



School Budgeting Process at the Local Level

Montana School Boards Association and the Montana Association of School Business Officials has designed the materials enclosed to provide helpful information regarding areas of the law and best practices concerning the administration and governance of Montana K-12 public schools. MTSBA does not intend these materials to be a rendering of legal advice. The reader of these materials should request legal advice on specific legal inquiries.

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Terminology and Concepts

Why do we use separate funds?

- to account separately for resources affected by different types of spending restrictions
- because financial reporting standards require it

Fund accounting

- Each fund has a self-balancing set of accounts (debits = credits) to keep the cash flow, revenues, expenditures and equity segregated from the other funds.
- It is desirable to have as few funds as legal and sound administrative requirements make possible.

Terminology and Concepts

20-9-201, MCA Fund Definitions

BUDGETED FUNDS

- Trustees must adopt a budget to spend money
- Local property tax levies are a common revenue source



Voted Levy – hold an election to obtain voter approval

“Permissive” (non-voted) Levy - voter approval not required

NON-BUDGETED FUNDS

- No budget is needed to spend money
- Expenditures are limited to cash available in the fund (20-9-210, MCA)
- No tax revenues

BUDGETED FUNDS	FUND #	FUND NAME	Permissive or Voted Levy?
	01	General	Permissive and voted
	02	Transportation	Permissive
	11	Bus Depreciation	Permissive
	13	Tuition	Permissive
	14	Retirement	Permissive (countywide levy)
	17	Adult Education	Permissive
	19	Non-Operating	Permissive
	28	Technology	Voted
	29	Flexibility	Voted, but tied to state funding
	50	Debt Service	Voted and permissive (SIDs)
	61	Building Reserve	Voted and permissive

NON-BUDGETED FUNDS	FUND #	FUND NAME
	12	Food Service
	15	Miscellaneous Programs
	18	Traffic Education
	20	Lease Rental Agreement
	21	Compensated Absences
	24	Metal Mines Tax Reserve
	25	State Mining Impact
	26	Impact Aid
	27	Litigation Reserve
	45	Permanent Endowment
	60	Building
	70-72	Enterprise
	73-79	Internal Service
	82	Interlocal Cooperative (multi-district agreements)
	81-85	Other Trust Funds

Terminology and Concepts

“Budget Authority” vs. “Cash”

BUDGET AUTHORITY

Budget amounts are *estimates* of what you *intend to receive* in revenue and what you *intend to spend* to operate the school for the year.

20-9-133, MCA:

- Trustees must formally approve (adopt) an expenditure budget in order to spend money during the fiscal year (July 1 – June 30).
- Total expenditures made (or liabilities incurred) during the year must be within the approved budget.

CASH

The *actual* amount of money you have on hand to spend!

Consider this:

“Not everyone pays their tax bill on time.”

