of education, or assigned.

A sample appropriations policy follows:

> "All unencumbered appropriations lapse at year end. However, the appropriation authority for encumbrances carries forward to the next year."

<u>Should Contingencies Be Budgeted?</u>

A contingency budget is one that allocates funds for unforeseen, emergency type expenditures that were not anticipated when the budget was prepared and adopted. In an LUA, it is impossible to anticipate all expenditures that could occur during any given fiscal year. Therefore, some method to allow for contingencies must be available to LUAs. Generally, there are three alternatives available to LUAs.

First, LUAs may budget a line-item for contingencies. This line-item usually is included in the school board's budget (in the budget submitted to the GA DOE, this amount should be budgeted in the appropriate fund, function 2300, object 890) and cannot be spent unless the school board authorizes its use. If the school board authorizes the use of these funds, the applicable expenditure is not charged to the contingency line-item; rather a transfer is made from the line-item to the applicable expenditure line-item where the funds are required. One potential drawback to this alternative is that the contingency line-item must be funded with revenues (i.e., to keep the budget in balance).

Alternatively, LUAs may maintain a fund balance adequate to cover emergencies (see discussion below regarding the amount of fund balance). In a balanced budget, i.e., revenues equal expenditures, any beginning fund balance not budgeted for use in the current year can be used for emergency type contingency items not included in the original budget. When these funds are needed, a budget amendment would be required, increasing the line-item expenditures and adding an equal amount to revenue from beginning fund balance to balance the budget.

Finally, the third alternative is a combination of the first two. An LUA budgets a line-item for contingencies and funds the line-item with fund balance. In other words, a line-item for contingencies is included in the budget consistent with the first alternative, however, fund balance is used to finance the contingencies, rather than additional revenues. This alternative is the same as the second alternative except the budget need not be formally amended (i.e., just the approval of a transfer is necessary) since the line-item for contingencies already is budgeted.

The amount of an LUA's contingency budget will vary widely. As a general rule, line-item contingencies are rarely in excess of 5% of the appropriated budgets. A number of unanticipated expenditures may be required in the LUA during the fiscal year and 5% probably isn't adequate, although 1%-5% of the appropriated budget is most common.
A sample financial policy covering contingencies follows:

> "The general fund will contain a line-item for contingencies for unforeseen operating expenditures. The amount of the contingency will be no more than 5% of budgeted local revenues or $________ whichever is less. An equal amount of fund balance will be budgeted to fund the contingency."

<u>How Much Fund Balance Should Be Maintained?</u>

Pursuant to O.C.G.A. § 20-2-167, LUAs may establish two types of fund balance reserves. This Code section indicates LUAs may establish a reserve account intended to cover unanticipated expenditures, or a reserve account for capital accumulation funds for expenditure in future budget years only if the purpose for which such amounts will be expended and the anticipated date of expenditure of such amounts are clearly and specifically identified. NOTE: This statute applies to the general fund only, and RESAs are not covered by it.

Before this statute can be explained, fund balance must be defined. Governmental accounting limits the use of the term fund balance.

GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions, establishes the various types of Fund Balances.* Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

1) <u>Nonspendable fund balance</u> – amounts that are not in a spendable form (e.g., inventory) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).

2) Restricted fund balance – amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation (e.g., grants or donations).

3) Committed fund balance – amounts that can be used only for the specific purposes determined by a formal action of the Board of Education. Commitments may be changed or lifted only by referring to the formal action that imposed the constraint originally (e.g., the Board's commitment in connection with future construction projects).

4) Assigned fund balance – amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the Board of Education or by a designee to whom the Board of Education delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

5) Unassigned fund balance – includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

Nonspendable fund balance should include:

- Inventories (see chapter I-12)
- Advances to other funds (see chapter I-13)
- Prepaid expenditures

Restricted fund balance should include amounts restricted to:

- Debt service (usually debt service funds)
- State capital outlay projects (usually capital projects funds) and Educational Special Purpose Local Option Sales Tax (ESPLOST) balances
- Unobligated grant balances (usually special revenue funds)
- Questioned costs (usually special revenue funds)
- Endowment principal (usually permanent funds)

Pursuant to O.C.G.A. § 20-2-167, the board of education may commit a portion of unassigned fund balance. While the statute uses the term "reserve" it is actually a commitment of fund balance.

An LUA may establish one or more capital accumulation reserves if the following are identified clearly and specifically:

- The purpose for which such amounts may be expended and
- The anticipated date(s) of expenditure.

The law does not place a limit on the amount of this reserve.

The remaining committed, assigned, and unassigned fund balances (classified in the statutes as a single reserve fund or reserve account) is intended to cover deficiencies in revenue or unanticipated expenditures (i.e., very similar to the amount available for contingencies). The O.C.G.A. § 20-2-167 limits this part of fund balance to 15% of the subsequent fiscal year total budget for those funds included in the General Fund in the annual audit.

Determining the allowable amount of unreserved fund balance:

Next year's budgeted general fund expenditures	$3,000,000
Allowable percent	15%
Allowable unreserved fund balance	$ 450,000

A sample fund balance financial policy follows:

> "The general fund committed, assigned, unassigned fund balances is limited to 15% of the next year's budgeted general fund expenditures."

The Government Finance Officers Association recommends that governments reserve, at a minimum, two month's general fund operating expenditures. See http://www.gfoa.org/appropriate-level-unrestricted-fund-balance-general-fund for the entire recommended practice.

What Level of Budgetary Control Should be Maintained?

Another way to state this question is, "At what account level does an LUA overspend its board-approved budgeting control authority?" Or "When must the LUA request the local board to amend the budget? The function level?" The local board's budgetary policy should address this issue.

First, it is important to distinguish between budget transfers and budget amendments. Budget transfers and amendments both change the original budget. However, an amendment is required to be approved by the school board, but a budget transfer can be made by designated LUA administrators within an approved board policy.

Budget transfers between budget appropriations may be required for several reasons:

- Transfers from the contingency account.

- Transfers resources from one department or school to another to reflect a realignment of priorities or objectives.

- Transfers among objects of expenditures to adjust estimates to meet actual operating results.

Budget amendments might be required as a result of the following –

- Increases resulting from unanticipated revenue sources.

- Decreases resulting from insufficient revenue sources.

To ensure that sound financial management practices are observed, it is essential that local school boards adopt a policy setting forth the level of budgetary control. Before finalizing a policy regarding the legal level of control, an LUA should consider the GAAP reporting requirements. GAAP requires that an LUA present a budget to actual comparison for the general fund and each special revenue fund that has a legally adopted annual budget. This comparison must be presented at the legal level of control. Therefore if the legal level of control is the function, the budget to actual statement must be presented at the function level. If the legal level is the detailed object level within the function, the budget to actual statement would need to be presented at this level.

Adopting a level of budgetary control doesn't mean that school boards shouldn't review the proposed budget at a detailed level. Just as the level at which the budget must be amended is a decision to be made by the school board, so is the level of the proposed budget review a decision to be made by the school board. It should be noted that if the school board adopts the budget at a level more detailed than the functional level, this lower level becomes the legal level for purposes of overspending the budget. For example, if the school board adopts the budget at the object-level, (i.e., no other resolution is approved), the legal level becomes the major object classification within the function by fund.

If the legal level is function or fund or department, school boards need policies authorizing personnel to transfer budget amounts between line items within these areas. Sometimes, the LUA superintendent is authorized to make these transfers; however, usually the transfer authority is given both to the LUA's assistant superintendents for instruction and business or other person authorized by the board. Subsequent school board action is not required to approve these transfers.

The following sample policy must be adopted by the school board and be worded to reflect the level of budgetary control adopted by the board.

> "The budget shall be adopted at the legal level of budgetary control which is the (insert level) (i.e., expenditures may not exceed the total appropriation for any (insert level without the board's approval). The board must approve any changes between the appropriations by (insert level). However, the superintendent, assistant superintendent for instruction and the assistant superintendent for business or other person authorized by the board shall have the authority to transfer appropriations within (insert level)."

ORGANIZATION OF THE BUDGETARY PROCESS

The budget process can vary widely within different LUAs. As indicated earlier, there is no "one right way" to prepare a budget. Alternative budget processes are discussed in this section.

Centralized or Decentralized Budget Process

There are a variety of ways to develop an LUA budget. The process may be centralized or de-centralized.

A centralized budgetary approach generally has no budget input from department directors, supervisors and school principals. The central office staff, usually the LUA superintendent and the accountant, will prepare the LUA's budget, based upon last year's financial data. This system only can be effective in very small LUAs where the superintendent handles most administrative matters, and usually there are no department directors or supervisors and just one or two principals.

Alternatively, the approach to budgeting may be de-centralized. When using this approach, the department directors, supervisors and school principals all actively participate in the budget process. Their level of participation will vary depending upon how budget expenditures are requested. The personnel budget usually is developed separately from the non-personnel budget. As the budget officer calls for budget estimates for non-personnel costs, either a "top down" or a "bottom up" approach is used. With the "top down" approach, each principal of a school is allocated a dollar amount to spend for supplies and equipment per "full-time equivalent" pupil. In other words, the dollar amount is determined from the "top" of the administrative hierarchy. Often this budget allocation is based upon the "dollar allocation" included in the QBE formula (e.g., $98.21 per FTE for the grades 9 - 12 QBE program). If the LUA has limited resources, the "top-down" method is preferable.

