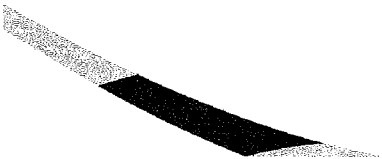


The Board's Role in Financial Operations

GOV 124



Introductions

Introductions

- Dale Keagy – Southern York County SD (Retired) –



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Learning Objectives

- Apply your understanding of fund balance to the budgeting and long-term planning process
- Use reporting documents as a component of the board control and accountability matrix
- Adapt traditional investment policy and strategy to the school district environment
- Interpret your district's purchasing and bidding activities in the context of school law

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State Accounting System

- Classifies expenditures in two ways:
 - By "Function" – similar to a private sector departmental operation
 - By "Object" – similar to a private sector expense category
- Simply a sorting operation – totals are same

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Expenditures – by function

Expenditure-function	2012-13 State-wide
Instruction	56.8%
Instruction support	28.9%
Non-instruction	1.8%
Facilities	0.1%
Debt service	12.4%

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Expenditures – by object

Expenditure	2012-13 State-wide
Salary & benefits	62.1%
Services	21.1%
Supplies/Materials	3.1%
Other	0.8%
Debt service	12.9%

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Board Control and Accountability

- Legal requirements of budget
- Monthly budget reports
- Budgetary transfer control system
- External audits
- Committee system

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Basic Budget Equation

Beginning Fund Balance

Revenue

minus

Expenditures

equals

Ending Fund Balance

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Fund Balance Management

Basic Accounting Equation

What you own (assets)

minus

What you owe (liabilities)

equals

What you're worth

It's complicated, but simply stated, what you're worth is your fund balance. HOWEVER....

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Sub-divisions of Fund Balance

- Not available for current budget because:
 - Non Spendable: Attributed to owned things that are “non-liquid”
 - Restricted: externally enforceable legal restrictions or regulations
 - Committed/assigned: limitation based on board action reflecting plans and/or contingencies
- Unassigned: What's left is available for current budget purposes

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Using Fund Balance

- Assigning or reserving fund balance can be a good planning tool
- Using “significant” amounts to balance budget can be risky finance
- “One time revenues” and “One time expenditures”
- Improper use of fund balance will create an unsustainable need for a spike in tax rate

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Another Question of “Balance”

Need to accumulate funds as a part of planning; hedge against unexpected contingencies; cash flow needs

Keeping taxes as low as possible; avoiding program cuts; defend against criticism of unnecessary accumulation

It's a question of good faith, trust, and stewardship

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Open Discussion Questions



1. Do you know of any discussions at your board level on fund balance? Does your public know of its plans or philosophy? What are they?
2. What are your personal views on fund balance accumulation? What planning reasons or political decisions affect your position?

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Reasons to Accumulate

- Planning for a future building program
- Phasing in tax increase for future debt service
- Debt retirement (pay-off)
- Anticipated spike in health insurance
- Anticipated spike in retirement cost
- Major equipment replacement

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INVESTING SCHOOL DISTRICT FUNDS

Priority #1 - Legality

Priority #2 – Safety and Security

Priority #3 - Policy

Priority #4 - Strategy and earnings

On questions of rate and earnings: "If it seems too good to be true – It isn't! Don't take risks with public funds."

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Investments Issues

- Controlled by school code
- Limited opportunities to invest
- Emphasis is on securing principal
- Different laws for funds from bond issue – IRS oversight

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Board Role in Purchasing

- Public School Code is outdated– does not recognize modern business practice
- The concept of “agency” – policy should define role of administration as your “purchasing agent”
- Purchasing authority established in budget
- The role of “Bill List Approval”

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Basic Bidding

- The three bidding levels in law:
 - Purchases in excess of \$18,900 – bid
 - Purchases between \$10,200 & \$18,899 – quotation process
 - Purchases under \$10,200 – discretionary
- Stricter purchasing rules can be established by local policy
- Differentiation for “services”

Amounts subject to C.O.L. adjustment

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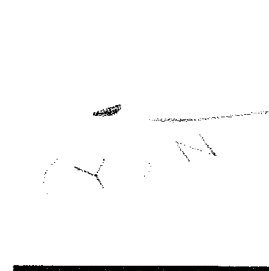
Cooperative/Shared Purchasing

- Role of school district “stand alone” purchasing is considerably diminished
- Joint purchasing boards and contracts
- Joint operations and agreements
- Statewide (or nationwide) purchasing contracts

The dollar amount of purchasing not subject to a competitive process is insignificant in most school districts

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Let's Review with a Quiz



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Quiz – Question 1

TRUE or FALSE: Because there are few reports required in law, a school board is severely limited in its knowledge of its administration's financial activities

FALSE: An extensive, required budgetary reporting system is in the law that makes the board's knowledge absolute, including reinforcing audit reports. Further, budget deviations must be board approved.

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Quiz – Question 2

TRUE or FALSE: The basic "net worth" equation subtracts assets from liabilities and is the first step in understanding fund balance.

But it is only a first step. Fund balance can be subdivided into categories that help make it a tool for short and long-term financial planning.

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Quiz – Question 3

TRUE or FALSE: A school district's fund balance must be used in its entirety before taxes can be raised.

FALSE: In fact, it is bad planning to take this approach to fund balance management. Properly used, fund balance is a valuable tool in long-term planning.

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Quiz – Question 4

TRUE or FALSE: The term "Unassigned Fund Balance" refers to the component of fund balance available for current budget purposes.

But spending fund balance to zero as a budget-balancing mechanism is not a wise financial strategy.

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Quiz – Question 5

TRUE or FALSE: A school board can legally “commit” a portion of its fund balance in anticipation of future financial obligations or contingencies.

Examples of such a commitment are: anticipated future spikes in retirement obligations; debt payment schedules; future building plans.



Quiz – Question 6

TRUE or FALSE: A school board’s primary obligation in its investment policy is to maximize earnings.

FALSE: The Public School Code limits a board’s discretion in this area. The board’s first obligation is to follow the law. Next the board’s obligation is to ensure investment safety. Return on investment is not a board’s top priority.



Quiz – Question 7

TRUE or FALSE: A school board cannot delegate its responsibility as a purchasing agent and must be directly involved in every purchasing decision.

FALSE: Modern business practice calls for such a delegation. It is not practical for a school board to be involved in day-to-day financial operations. But the delegation should be clearly stated in policy.



Quiz – Question 8

TRUE or FALSE: Only large purchases (as defined in law) must be bid.

And the law defines what is “large” and adjusts it for cost-of-living each year. Further, there is a middle tier that requires a less formal quotation process. This does not preclude, however, a school district from bidding smaller purchases as a matter of local policy



Quiz – Question 9

TRUE or FALSE: The law does not allow for a school district to join with another entity in a purchasing contract.

FALSE: In fact, the law encourages school districts to join in cooperative or joint purchasing arrangements.

This learning event connects with the following PSBA *Standards for Effective School Governance*

- II. Models responsible governance and leadership
- III. Governs through policy
- IV. Ensures that effective planning occurs
- V. Monitors results

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