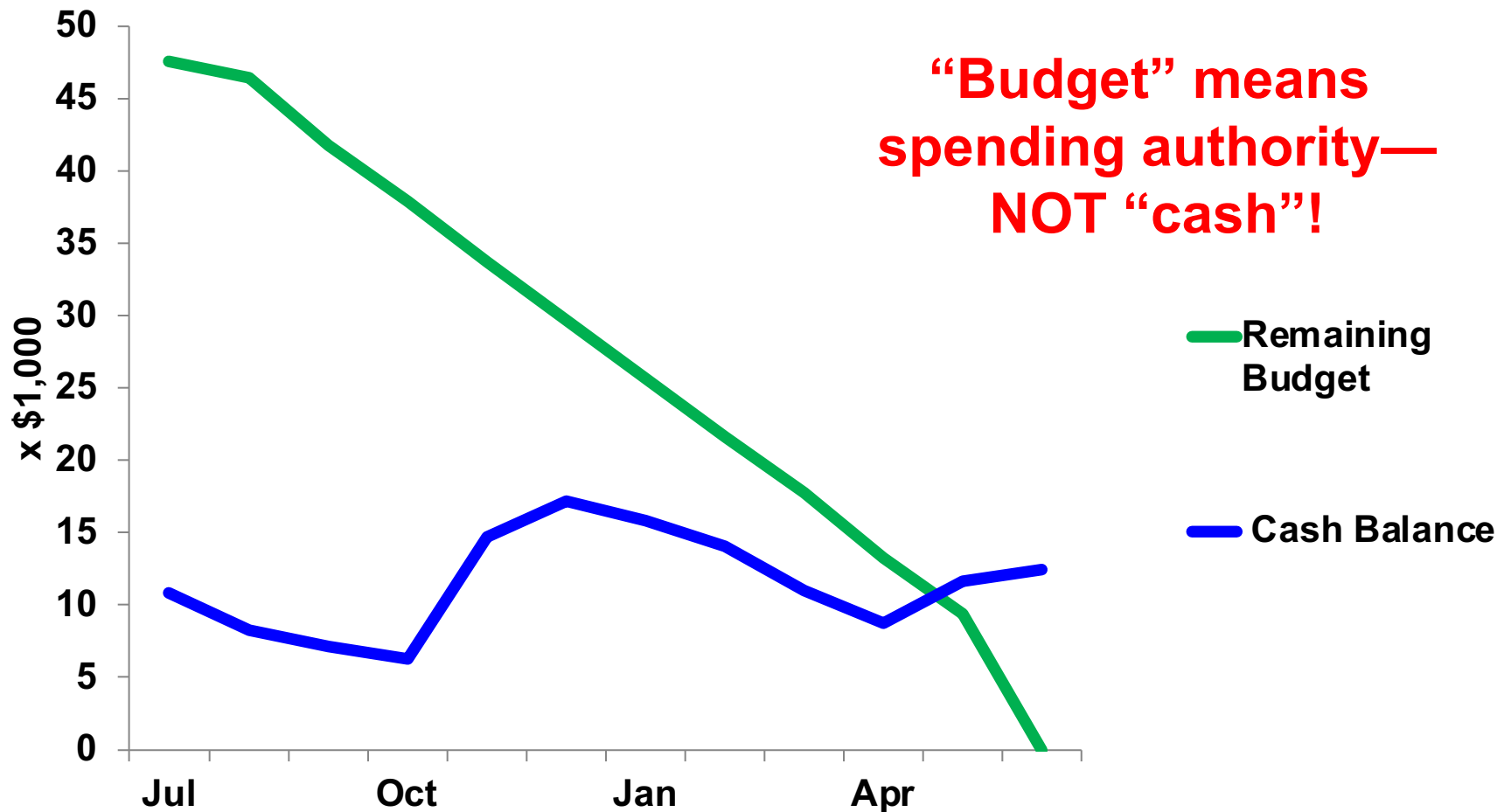
(revenue doesn’t come in when you expect it to)

“Stuff happens!”

(unanticipated events =
unanticipated expenditures)

Terminology and Concepts

“Budget Authority” vs. “Cash”



Terminology and Concepts

“Budget Authority” vs. “Cash”

BUDGET AUTHORITY

Budgeted Revenues

State payments	\$750,000
Facilities use	15,000
Property Taxes	<u>185,000</u>
Total	<u>\$950,000</u>

Budgeted Expenditures

Salaries/Benefits	\$800,000
Textbooks/supplies	40,000
Facilities maintenance	70,000
Insurance	20,000
Field trips/athletics	<u>20,000</u>
Total	<u>\$950,000</u>

CASH

Actual Revenues Received

State payments	\$750,000
Facilities use	17,000
Property Taxes	<u>173,000</u>
Total	<u>\$940,000</u>

Actual Expenditures

Salaries/Benefits	\$755,000
Textbooks/supplies	55,000
Facilities maintenance	80,000
Insurance	20,000
Field trips/athletics	<u>15,000</u>
Total	<u>\$925,000</u>

Change in cash balance **\$ 15,000**

Terminology and Concepts

Fund Balance

Fund Balance (cash + receivables – payables)

Beginning Fund Balance (July 1)

+ Current Year Receipts

- Current Year Expenditures

Ending Fund Balance (June 30)

Terminology and Concepts

Fund Balance – Budget vs. Actual

	BUDGETED	ACTUAL
Beginning Fund Balance	\$ 95,000	
+ Revenues	950,000	
- Expenditures	950,000	
Ending Fund Balance	\$ 95,000	

Terminology and Concepts

Fund Balance – Budget vs. Actual

	BUDGETED	ACTUAL
Beginning Fund Balance	\$ 95,000	\$ 95,000
+ Revenues	950,000	
- Expenditures	950,000	
Ending Fund Balance	\$ 95,000	