Appendix K of the FMGLUA handbook discusses expenditure controls related to the State Quality Basic Education Funding appropriation formula. It should be noted that the majority of school districts in the state have opted for flexibility contracts that waive the expenditure control requirements set forth in O.C.G.A. §20-2-167 and other code sections.

On the negative side, the "top-down" method forces higher-level managers to judge the validity of financing demands before they have information on the needs and likely performance of the various programs. The fixed ceiling encourages principals to request the maximum amount allowed by the ceiling. These estimates do not permit comparative evaluation of programs to determine whether some resources could be allocated more efficiently.

A second "top down" allocation will require department directors to spend a certain percentage of the prior year's expenditures (e.g., 95% or 105%). However, with the QBE allocations, this method is not very effective in Georgia.

The "bottom up" approach (also known as open-ended budgeting) requires each department director, supervisor and school principal to request needed resources and then the budget administrators determine the level of funding. Under this approach, budget requests usually exceed resources available, resulting in reductions of budget requests. However, this approach encourages budget requestors to be creative, since there are no initial budget limitations.

However, this method presents two problems. Higher level managers have less knowledge about specific program activities, therefore, cannot assess the effect of spending cuts if funding levels must be lowered. A single estimate does not provide information on which to judge the relative value of programs within and across budget lines. With the school principals, this method is not recommended since each QBE program allocation should be spent on the related QBE program.

A third option is to require the budget units to submit, along with a single budget estimate, a priority listing of activities that can be eliminated if funding is unavailable. However, priority listings do not permit the budget decision makers to compare the relative value of lower-priority items among different budget units.

The Administrative Role

The administrative role in the budgetary process involves three primary responsibilities:

1. Preparing budget proposals for consideration by the school board.

2. Explaining and clarifying current fiscal conditions, fiscal prospects and budgetary proposals to the school board.

3. Implementing the budget enacted by the school board and monitoring performance to ensure that programmatic and fiscal objectives are met.

A single administrator should be designated as the budget officer. In some LUAs, this person is the superintendent. However in many LUAs, the superintendent delegates this responsibility to the LUA's chief school business official. The budget officer may serve simply as a coordinator of budget materials and be responsible for the following tasks:

- Developing the budget calendar

- Designing worksheets and forms to submit budget requests

- Issuing instructions to departmental personnel and school principals for completion of budget worksheets

- Reviewing finished worksheets and forms for accuracy and completeness

- Preparing or assembling revenue estimates

- Presenting budgetary materials to the school board for review

- Coordinating budget preparation and scheduling budget review meetings

In this role, the budget officer does not;

- evaluate departmental or school requests,
- make budgetary recommendations, and
- seek to balance proposed expenditures with estimated revenues.

Rather, the role is to ensure that the activities listed in the budget calendar are accomplished and that budget materials are accurate, complete, and presented in a common and understandable format.

Alternatively, and more common, the budget officer may perform a more significant role and become involved in all the programmatic and financial issues relating to the budget, in addition to the coordinating function. These expanded activities could include:

- issuing guidelines to departments regarding acceptable levels of service increase or decrease and expected cost limitations,
- evaluating departmental requests and adjusting them to policy guidelines,
- balancing expenditure requests with available revenues, and
- making recommendations for budget action to the school board.

If the budget officer is also the LUA superintendent, generally he or she is in a position to complete these activities. If the chief school business official is serving as the budget officer, normally the above activities will be completed by a variety of LUA administrators including the LUA superintendent, any deputy and assistant superintendents responsible for instruction, the personnel department, etc., department directors and school principals.

The budget officer assumes responsibility for direct supervision over budget administration including the following.

- Ensuring that budget centers (e.g., an elementary school) do not exceed budget limits.
- Maintaining centralized position control to ensure that a person is hired only into an authorized position at a salary no greater than the amount budgeted (Often, the personnel department assumes this role).
- Reviewing and approving all requests to transfer appropriations from one budget item to another.
- Maintaining and updating the budget procedures manual.

- Preparing reports on budgetary performance for the use by the school board and budget managers.

- Monitoring departmental performance to determine potential trouble spots.

Some specific advantages of this approach to budget administration include the following:

- Priorities for services can be determined best from a central vantage point.

- Budget preparation is facilitated through standardization of procedures and forms.

- Effective control of LUA resources can be achieved more easily since the in-and-out flow of these resources is handled through one official.

- Fiscal problems can be detected sooner because an official is designated to be on the constant lookout for them.

- Budget implementation is facilitated by the use of standard forms for all budget actions.

The steps necessary to complete the budget process include the following.

1. Develop the budget process calendar.
2. Establish budget policy.
3. Design worksheets and forms for budget requests.
4. Estimate revenue sources.
5. Issue instructions to department personnel and school principals.
6. Complete budget expenditure request worksheets and forms.
7. Review and justify budget requests.
8. Formalize budget document.
9. Present budget to school board.
10. Present tentative budget on the school district's public website.
11. Hold two (2) public meetings to discuss the budget, prior to adopting the final budget. NOTE: The law is not specific regarding whether the meetings should take place before or after the tentative budget. However, you want to ensure that the public has had an opportunity to review and comment on the budget before final adoption.
12. Formally adopt budget. Display adopted budget on school district's website.
13. Administer budget.

The balance of this chapter presents information regarding most of these steps.

Developing a Budget Calendar

To ensure that the goal of approving the budget prior to the beginning of the fiscal year is met, a budget calendar that establishes all important dates in the preparation of the budget should be developed. The calendar should indicate the periods during which:

- budget worksheets, instructions, and guidelines will be distributed to departments and schools,

- revenue estimates will be prepared,

- budget requests will be compiled into a single budget document with necessary summary schedules,

- the budget will be presented to the school board,

- budget meetings and work sessions will be held,

- the public meetings held prior to the adoption of the final budget will be advertised in the legal news organ. The location of the budgets presented on the LEA's public website will be included in the advertisement for the public meeting,

- the tentative budget will be adopted and presented on the LEA's public website,

- the date of the final adoption of the budget will be published on the LEA's public website.

- the new fiscal year will begin (i.e., July 1).

Exhibit IV-32-6 is a budget calendar for a larger LUA.

EXHIBIT IV-32-6
BUDGET CALENDAR

BLANK COUNTY SCHOOL DISTRICT

BUDGET CALENDAR

The budget preparation process extends for a period of approximately ten months beginning in November. All governmental fund types are budgeted by the district on a fiscal year basis. The fiscal year (July1 through June 30) budget must be submitted to the local Board of Education prior to June 30th for final adoption.

After review by the Superintendent and Administration, the proposed budget is presented to the Board of Education in a series of work sessions, two of which are advertised public meetings, and tentatively adopted by the Board. The public meetings must be advertised in the local legal news organ. The advertisement for the public meetings should reference the website location of the budget documents presented on the LEA's external website. Additionally, three public hearings are required when the effective mill rate is estimated to increase. These public hearings can be held in conjunction with the required two public meetings if held before the final adoption of the initial budget. The tentative budget is then presented on the public website of the LEA. After the tentative Budget is adopted by the Board, a period of two weeks must transpire before the Board of Education can take official action to legally adopt the budget. During this two week period, copies of the proposed budget are made available for public inspection in the Superintendent's Office and on the public website of the LEA. The budget is prepared in accordance with regulations issued by the Georgia Department of Education. No public funds may legally be expended before official adoption of the budget by the Local Board of Education.

After final adoption, the Local Board of Education may legally amend the budget at any time during the fiscal year. The LEA prepares the governmental funds budget on the modified accrual basis whereby revenues are generally recognized when measurable and available and expenditures are recognized when incurred. Appropriations not spent or encumbered lapse at year end. Federal and State grants (excluding QBE), sales taxes, and property taxes with related interest and penalties received within sixty days after year-end, are recognized as revenues prior to receipt for budgetary purposes.
The annual budget calendar is as follows:

BUDGET CALENDAR

November	The Budget Director reviews the previous year's budget preparation process and procedures, and makes any change recommendations to the Superintendent and Administration. Copies of the last three FTE counts are secured. The Budget Director distributes student enrollment projections and personnel allotments which form the basis of the continuation budget. The budget calendar for the ensuing fiscal year is established.
December	The Budget Director meets with department heads, principals, teachers, and school councils for the purpose of soliciting budgetary input for the ensuing fiscal year. Division administrators determine individual schedules.
January	Continuation of activities from December. At a work session of the Board of the Education, budgetary parameters and system-wide goals are established to assist the Superintendent and Administration in the preparation of the ensuing budget. Subsequent to this work session, budget development packages are distributed to individuals with budgetary responsibilities including the parameters established by the Board of Education. Financial Services prepares the continuation budget for the ensuing year. The Budget Director conducts extensive workshops for budget administrators and other interested personnel.
February	Departments prepare line-item requests by QBE program, based on the needs of the individual departments, including justification for unusual requests, and forward to the appropriate Division heads for review. School improvement plans should be utilized to support curriculum requests.
March	Completed budget development packages, including necessary documentation, are

submitted to the Budget Director from the Department heads. The Budget Director begins the process of compiling and consolidating the numerous budget requests in the budget database. Salary increases are established based on the recommendation of the Governor, and action by the General Assembly. Any local salary increases are also included in the Personnel Services portion of the proposed budget.