Terminology and Concepts

Fund Balance – Budget vs. Actual

	BUDGETED	ACTUAL
Beginning Fund Balance	\$ 95,000	\$ 95,000
+ Revenues	950,000	940,000
- Expenditures	950,000	925,000
Ending Fund Balance	\$ 95,000	

Terminology and Concepts

Fund Balance – Budget vs. Actual

	BUDGETED	ACTUAL
Beginning Fund Balance	\$ 95,000	\$ 95,000
+ Revenues	950,000	940,000
- Expenditures	950,000	925,000
Ending Fund Balance	\$ 95,000	\$ 110,000

Terminology and Concepts

Fund Balance - Example

Fund Balance (cash + receivables – payables)

Beginning Fund Balance (July 1)	\$ 95,000
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+ Current Year Receipts	\$940,000
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<u>- Current Year Expenditures</u>	<u>\$925,000</u>
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Ending Fund Balance (June 30)	\$110,000
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Terminology and Concepts

“Fund Balance”, “Reserves” and “Reappropriation”

Fund Balance (cash + receivables – payables)

Beginning Fund Balance

+ Current Year Receipts

- Current Year Expenditures

Ending Fund Balance

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graph TD; A[Ending Fund Balance] --> B[Reserves (keep for cash flow purposes)]; A --> C[Reappropriate (reduces revenue requirement in next year's budget)]; A --> D[Return to state (General Fund only)];
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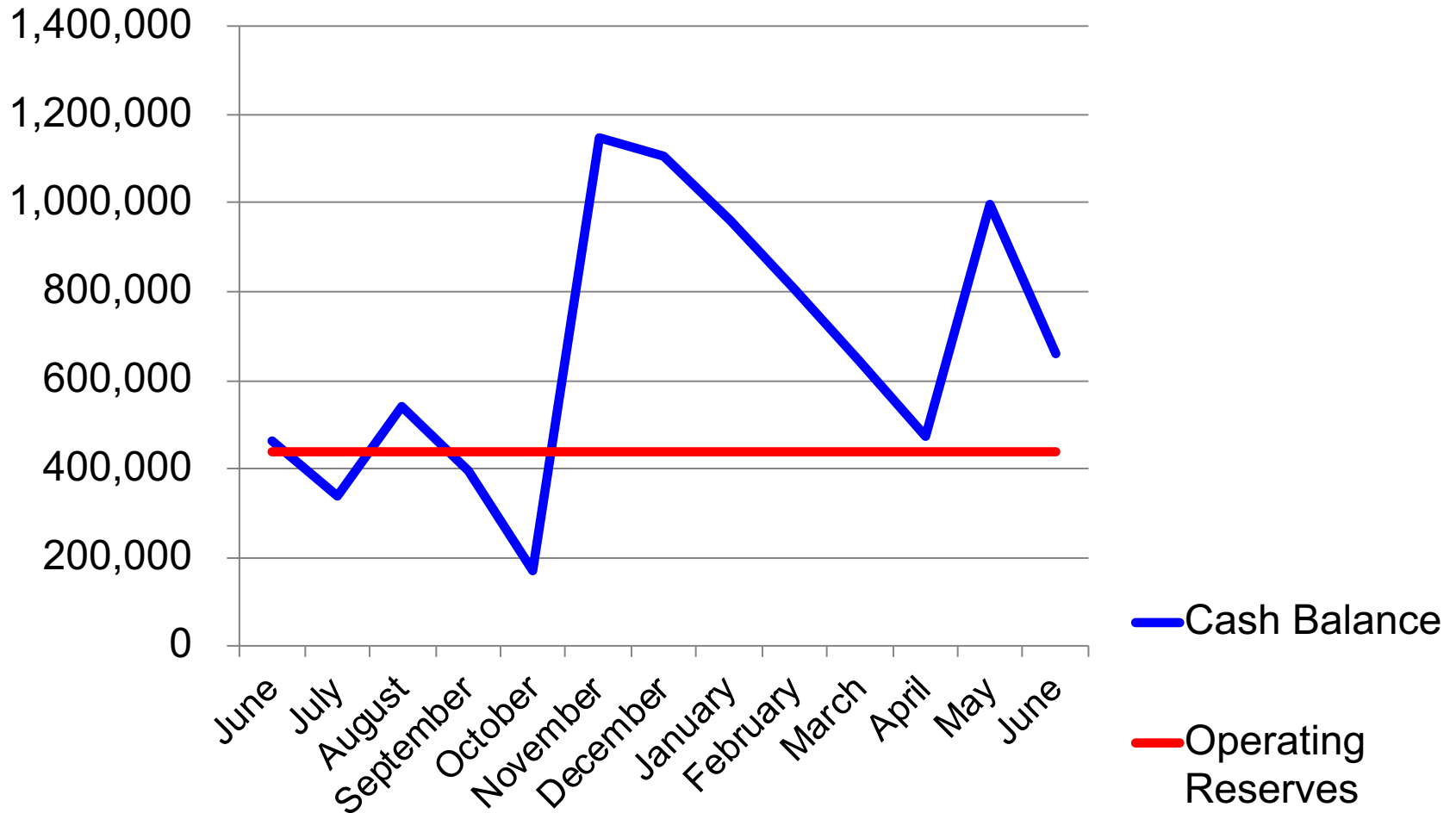
Reserves (keep
for cash flow
purposes)

Reappropriate
(reduces revenue
requirement in
next year's budget)

Return to state
(General Fund
only)

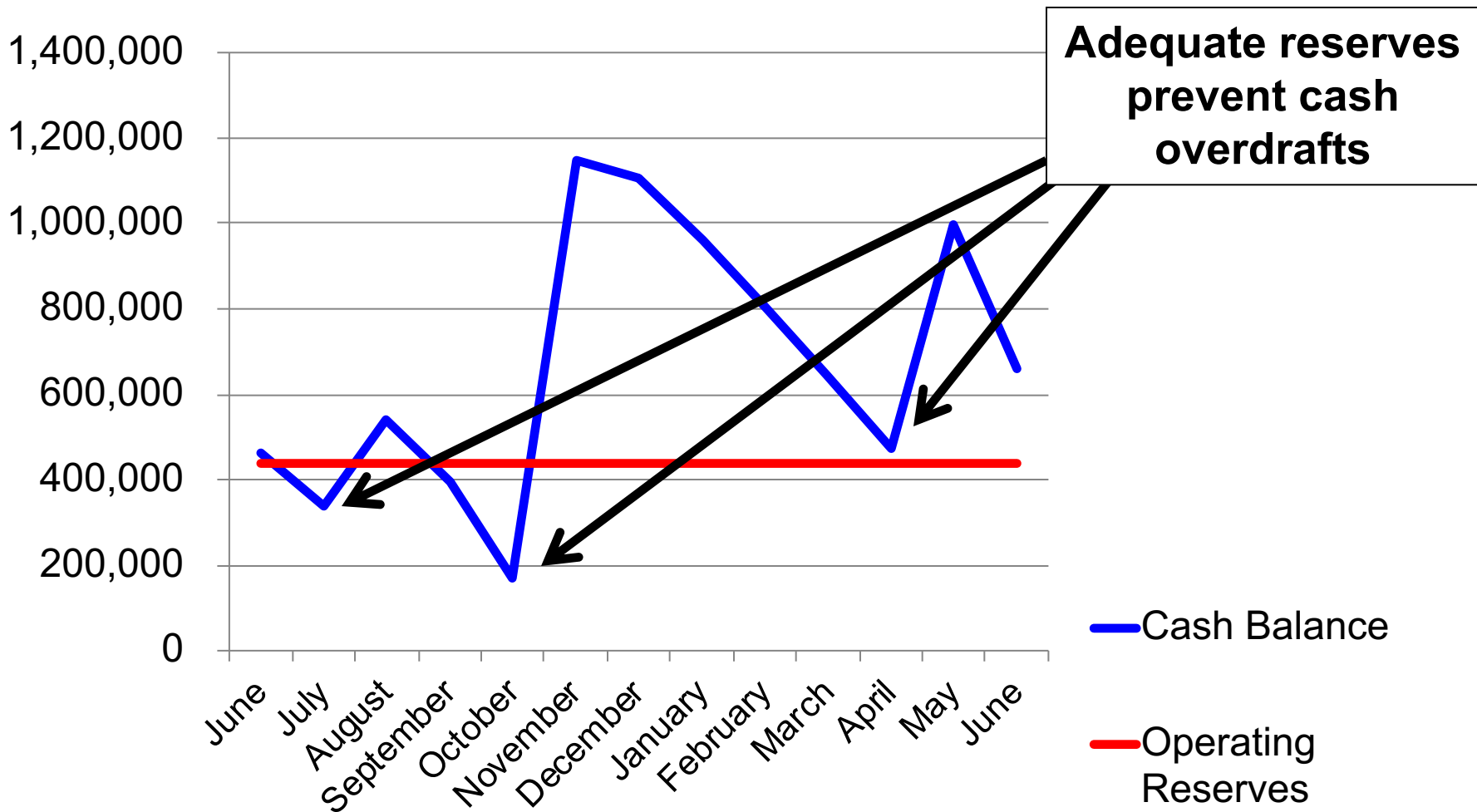
Terminology and Concepts

Operating Reserves



Terminology and Concepts

Operating Reserves



Terminology and Concepts

Operating Reserves

Reserves - year-end cash balances kept for cash flow

Fund	Operating Reserve Limit
General (01)	Greater of \$10,000 or 10% of ensuing year budget (20-9-104, MCA)
Transportation (10)	20% of ensuing year budget (20-10-144, MCA)
Retirement (14)	20% of ensuing year budget (20-9-501, MCA)
Adult Ed (17)	35% of ensuing year budget (20-7-713, MCA)
Debt Service (50)	Approximate amount of payments due between July 1 and November 30 of <i>second</i> ensuing year (20-9-438, MCA)

Terminology and Concepts

“Fund Balance”, “Reserves” and “Reappropriation” - Example

Fund Balance (cash + receivables – payables)

Beginning Fund Balance	\$ 95,000
+ Current Year Receipts	940,000
<u>- Current Year Expenditures</u>	<u>925,000</u>
Ending Fund Balance	\$ 110,000

Assume next year's adopted budget is \$ 975,000

Operating reserves @ 10% = _____

Terminology and Concepts

“Fund Balance”, “Reserves” and “Reappropriation” - Example

Fund Balance (cash + receivables – payables)

Beginning Fund Balance	\$ 95,000
+ Current Year Receipts	940,000
<u>- Current Year Expenditures</u>	<u>925,000</u>
Ending Fund Balance	\$ 110,000

Assume next year's adopted budget is \$ 975,000

Operating reserves @ 10% = **\$97,500**

Terminology and Concepts