April	The Superintendent and Administration review the draft of the proposed budget, including the projected year end fund balances, and an overview of the proposed budget including detailed revenue and expenditure projections, including all requests from Department heads. After an extensive review by the Superintendent and Administration, any proposed expenditures resulting in an unbalanced budget are eliminated should additional revenue sources not be secured and the fund balance is insufficient. Information concerning projected tax digest growth is properly advertised for a first hearing, and the first required public hearing to satisfy the requirements of O.C.G.A 48-5-32.1 is conducted.
May	Information concerning projected tax digest growth for the second and third hearings is advertised separately. The second and third public hearings addressing projected tax digest growth are conducted. Necessary work sessions are conducted with the Board of Education, and a Tentative Budget is adopted by the Board of Education two weeks prior to final adoption. Newspaper advertisement of the meeting for adoption is published. Advertise the "Current Tax Digest and 5 Year History of Levy", as required by O.C.G.A. 48-5-32. NOTE: If there are no public hearings related to the increase in the effective millage rate, the Local Board of Education is still required to hold 2 public meetings before adopting the final budget (per HB 65, passed during 2016 legislative session).
June	The Board of Education formally adopts the budget for the ensuing fiscal year at a public meeting as advertised after the tentative budget is adopted.
July	Allotments are distributed by the Budget Director to the Division heads.
August	The Board of Education formally adopts a resolution setting the millage rate to fund the current year budget, based on certification of the digest by the GA DOR.
September	The initial budget as adopted by the local Board of Education is submitted electronically to the GA DOE.

Estimating Revenues

Before actually estimating revenues for the next year's budget, the ending fund balance (or deficit) for the current year should be projected. This is important since, as discussed earlier in this chapter, any available fund balance may be used in the next year to balance the budget. To estimate the year-end fund balance, the following applies:

July 1 fund balance beginning of this year		$150,000
Add:		
Year-to-date revenues	$1,600,000	
Estimated revenues, balance of year	420,000	2,020,000
Estimated available		2,170,000
Less:		
Year to date expenditures	$1,520,000	
Estimated expenditures, balance of year	410,000	1,930,00
Total Estimated Expenditures		0
Estimated fund balance, June 30 end of year		$ 240,000

One of the first steps that must be taken to prepare a budget is to make a reasonable estimate of the amount of resources an LUA will have to spend. To make reliable estimates, a complete understanding of the principal revenue sources upon which an LUA relies is necessary. Different revenue sources extract resources from the economy based upon different economic entities. In general governments (e.g., cities or counties) some revenues are based on existing assets (e.g., property taxes), some on income (e.g., income taxes), some on economic transactions (e.g., sales taxes), some on privileges (business licenses), and some on the public sale of goods and services (e.g., charges for water usage).

In Georgia LUAs, property taxes and the QBE allotment are the primary revenue sources. The forecasting of revenues for each source is an important step in the budget process and might include the following general methodologies.

There are expert forecasts made by LUA officials who are most experienced in a particular revenue area. (A discussion of specific Georgia LUA revenues follows later in this chapter). Secondly, trend techniques simply are predictions based upon past historical trends. Graphical analysis is a good way to visualize such trends.

A common trend technique in projecting revenue is simple linear correlation analysis. This technique identifies the degree of relationship or association between an independent and dependent variable. For example in a county water fund, lower annual rainfall may cause higher annual water usage and subsequent higher water revenues.

A third method uses deterministic techniques which is similar to trend techniques, except there are factors other than time which determine projections. For example, the Georgia QBE formula reimburses LUAs based upon pupil enrollment, therefore if more pupils enroll, more revenues are generated.

The final method is econometric forecasting which uses a combination of economics and statistical techniques. Multiple regression analysis is used in such forecasting.

As a general rule, most revenue sources should be estimated at the actual projected amount or somewhat more conservatively. In no instance should revenues be overestimated just to balance the budget.

Property Taxes

In Georgia LUAs, the methods to project revenues will vary with the revenue source. Normally, property tax revenues should be the last revenue source to be determined since often the amount of property taxes is used to balance the budget. The two variables in this estimation are the amount of property taxes needed and the amount of assessed value.

The following illustrates this calculation for a general fund:

The amount of resources needed	$500,000
Less estimated:	
QBE allocation	(250,000)
Other non-property tax revenue	(50,000)
Amount needed from property taxes	$200,000

Divided by the tax digest $20,000,000 = Millage rate .010 or 10 mills

Georgia tax rates are expressed in terms of mills (i.e., one mill equals $1.00 of property taxes for every $1,000 of assessed value). LUAs can levy two millage rates, one for maintenance and operation and one for debt service. In Georgia, the tax rate for LUAs is limited to 20 mills for maintenance and operations. This legal limit can be exceeded only upon passage of a local referendum. There is no legal limit for the debt service millage rate.

The above method will work as long as the calculated millage rate does not exceed 20 mills,

However, often the following is how the estimated tax revenues are determined.

Property digest		$25,000,000
Desired millage rate		11.00
Tax revenues		$ 275,000
Add: QBE allocation	$250,000	
Other non-tax revenue	50,000	300,000

Total revenues available to spend	$ 575,000

In the first example above, for each mill levied, $25,000 of property taxes is received. The higher the assessed value, the lower the tax rate. When estimating property tax revenue, factors to be considered include:

- Is assessed value 40% of market value?
- Collection rates.
- County collection fees.
- Tax protests.

The primary variable in estimating property tax revenues is the assessed valuation. Georgia law requires counties to assess both real and personal property at 40% of market value. When the LUA prepares its budget, the tax digest normally is unknown; therefore, the LUA budget officials must estimate the digest before they can establish the millage rate. Usually, discussions with their county's tax assessor's office can provide the LUA with information regarding the projected tax digest.

Obviously, growth is a major component of the projected changes in the tax digest. For example, if a large shopping mall is added to the tax digest, the change may be dramatic. Reviewing prior year changes in the tax digest is important, but using trend analysis normally is not recommended to estimate the tax digest, unless it has remained stable over a number of years.

Even though a dollar amount is needed from property taxes, an LUA must levy a millage rate rather than the required dollar amount. This millage rate may cause higher or lower taxes than needed if the actual tax digest is different than projected.

Another consideration when estimating the property tax rate is the tax collection rate. On the average, most Georgia counties collect at least 95 - 98% of the tax levied. Therefore if an LUA needs $500,000 in property taxes and the average collection rate is 98%, the LUA should use $510,204 (i.e., $500,000 divided by 98%) in determining their millage rate. Therefore, 98% of $510,204 will equal the desired $500,000.

Some counties charge LUAs a percentage of the taxes collected. When estimating property tax revenue, this charge is treated as a reduction of the revenue rather than an expenditure. This maximum collection fee is 2.5% of the taxes collected, but is negotiable in some counties. For example, if the LUA needs $500,000 from property taxes and the collection rate is 1%, the LUA should use $505,050 (i.e., $500,000 divided by 99%) in determining their millage rate. Therefore, 99% of $505,050 will equal the desired $500,000.

If an LUA has uncollectible property taxes of 2% and pays a 1% collection fee as indicated above, the following amount should be used in determining the millage rate:

Original amount needed	$500,000
Amount for uncollectibles ($510,204 less $500,000)	10,204
Amount for collection fee ($505,050 less $500,000)	5,050
Amount to be used to determine millage	$515,254

The final consideration is tax protests. As counties continue to reassess property often taxpayers become upset with higher assessments and begin protesting their taxes. If a large number of taxpayers protest their tax assessments, this action may result in a definite slowdown of property tax collections which may result in some of the taxes not being recognized as revenue in the budget year. As a result of taxpayer protests, Georgia law requires each county levying and recommending authority to provide certain disclosures to taxpayers prior to the establishment of the annual millage rate for ad valorem tax purposes.

The first disclosure, referenced in O.C.G.A. § 48-5-32, requires each levying and recommending authority to annually publish the assessed taxable value of all property, by class and in total, the proposed millage rate for the levying and recommending authorities' purposes for the current calendar year, and the assessed taxable values and millage rates for each of the immediately preceding five calendar years. The advertisement must also indicate the percentage increase and total dollar increase for each year advertised.

The second disclosure, referenced in O.C.G.A. § 48-5-32.1 requires each levying and recommending authority to compute a "rollback" millage rate, which is the previous year's millage rate minus the millage equivalent of the total net assessed value added by reassessments of existing real property. The law further provides that, if the levying and recommending authority proposes to levy a millage rate in excess of the computed "rollback" rate, certain advertisements and 3 public hearings must be held before the adoption of the final millage rate. Specifics regarding the required advertisements may be found at: http://dor.georgia.gov/compliance-guide-advertising-digest-history-and-public-hearings-increase-property-taxes.

Property taxes should be budgeted in account 1110, Ad Valorem Taxes. The Ad Valorem Taxes Contra Account for Tax Collection Fee should be accounted for in Revenue Source Code 1192, in Contra Program Code 4083, Tax Collection Fee.

Real Estate Transfer Tax

LUAs receive a portion of the real estate transfer tax collected by each county for real property sold within the county. The total tax equals 1% of the selling price of each parcel of real estate. Normally, LUAs receive payments from their county on a monthly basis. This revenue source is difficult to estimate. However, reviewing the current real estate market as well as past trends should provide a basis to make a conservative estimate of projected revenues.

The real estate transfer tax should be budgeted in revenue account 1121, Other Sales Taxes.

Railroad Equipment Tax

LUAs receive a portion of the railroad equipment tax levied on railroad equipment companies operating in each county in accordance with O.C.G.A. 48-5-519. For estimating revenues in the budget, an LUA can only use past experience and information from the Georgia Department of Revenue, which remits these taxes to the LUA.

The revenue should be credited to account 1190, Other Taxes.

Tuition

If an LUA receives pupils from other LUAs, the tuition should be estimated as revenue in the appropriate 1300 revenue account. The revenue estimate includes only two variables, the number of students and the annual tuition charge. O.C.G.A 20-2-133(a) specifies that the tuition charge shall not exceed the per pupil amount of local tax funds. For QBE purposes, the QBE funds follow the pupil.

Earnings on Investments

Three variables are used to estimate the amount of earnings on investments: the amount of cash available for investment, the length of time it may be invested and the interest rate (i.e., the rate of return). Most LUAs estimate interest earnings very conservatively. Interest earnings should be budgeted in revenue account 1500, Earnings on Investments or Deposits.

QBE Program Grant

The QBE program grant (i.e., the actual cash received) for each fiscal year is based upon two months' salary of the current year's rate (e.g., FY 2018) and ten months salary at the projected year's rate (e.g., FY 2019 rate). The determination of the amount to budget for the QBE grant program will vary depending upon the budget basis the LUA uses. In addition, consideration should be given to the mid-term adjustment (which is discussed separately later in this chapter).

Many LUAs budget for the QBE program grant on a cash basis. In this instance, the amount of the budget would include the following data as presented on the allotment sheet distributed to LUAs in the spring of each year:

QBE formula earnings		$61,532,048
Less:		
Current year local fair share	$10,727,108	

Audit adjustments	14,536	(10,741,644)
Actual QBE program grant to be received		$50,790,404

However, to budget this amount appropriately, the following accounts should be used:

3120 (QBE earnings)	$61,532,048
3124 (QBE austerity reduction)	(10,552,342)
3140 (QBE local fair share)	(10,727,108)
3140 (audit adjustments)	(14,536)
Net amount to be received	$ 40,238,062

Note that the austerity reduction and local fair share is budgeted as negative revenue (i.e., a debit) in accounts 3124 and 3140, QBE Contra Account.

The Educational Equalization Funding Grant also is included on the allotment sheet as the last entry. This amount should be budgeted in account 3200, Equalization (Parity).

If the LUA is budgeting on a GAAP basis, the amount of QBE program earnings included on the allotment sheet must be adjusted to reflect the state reimbursement for the next year's (i.e., the year the budget is being prepared for) July and August certified personnel salaries and benefits. This amount must be accrued since the service has been provided and the amount is owed. Obviously, if the GAAP basis is used, the July and August salaries and benefits of certified personnel also must be accrued in the accounting records.

To determine the amount of QBE revenue to budget, the LUA should use the following formula:

> Take 2/12 of the minimum state salary for the current fiscal year multiplied by retirement and health insurance percentage divided by base FTE for each specific QBE program. This base cost is then multiplied by the average FTE counts times the weight per program times the training and experience percent. From the QBE allotment sheet, take the QBE formula earnings for salary and subtract beginning accrual and add ending accrual.
>
> The calculation of the July and August salaries and benefits of certified personnel should be available in mid-June of the current fiscal year in the Financial Review Reports Menu website.

Mid-term Adjustment

The QBE mid-term adjustment should be considered when budgeting the QBE revenue. Many LUAs do not budget the mid-term adjustment and use any increases as a cushion against unanticipated reductions in other revenue sources.

If there is an estimated decrease in the FTE count from the prior year, there should be no change in the QBE earnings with the mid-term adjustment and the budget need not reflect the mid-term adjustment. However, if there is an estimated increase in the FTE count from the prior year, this increase should be reflected in the budget.

Categorical Grants

The following categorical grants are included on the allotment sheet for ease in budgeting:

Pupil transportation

Sparsity

Nursing Services

These grants and others not on the allotment sheet should be budgeted in revenue account 3125, State Categorical Grants.

Nursing Services

Evaluating Revenue Alternatives

It may be desirable to conduct in-depth revenue analysis periodically (suggested annually), in conjunction with the budgetary process, which could be used to set tax and fee policies. First an inventory should be made of the various tax and revenue sources available to the LUA. Then, an evaluation could be made of these revenues. LUAs could prepare revenue manuals which provide documentation for each revenue source and it might include the following:

- Legal authorization.
- Description.
- Revenue source (i.e., where it came from).
- Responsible department for projection and collection.
- Fee schedule.
- Method for collection.
- Authorized exemptions.
- Revenue budget history.

- Revenue collection history.
- Revenue trends and analysis.
- Service cost comparison.
- Previous rates and fees.
- Revenue projection methodology.

Estimating Expenditures

Projected enrollments are the driving force for projecting expenditures. All school costs revolve around the number of full-time equivalent pupils. In Georgia, many LUAs have increasing enrollments which result in increasing the number of teachers and the budgets for supplies and equipment. Exhibit IV-32-8 illustrates a projected enrollment for a Georgia LUA.

EXHIBIT IV-32-8
PROJECTED ENROLLMENT

Sample School District
Enrollment Projections
For Fiscal Year 2019

Grades	2019	2020	2021	2006	2022	2023	2024	2025	2026	2000
Kindergarten	347	359	358	346	357	360	363	366	369	372
1st Grade	328	303	328	348	343	350	353	356	359	362
2nd Grade	301	298	292	310	346	336	343	346	349	352
3rd Grade	290	295	300	299	306	343	333	339	342	346
4th Grade	322	287	289	293	290	302	338	328	335	338
5th Grade	292	324	288	285	306	295	307	344	334	341
6th Grade	324	289	308	298	298	306	295	307	344	334
7th Grade	307	321	284	307	326	304	312	301	313	351
8th Grade	285	296	313	261	289	315	293	301	291	302
9th Grade	305	298	282	316	261	291	317	295	303	293
10th Grade	276	246	241	230	267	211	236	257	239	246
11th Grade	274	252	228	219	216	247	195	218	237	221
12th Grade	254	242	227	208	217	201	230	182	203	221
Self Contained	24	24	16	18	11	15	15	15	15	15

If a waiver by the State Board of Education or through the charter system flexibility has not been granted to the local board of education, O.C.G.A. 20-2-182, GA DOE Rule 160-5-1-.08 (Maximum Class Size), and GA DOE Rule 160-5-1-.22 (Personnel Required) should be considered when calculating the number of required teachers. The enrollment divided by the required pupil-teacher ratio equals the number of required teachers. Generally, the school board authorizes the number of certified staffing (i.e., teachers) positions. Exhibit IV-32-9 provides a sample professional staff allotment sheet.

EXHIBIT IV-32-9
PROFESSIONAL STAFF ALLOTMENT SHEET

School/Center	Kindergarten EIP	Kindergarten	Grades 1-3 EIP	Grades 1-3	Grades 4-5	Grades 6-8 (M/S Program)	Grades 6-8	Grades 9-12	Vocational Laboratory	Special Education	Gifted	Remedial	Art
Alpha Elementary	1	4	3	4	8					2	1	2	1
Beta Elementary	1	2	1	2	4					3		3	1
Chi Elementary	1	4	3	4	8					2	1	2	1
Delta Elementary	1	4	3	4	8					2	1	2	1
Baker Middle						36			3	2	2		1
Charlie Middle						37			3	2	2		1
Hope Alternative													
Blank County High								72	22	8	8	5	

Totals	4	14	10	14	28	73	0	72	28	21	15	14	6

School/Center	Music	Physical Education	Alternative Education	ESOL	Speech Therapist	Title 1	Title VIB	Counselors/Grad Coaches	Media Specialists	Principals	Assistant Principals	Total
Alpha Elementary	1	1				2		1	1	1	1	34
Beta Elementary	1	1		1	1	2		1	1	1	1	27
Chi Elementary	1	1			1	1	1	1	1	1	1	35
Delta Elementary	1	1		1		2	2	1	1	1	1	37
Baker Middle	1	3						2	1	1	1	53
Charlie Middle	1	3						2	1	1	1	54
Hope Alternative			6					1		1		8
Blank County High								4	2	1	4	126

Totals	6	10	6	2	2	7	3	13	8	8	10	374

Most LUAs allocate an amount for supplies and equipment based upon each school's enrollment.

One of the most important aspects of budgeting in Georgia LUAs is the appropriate amount of expenditures are budgeted in each of the appropriate QBE programs. Review Chapter II-7 for a discussion of the program requirements.

As LUAs budget expenditures, one important rule to remember is "no matter how the budgeted amount was determined, be sure to document the method and variables used." When comparing actual results with the adopted budget, this procedure will allow LUA officials to determine "what changed and why." The answers to these questions will allow for improved budgeting in the future.

Budgeting for QBE Programs

As Chapter II-7 explains, LUAs must budget and spend the majority of a QBE program allocation (e.g., 90% of a specific QBE program) in the specific QBE program, unless flexibility has been provided through a charter system or strategic waiver contract. As LUA personnel prepare operating budgets, care must be taken to insure that the budget includes at least the minimum amount of the QBE allocation in each QBE program area. That is, the total of personnel costs and non-personnel costs must total at least 90% of the program allocation.

The personnel budgets alone (i.e., not considering supplies and equipment) almost always exceed the minimum QBE program requirements in many LUAs. Therefore these LUAs have not had to worry about budgeting the appropriate amount for non-personnel costs in specific QBE programs.

Budgeting Staff

Of all the LUA costs, staffing is the most expensive since personnel costs constitute more than 85% of the total general fund budget in most LUAs. The school district management may choose to set their budget policy using the cash basis or GAAP basis as earlier discussed. The following paragraphs regarding budgeting staff are based on GAAP basis budgeting. It is recommended that salaries are budgeted on a GAAP basis, as well as non-salary costs (i.e., when the liability has been incurred).

Teacher Salaries. The budget should include twelve months of the most current salary contract (i.e., the ten payments of the new contract actually made in the current budget year and the two payments to be made in the subsequent budget year). As noted in the revenue section of this chapter, GAAP requires that if the July and August payments are accrued at June 30, the QBE allocation used to fund a portion of these salaries must be accrued for financial statement purposes. Obviously, if the budget includes the new contract (i.e., September 1 - August 31), the actual expenditures compared to this budget must include the salary accrual for the July and August payments.

Regular teacher salaries must be budgeted by QBE program. Budgeting for teacher salaries should consider the state salary increases if using the state salary scale. This amount should be based upon prior year history and the most current salary schedule.

Another budget issue to consider is whether to budget the actual salaries for each individual teacher by name or to budget the average LUA teachers salary for each budgeted position. Some larger LUAs will budget their estimated average salary for each of the authorized teacher positions in each QBE program. When using this budgetary method, a subsequent budget transfer may be necessary if a number of teachers charged to a single QBE program have salaries in excess of the LUA average (i.e., resulting in an over expenditure of a QBE program salary line-item).

The budget for vacant teaching positions could be based on the average LUA salary or the salary for a T-4 teaching certificate (i.e., the minimum teacher's salary). Budgets for unfilled new positions should be consistent with the budget methodology used for vacant positions. Teacher changes occurring during the year usually are not considered in the budget process. Replacements may be hired either at the same, or at lower or higher salaries. These differences usually are immaterial and are not considered in determining the salary budget.

In most LUAs, a teacher's salary may consist of four components:

- the minimum salary from the state salary schedule
- the LUA general supplement (if any)
- a supplement for extended days (as applicable)
- a supplement for extra assignments

For example, to budget the salary for a teacher with a T-4 certificate, step 7, who works a seventh period (i.e., extended day) the following computation is applicable based upon the salary schedule located at GaDOE QBE Schedules.

T-4 step from state salary	$39,125
Local Supplement	
	<u>1,800</u>
Hours in instructional year (8 hours @ 190 days)	$40,925
	1,520
Hourly rate = $40,925 ☐ 1,520 =	
	$26.92
One hour per day @ 180 days ($26.92 ☐ 180 days)	
	$4,846

The budgeting of substitutes is more complicated. Normally, past history provides a basis to develop the projected budget. A ratio of number of substitute days to number of certified teachers is developed. This calculation provides the projected total number of substitute days. This amount times the daily substitute rate (e.g., $50 per day) provides the total substitute teacher budget. However, budgeting for substitute teachers by QBE program category is nearly impossible. Substitutes should be budgeted as an average for each school, and allocated to each QBE program code as appropriate based on actual need.

Non-teaching salaries. The number of lunchroom personnel might be determined based upon:

- the number of labor hours per meal.
- the number of meals per person (e.g., 85 meals per person).

Custodial personnel might be based upon various ratios such as:

- one custodian for each five teachers.
- the number of square feet cleaned.

The number of bus drivers needed will vary based upon the number of routes to be driven. In addition, some drivers will drive multiple routes. Generally, the number of driving hours based upon an average per hour rate will be used in developing this personnel budget.

Usually actual salaries for lunchroom, custodial and transportation personnel are budgeted on the GAAP basis.

Employees with twelve month contracts, such as principals, coordinators, central office staff etc., should be budgeted on a GAAP basis since their contract periods usually coincide with the LUA's fiscal year.

LUAs often prepare a table of authorized non-teaching positions (see Exhibit IV-32-11).

EXHIBIT IV-32-11
TABLE OF AUTHORIZED NON-TEACHING POSITIONS

SAMPLE COUNTY SCHOOL DISTRICT

NON-TEACHING INSTRUCTIONAL PERSONNEL SUMMARY
FOR FISCAL YEAR 2019

School/Center	Media Aides	Kindergarten Aides	Food Service	Custodians	Courier	Bldgs/Grds	Maintenance/Operations	Secretaries	Clerical	Mechanics	Special Education Aides	Bus Drivers	Bus Monitors	Title 1 Aides	Title VIB Aides	Total
Alpha Elementary	1	4	6	4				2			2			2		21
Beta Elementary	1	2	6	2				2			3			2		18
Chi Elementary	1	4	7	4				2			2			1	1	22
Delta Elementary	1	4	7	4				2			2			2	2	24
Baker Middle	1		11	8				4			3					27
Charlie Middle	1		11	8				4			3					27
Hope Alternative				1				2			3				3	9
Blank County High	2		14	16		1		8	1		6				8	56
Transportation Department								2		4		46	12			64
Maintenance Department						8	6	1								15
Central Services Center				1	1			5	6							13
Total	8	14	62	48	1	9	6	34	7	4	24	46	12	7	14	296

Employee Benefits - A general rule to follow in budgeting employee benefits is that the benefits follow the employee. For example, if a teacher works in three different QBE program areas, this teacher's benefits should be distributed to the QBE programs in the same ratio as the salary is distributed.

Also, the benefits for 10 month employees should be accrued on the GAAP basis in the same manner as the salaries based on the contract period (e.g., social security, Medicare, health insurance and teachers retirement).

Many LUA employees are covered by social security. Since the LUA's cost is based upon a percentage of salaries paid, the calculation is straight forward. However, if the contribution rate increases at January 1, two calculations are required, one for the salaries paid from July 1 - December 31 and one for the salaries paid from January 1 - June 30.

All LUA employees are covered for Medicare.

Teacher retirement is applicable to most LUA personnel. The LUA's contribution rate is determined by the Georgia Teachers Retirement System (TRS) and can be applied directly against the salary budget. The rate for each fiscal year is published by TRS.

LUA personnel are covered by the State Health Benefit Plan coverage. The LUA's contribution rate is $945 per member/per month for certified and classified personnel as of January 1, 2018. The rates for each fiscal year are published by the Department of Community Health.

Budgeting Non-personnel Items

One common problem for budgeting and charging the costs of non-personnel items, particularly supplies and capital outlay, relates to timing. Many LUAs purchase items prior to July 1 for the ensuing year. Often ordering is required prior to the beginning of the new fiscal year (i.e., the year for which the budget is prepared) in order to receive the orders in time for school to begin. However, if ordered supplies or capital outlay is received prior to the beginning of the budget year for which it will be used, the LUA has incurred a liability and these costs should be reported as expenditures in the year ordered. However, in most instances, the budget for these items is provided in the subsequent year. Hence, the desirable accounting for items ordered for next year but received this year is to report those items received as prepaid items (i.e., as an asset), rather than as expenditures. The accounting entry is as follows:

	Account No.	DR	CR
Prepaid Assets (other current assets)	181	$30,000	
Accounts payable	421		$30,000

Chapter I-12 of the FMGLUA provides a detailed discussion of prepaid items and inventories.

Textbooks, school supplies and school buses can be accounted for and reported as above.

An alternative for LUAs to record prepaid expenditures (i.e., supplies and equipment) is by using a central stores internal service fund. To use this fund type, it is recommended that some type of central warehouse be used. Anytime during the year (i.e., assuming cash is available) an LUA may purchase school supplies and these purchases will not affect the current year's budget. The cost of these supplies is charged against the budget when the items are withdrawn from the warehouse. As long as the subsequent year's supplies are not withdrawn until after July 1, they will be charged against the appropriate year's budget. Chapter I-19 provides a detailed discussion of internal service fund accounting.

Non-personnel costs may be more difficult to estimate than personnel costs. Often they are computed using ratios, as adjusted by recent experience. Much information for the request can be located in prior years' budget materials. Five estimation techniques frequently are used in these computations:

- Volume times unit price.
- Workload times average unit cost.
- Work force ratios.
- Ratios to another object class.
- Adjustments to prior year costs.

The *volume times unit price method*, an attractive approach when a particular quantity and single average price are applicable to a relatively high-ticket capital asset. Items such as computers or automobiles may be estimated and other homogeneous categories making up a large part of a cost in an object class.

Unit cost, the second approach, is taken from recent cost experience adjusted for inflation and/or productivity changes. For instance, food expenses for a training class could be estimated by such a method (300 trainee days at $20 per trainee day, for a request of $6,000).

Work force ratios may be used by relating them to the work force. For example, office supplies for principals' offices could be related to the size of staff stationed there. In principal's offices, the number of clerical staff, the number of teachers, or the number of pupils often determine the amount of other budgeted items.

Other ratios may be used when there is some relationship between certain categories and other resources used in the LUA. As an example, a parts inventory for busses may be linked to the number of busses in the fleet.

Prior year costs, the final method, best suited for small, heterogeneous cost categories, makes estimates by adjustments to prior year lump sums. Prior cost is adjusted to reflect anticipated changes in quantities in the budget year. This method may be necessary when other means are not feasible or economical, but it lacks the precision of other techniques.

No formula or ratio can be applied automatically without hazard. Cost ratios and other relationships may change if operating methods are altered, if prices of inputs change, or if production technologies change.

In determining the budget requirements for materials and supplies, a number of general items should be taken into account as a matter of routine.

- The Present Inventory - In relation to annual requirements for materials and supplies, the inventory trends of selected items should he reviewed to determine whether needs are being overstated. Policies governing inventory should be reviewed in the light of current conditions to determine whether it will be necessary or desirable to modify the quantities required to meet the needs for the succeeding year.

- Price Levels - If the LUA's purchasing department has established unit prices to be used for computing dollar costs of certain materials, the extension of needed quantities is easy. If, however, central pricing is not the practice, or if the school or department uses items not covered by the central pricing system, it is necessary to determine a reasonable and defensible unit price for the supplies being requested. If the purchase is a recurring one, reference to the recent unit prices charged will be sufficient as a base; if the item is new or unique, estimates from a number of reputable suppliers should suffice. On a long-term basis, unit prices for many supplies increase due to inflation.

- Changing Patterns in the Use of Supplies - Examination of the use of various types of supplies over a period of years may reflect radical changes in the dollar amounts needed to accomplish a given number of work units. Thus, if the quality of paint used for painting classrooms is improved through some technical advance, the amount required will be reduced per square foot of painting - unless there is a compensating increase in the amount of painting. Some years ago, most motor vehicles required complete lubrication every 2,500 miles. However, improvements in the materials used in movable parts and the lubricants themselves now make it possible to operate some vehicles for 3 - 5,000 miles without a full lubrication or motor oil change. Obviously, the quantity of lubricating oils required to be on hand and used in relation to mileage is less than at a previous time. These types of changes provide a caveat to school personnel and departmental personnel in the projection of unit costs. Such costs must be carefully substantiated in order to provide a realistic, as well as a scientific, method of projection.

- Changing Requirements in Relation to Methods of Producing Results - Closely akin to the foregoing is the matter of changes in requirements for materials arising from fundamental changes in work methods. For example, when a school library changes from the traditional hand charge-out and filing systems to a computer system, there is a marked change in the types and quantities of supplies required. These changes in work techniques must be accompanied by studies of the changes in requirements for supplies in order to make the improvements practicable. Alert school and departmental management will see to it that suitable inquiry is made into needs for materials in the light of changing conditions.

- Responsibility to Provide Balance Between Manpower and Materials - It is the responsibility of the principal or department director to see to it that a proper balance is maintained between personnel and materials. For example, in some LUA maintenance departments, a misguided policy of maintaining strict control over materials results in personnel having to wait for maintenance materials. Some of this waste is unavoidable; however, most of it is avoidable. Detection of avoidable waste is the direct responsibility of management within the department.

Most school principals budget the amount of school supplies required based upon requests from teachers. The cost of these items usually comes from one of three sources:

- Price lists provided by the LUA's purchasing department.

- Price lists provided by vendors.

- Last year's prices increased to reflect inflation.

The budget for office supplies for both the principal's offices and the central office can be determined in the above manner. In larger LUAs, postage costs ordinarily are budgeted separately for each school or department of the LUA.

A comprehensive list of services to be purchased under contractual arrangements for LUAs varies widely. The types of professional and technical services which can be secured on a contractual basis are extremely broad. The extent to which these may be used will depend, in part, on the range of services being rendered by the local LUA. The kinds of professional services most frequently secured by contractual arrangements are:

- Architectural and engineering.

- Legal.

- Management consulting, research, and survey.

- Appraisal.

- Medical and dental.

- Training.

In some circumstances, especially in smaller LUAs or for highly specialized services, it is much more desirable to acquire these services on a contractual basis than to employ such personnel. For example, it may be desirable to contract on a part-time basis for certain types of student medical services for which full-time employees cannot be recruited or afforded. These alternatives must all be taken into account by the LUA budget officer during budget preparation.

Determining the actual amounts to include in the budget for professional and technical services is very difficult. Past history and planned activities are the best tools to use. Historical costs are about the only way to estimate legal fees unless the LUA is in the middle of very costly litigation which might result in extraordinary budget requirements. The budget for consultants usually can be estimated based upon the planned activities of the LUAs. Architectural and engineering costs usually are based upon a certain percentage of a construction project (e.g., 7%).

Into this category of contractual services fall those maintenance and repair services relating to owned office equipment, instructional equipment, and electronic data processing equipment.
Although some LUAs provide their own maintenance, a careful analysis of the costs frequently reveals that a portion of the maintenance and repair services can be more economically performed by contract.

If the LUA contracts for maintenance through contract agreements, the budget for these items is straight-forward. If maintenance agreements are not used, LUAs must look at past history and their capital policies regarding replacing equipment.

If property is to be leased over a substantial period of time, it is desirable for LUA officials to determine whether lease or purchase is likely to be the most economical manner of acquiring its use. Comparisons between the true cost of rental versus ownership call for very careful analysis, including costs of maintenance, depreciation, interest, taxes, obsolescence, convenience and efficiency, employee morale, and other factors. Generally a transition from lease to purchase or from ownership to lease should be accompanied by a formal analysis by the LUA.

Utility services which are secured by most local LUAs through contractual arrangements generally include telephone, technology services, data lines, electricity, water, and gas. There are numerous factors to be taken into consideration by the budget maker in determining the cost for such services. Generally, whenever substantial capital outlays are projected for installation of a new system or renovation of an old one, studies should be made by or for the budget maker to project the costs of replacing the old and installing the new as well as the relative cost for continued operation of the other system. Also a time schedule for the elimination and replacement of outdated systems should be devised (i.e., a capital improvement plan).

Trend data based upon the number of stations served and the amount of use by each unit of the LUA is helpful in determining whether such trends bear a reasonable relationship to the changes in the work performed by such units of the LUA.

Travel often is included in the staff development budget and part of the staff development QBE program. LUA travel can relate to travel between LUA buildings and schools, regional and national meetings, conferences, and training seminars. If possible, specific trips should be used to develop the travel budget. All LUA travel must conform to the travel regulations as issued by the State Accounting Office and the Office of Planning and Budget.

Determining the estimated cost of capital equipment is very similar to that of consumable supplies discussed above. However, the purchase of capital equipment should be incorporated within the LUAs capital improvement program. Chapter IV-3 discusses capital improvement programs and capital budgets.

THE BUDGET DOCUMENT

As LUAs prepare drafts of budgets and these budgets are reviewed, a variety of formats are used including numerous computer printouts. However, the final approved budget may vary.

The table of contents of a quality budget document could include the following:

- Part I - Introduction.
  - Budget Message.
  - Organizational chart.
  - Budget policy.
  - Budget calendar.
  - Goals and objectives.
- Part II - Financial Summary.
  - Fund Financial Summary.
  - Function/Activity/Program Summary.
  - Revenue summary.
  - Expenditure summary.
- Part III - Detailed Financial Data.
  - Function/Activity/Program Summary.
- Part IV - Appendices.
  - Glossary of budget terms.
  - Summary of authorized personnel positions.
  - Index.

There are four characteristics of a quality budget document.

- The budget should be a policy document.
- The budget should be a financial plan.
- The budget should be an operations guide.
- The budget should be a communication device.

<u>The Budget as a Policy Document</u>

For the LUA budget to be considered a policy document, the following information should be included:

- A statement of budgetary financial and/or programmatic policies.
- A statement explaining the relationship of the budget and the Board of Education's Strategic Plan
- An explanation of the budget process.
- Any policy changes should be explained.
- A description of how policies will be implemented (i.e., new policies) and monitored.

<u>The Budget as a Financial Plan</u>

Probably the best definition of an operating budget is that it is a "financial plan." To best portray this definition, the budget document should include:

- An explanation of the organization of the financial structure and operations of the LUA.
- All operating funds and all resources.
- Projections of the LUA's financial condition (i.e., fund balance) at the end of the budget year.
- An explanation of any conditions, or projected events that require changes in operations in order to ensure financial stability or solvency (e.g., a reduction in the amount of QBE program aid).
- Projections of current year financial activity and a basis for historical comparisons (e.g., last year, next year).

- Both an operating and a capital element (see Chapter IV-3 for a discussion of capital budgets).

- A consolidated picture of all operations and financing activity, in condensed or aggregated form.

- A way to measure and account for budget performance.

- A discussion of debt management issues, particularly those that affect current and future operations.

- An explanation of the budgetary basis used (see discussion earlier in this chapter).

<u>The Budget as an Operations Guide</u>

Since the budget drives LUA operations, the budget document should reflect these operations.

It might include:

- An explanation of the relationship between organizational units (e.g., schools) and programs.

- An organizational chart, a description of work force organization (e.g., a personnel count comparison) and sufficient data regarding past operations to provide a basis for comparison.

- An explanation of how capital spending decisions will affect operations and operating expenditures.

- Specific objectives and performance measures/targets.

- A description of the general directions given to department directors, supervisors and school principals for preparation of their budgets.

<u>The Budget as a Communications Device</u>

The budget document and the budget process are excellent opportunities to involve the citizens in the LUA decision making process. Some of the ways the budget document can be used as a communications device include:

- Its availability to the public in some draft form prior to school board adoption (see discussion later in this chapter regarding the required budget adoption process).

- Summary information suitable for use by the media and the public.

- A transmittal letter or a budget message that outlines key policies and strategies.
- A table of contents and/or an index.
- A glossary of budgetary terms.
- Simple charts and graphs to highlight key relationships.
- The sources of revenue and key revenue trends.
- An explanation of the procedure to be used for amending the budget (see discussion later in this chapter).
- Statistical and supplemental date as an appendix.

PRESENTING AND ADOPTING THE BUDGET DOCUMENT

The process to present the budget to the LUA school board and the formal legal adoption should include certain steps:

- Conduct informal budget meetings with board of education. The board is required to hold two public meetings regarding the proposed budget prior to final approval. These meetings can either be held before voting on the tentative budget or after, as long as two public meetings are held prior to final adoption. The meeting details are required to be published in the local legal news organ.
- The board of education tentatively adopts the budget
- Publish the tentative budget on the LEA's public website at least two weeks before formal adoption, to allow public input.
- Revise budget as necessary at next regularly scheduled meeting or special called meeting if necessary
- Conduct necessary hearings if the "roll-back" millage rate will not be adopted
- Adopt budget
- Submit copy of budget to the GA DOE no later than September 30th.

Informal Budget Hearings

After the LUA administrators, department directors, supervisors and school principals have drafted a balanced budget, the superintendent should present the budget to the school board. Normally, the school board will meet in an open, informal public work session. These sessions are extremely important since they allow the school board members an opportunity to review the budget in as much detail as they consider necessary. Some school boards feel a need to review every line-item in the budget, where some school boards only review the "big picture." All school board members should be reminded that if they feel a need to review the details of the budget, these budget work sessions are time for this review.

Two Public Hearings

Before any budget is adopted by the school board, the district must hold two public meetings to discuss the budget and receive public input. These public meetings can be held either before or after the adoption of the tentative budget, as long as two public meetings are held prior to the adoption of the final budget. The two public meetings cannot be held within the same week, and are required to be advertised in the local legal news organ.

Tentative Budget Adoption

At least two weeks prior to the proposed budget adoption date, the school board should tentatively adopt the proposed budget. This adoption can be made in a simple resolution with a copy of the tentative budget attached to the resolution.

Publish Tentative and Final Budgets

After the school board has adopted a tentative budget, the budget must be published on the LEA's public website. The tentative budget is to remain on the website until adoption of the final intial budget. The final initial budget is also required to be published on the LEA's public website. At a minimum, the published tentative budget must be presented by revenue category and expenditure function by governmental fund type. The presentation must also include a notice of the date, time, and place at which final adoption will be considered. Exhibit IV-32-12 is an example of the publication of the tentative budget.

EXHIBIT IV-32-12
ILLUSTRATION OF TENTATIVE
BUDGET ADVERTISEMENT

Tentative Budget
Pine Tree Local Unit of Administration
July 1, 2018 - June 30, 2019
(Amounts rounded to $1,000)
GOVERNMENTAL FUND TYPES

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Fund
Estimated Revenues:				
Local taxes	$92,886	$ -	$ -	$ 18,005
Other local sources	19,000	4,137	61,756	18
State sources		3,059	5,798	---
Federal sources	127,308	1,003	---	---
Other sources	238	2,040	591	----

Total Estimated Revenues		10,239	68,145	18,023
	239,432			
Estimated Expenditures:				
Instruction		10,769		---
Pupil Services	158,840	941	1,679	---
Improvement of Instruction	6,071	106	---	---
Educational Media	5,813	16	22	---
General Administration	6,029	359	---	---
School Administration	2,570	59	36	---
Business Services	13,771	---	---	
Maintenance and Operation of	4,323		61	---
Plant		406		---
Student Transportation	27,597	104	---	---
Central Support Services	12,455	---	4	---
School & Community	4,258		2,609	---
Nutrition		---		
Facilities Acquisition	634		2	---
and Construction		---	84,158	---
Other Support Services	1,135	---	153	16,549
Debt Service	3,300			

		12,767	88,724	16,549
Total Expenditures				
	246,796			
Excess of Revenues Over		(2,548)	(20,579)	1,474
(Under) Expenditures				
	(7,364)			
Estimated Fund Balance,		2,548	21,248	10,422
July 1				
	34,344			
Estimated Fund Balance,		$ ---	$ 669	$,11,896
June 30				
	$ 26,980			

The budget will be considered for final adoption by the board at 7:30 p.m., June 20xx, Room 201, county courthouse.

Though not required, some school boards may decide to present the instruction function category by QBE program. This data provides the reader with more detailed information. All governmental fund types for which the school board adopts budgets must be presented in the legal advertisement. If the budget will be adopted as a special school board meeting (i.e., a meeting other than the next regularly scheduled school board meeting), the legal advertisement must include the date, time and place of the special meeting.

Revise Budget

At the next regular school board meeting after the legal advertisement has been published, the school board may revise the tentative budget as necessary. The specific revision to the tentative budget should be made clear to the school board and any interested citizens.

Adopt Final Budget

This adoption should occur before July 1 of the fiscal year for which the budget applies (see discussion later in this chapter regarding operating without an adopted budget). The budget should be adopted in resolution form including at least the same amount of budget information as that included in the legal advertisement. That is, the minimum budget presentation must be the function within generic fund type. If the school board adopts a budget at a more detailed level, then the budget must be amended every time that detailed level is overspent (see discussion later in this chapter regarding budget amendments).

The school board may not adjourn a board meeting when it is considering the final budget adoption. If additional time is needed to review the budget, the school board should recess the meeting and indicate in a resolution that the consideration of the final budget will continue on a certain date, time and place.

Submit Adopted Budget to GaDOE

Present the adopted, initial budget on the LEA's public website and maintain until an amended budget is adopted. The amended budget must also be presented on the LEA's public website. The adopted budget must be submitted to the GaDOE on date specified annually, generally in September.

OPERATING WITHOUT AN ADOPTED BUDGET

Normally school boards adopt budgets prior to the first day of the new fiscal year (i.e., July 1). However, there are instances when the school board is not able to adopt a budget by July 1. In these instances, there is no authorization for the LUA to spend any funds in the next fiscal year until the budget is adopted formally. Legally, the LUA cannot operate without an approved budget, i.e., appropriation. Since the LUA is a "going concern," it obviously cannot "go out of business."

In order to continue operating when the school board cannot adopt a budget prior to July 1, it must adopt a "spending resolution" which authorizes the superintendent to spend funds in the new fiscal year until the budget is adopted.

The initial resolution should be limited to one month of operations. If the budget is not adopted prior to

August 1, the school board should adopt a second "spending resolution" for a second one-twelfth of the prior year's budget. A "spending resolution" is provided as a "stop-gap" measure and school boards should make all efforts to adopt their budgets prior to July 1.

The amount that the board authorizes to be expended in each "spending resolution" should not exceed one-twelfth of the prior year's final amended budget plus debt service and capital expenditures known to be due each month.

The "spending resolution" should be officially recorded in the board minutes and be available for public inspection. If a local board cannot adopt a budget in time to submit it to GA DOE for state board consideration by September 30th, it must request an extension of the due date by notifying the Financial Review Unit, Georgia Department of Education. The extension request must include a copy of each spending resolution adopted by the local board for each of the months for which no budget was adopted.

A suggested "spending resolution" is illustrated in Exhibit IV 32-13. Local boards may modify or add to the language of the resolution so long as the intent is retained.

EXHIBIT IV 32-13
SPENDING RESOLUTION

WHEREAS, the _________________________ for good and sufficient reason is unable to adopt a budget for the fiscal year beginning July 1, 20xx___, and ending June 30, 20xx__; and

WHEREAS, the public exigency is best served by authorizing the superintendent to continue to expend funds to continue operations.

NOW, THEREFORE, BE IT RESOLVED BY THE ________________________ that the superintendent may expend funds from all funds for the month of July 20xx not to exceed one-twelfth (1/12) of the final amended budget for all funds for the fiscal year ended June 30, 20xx, plus debt service and capital expenditures known to be due in July.

Adopted this 16th day of June 20xx.

ATTEST:_________________________ ________________________
Superintendent/Secretary Chairperson
Board of Education

BUDGET ADMINISTRATION

The school board's review and adoption of its annual budget is its most important financial function. The LUA's department directors, supervisors and school principals spend many hours preparing budget requests. Internal budget reviews occur where department directors and supervisors must defend their budget requests to the superintendent.

Once the superintendent has approved the budget requests and the school board has adopted the budget, the process of administrating the budget begins.

The process of controlling an LUA's budget is called "budget administration."

Budget administration, an important phase of the budgetary process, following the adoption of the budget has these objectives:

- The achievement of budget objectives in an orderly and efficient manner.
- The management of resources to obtain budgetary objectives.
- The collection and accounting for revenues in conformity with legal and other requirements.
- The incurring of expenditures in conformity with appropriations and school board intent.
- The provision of adequate stewardship and accounting over LUA resources and how they are used.

Budget Execution

Often a distinction is made between budget administration and budget execution. Budget administration is the act of monitoring actual performance in accordance with the budget and legal requirements. Budget execution is the process of managing budgetary inputs and outputs to obtain budgetary objectives. Budget execution includes the development and institution of the following budgetary controls.

- Financial and accounting controls.
- Management review and controls.
- Program analysis and evaluation.

Financial and Accounting Controls

An LUA can initiate various financial and accounting controls which will assist in controlling their budget spending. This section explains of a variety of these controls.

Purchase Orders. For an encumbrance system to function, LUAs must use purchase orders. In addition, an effective purchase order system is the primary vehicle to assist in controlling an LUA's budget. In all LUAs, regardless of size, purchase orders should be used for most purchases and there should be some centralized control of the purchase orders. Some large LUAs hire full-time purchasing directors to control the issuance of purchase orders. In other LUAs, various department directors, school principals or their staff calls the central office to receive authorization for a purchase (i.e., a purchase order number) before making the purchase. However, the effectiveness of a purchase order system is defeated if purchases are made before actually receiving the approval for the purchase. Chapter IV-4 presents a detailed discussion for LUA purchasing.

Encumbrance System. An encumbrance is a term unique to governmental accounting and financial reporting. The accounting and budgeting literature defines encumbrances as "obligations of appropriations." Examples of documents that result in encumbrances include purchase orders and contracts. Once an LUA issues a purchase order or signs a contract, the LUA has obligated a portion of a specific appropriation for a specific budget item. Without the use of an encumbrance accounting system, it is very difficult for an LUA to control its spending, unless the LUA is extremely small. The amount of the encumbrance is posted to the ledger (i.e., the expenditure account) and the available budget balance is reduced. After the purchase is received or the contract is complete, the encumbrance is removed from the ledger and the expenditure is recorded. Chapter I-8 explains accounting for encumbrances.

Budgetary Reporting. In order for LUA personnel to control their budgets, periodic budgetary reports must be prepared for use by department directors, school principals and school board members. A report that includes columns for the current year's budget, the year-to-date expenditures, the outstanding encumbrances and the budget balance provides this control. If the financial report does not include the outstanding encumbrances, the balance would not reflect any outstanding purchase orders or contracts issued and would over-state available budget. School boards through budget and financial policies should ensure that their LUA administrators present monthly budgetary financial reports on a timely basis for their review. If a particular line item is close to being overspent, the school board should ask the LUA administrator why and whether there is a potential problem. Chapter II-1 provides a detailed discussion of interim financial statements.

Allotment Systems. An allotment as a spending authorization of a portion of the appropriations is an important part of a budgetary accounting system. Allotments control the percentage of the annual appropriation (i.e., the budgeted expenditures) which a department director or school principal may spend within a specific period of the fiscal year (e.g., a month or a quarter). In many LUAs, department directors and principals worry about spending budgets, and have little concern or responsibility for the revenues to finance these expenditures. However, if the revenues are not earned, cash may not be available and expenditures can't be paid. For example, the maintenance department director has an annual approved budget of $300,000, $200,000 for salaries and $100,000 for supplies and equipment. In many LUAs the director can spend the non-salary portion of the $100,000 in the first month. However, an allotment system would allot only a portion of the non-salary budget (i.e., $100,000) to the first quarter, such as, $20,000.

The second quarter's allotment also might be $20,000. However, if after six months of the fiscal year the LUA determines that 100% of the revenues will be available, the allotments for the third and fourth quarters would be $30,000, resulting in 100% of the original budget being allotted. The use of an allotment system allows the LUA to reduce the annual appropriation during the year if actual revenues are not consistent with the projected revenues.

An allotment system is one method to control LUA spending, but might not be too popular with department directors and principals who may resist having spending controls placed on them. However, budgetary control and financial stability can be achieved through the use of an allotment system. It coordinates expenditures with cash flows. Allotments keep expenditures within the limits of actual revenues, thus avoiding a potential fund balance deficit at year end.

Often, however, an allotment cannot be used in schools since a large portion of their non-salary budget must be spent early in the fiscal year.

<u>Management Review and Control</u>

In additional to accounting and financial controls, management controls also can assist with budget execution.

Controlling Personnel Positions. If controls are established to help control spending, a very positive step will have been made towards budgetary control and administration. Since personnel are the primary and major cost to LUAs, control of all authorized positions should be established and followed by both the LUA's administration and the school board. When the budget is adopted, each school and department should have an authorized number of personnel positions. Additional positions can be authorized only by the school board. Obviously, circumstances can change after the budget is adopted, however, if each department director and principal is required to establish any positions needs at budget time, the budget can be controlled much easier.

Establishing a Centralized Purchasing System. As indicated earlier, the control of purchasing is a key element in controlling an LUA's budget. Purchasing should be centralized within a single office (e.g., the business office) or person (e.g., a purchasing agent). In addition, a school board should adopt policies and the LUA should develop conforming written procedures to establish control over emergency purchases, confirming orders and petty cash payments. Chapter IV-4 presents a detailed discussion of LUA purchasing.

Travel Regulations. Another type of management control relates to business-related travel. Travel controls provide the procedure for the prior authorization of travel and set forth regulations covering the mode of travel and authorized costs.

A travel request form may be used to gather pertinent data about the trip before travel commences.

Usually trips are approved in advance by an authorized LUA official to assure that they are appropriate LUA business and there is an adequate travel and training budget to cover the costs of the trip. Often these regulations limit the mode of transportation and hotel accommodations and provide a per diem for meals. Statewide Travel Regulations provides the travel rules and regulations that LUAs are required to follow.

Inventory Control System. Another aspect of management control is an inventory system for both fixed assets (e.g., land, buildings and equipment) and consumable supplies (e.g., office supplies, pipe, sand). Capital asset records provide LUA management with information to determine insurance values, replacement costs, excess (surplus) assets, control and accountability, and maintenance costs. An important reason to maintain these records is to control the purchase of new equipment. Chapter IV-7 provides a detailed discussion of fixed asset systems.

Maintaining supply inventories provides adequate control over the ordering and distribution of supplies. In addition, at least an annual physical inventory count should be made. Chapter III-4 provides a discussion of inventories.

Program Analysis and Evaluation

Program analysis and evaluation techniques are available for monitoring budgets. Management analysis can provide for a continuing analysis of work methods and organization as a means of identifying the cost of activities performed, identifying functions where costs are out of line, reviewing the causes of high costs, and comparing performance against standards which LUAs have developed. Program evaluation is a systematic examination of specific activities to provide information to citizens and patrons on the short and long-term effects of the LUA's education programs.

The chief focus of program evaluation is measuring the program's impact or effects. Program evaluation involves identifying specific program objectives, specifying criteria for progress toward these objectives and identifying the population segments that are likely to be affected by the program.

Summary

The operating budget process is an essential component of the financial management process. There is no single model to use for budget preparation. It is important for an LUA to understand the advantages to each approach and use whichever one that will work well for them. It is essential the estimated revenues and appropriations be carefully considered during the budget process. Once a budget is adopted, budget administration plays a key role in ensuring compliance with the resolution.