“Fund Balance”, “Reserves” and “Reappropriation” - Example

Fund Balance (cash + receivables – payables)

Beginning Fund Balance	\$ 95,000
+ Current Year Receipts	940,000
<u>- Current Year Expenditures</u>	<u>925,000</u>
Ending Fund Balance	\$ 110,000

\$97,500

Reserves (keep
for cash flow
purposes)

Reappropriate
(reduces revenue
requirement in
next year's budget)

Return to state
(General Fund
only)

Terminology and Concepts

“Fund Balance”, “Reserves” and “Reappropriation”

Fund Balance Reappropriated

Ending Fund Balance

- Reserves

=Fund Balance Reappropriated

- Used *in place of new revenue* to fund the ensuing year's expenditure budget
- Reappropriation is mandatory after reserves are maximized
- General Fund reappropriation is limited to 15% of the maximum budget (excess is remitted to the state)

Terminology and Concepts

“Fund Balance”, “Reserves” and “Reappropriation” - Example

Fund Balance Reappropriated

Ending Fund Balance	\$ 110,000
- Reserves	97,500
<hr/>	
=Fund Balance Reappropriated	?

Terminology and Concepts

“Fund Balance”, “Reserves” and “Reappropriation” - Example

Fund Balance Reappropriated

Ending Fund Balance	\$ 110,000
- Reserves	97,500
<hr/>	
=Fund Balance Reappropriated	\$ 12,500

Terminology and Concepts

“Fund Balance”, “Reserves” and “Reappropriation” - Example

Fund Balance (cash + receivables – payables)

Beginning Fund Balance	\$ 95,000
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<u>- Current Year Expenditures</u>	<u>925,000</u>
Ending Fund Balance	\$ 110,000

\$97,500

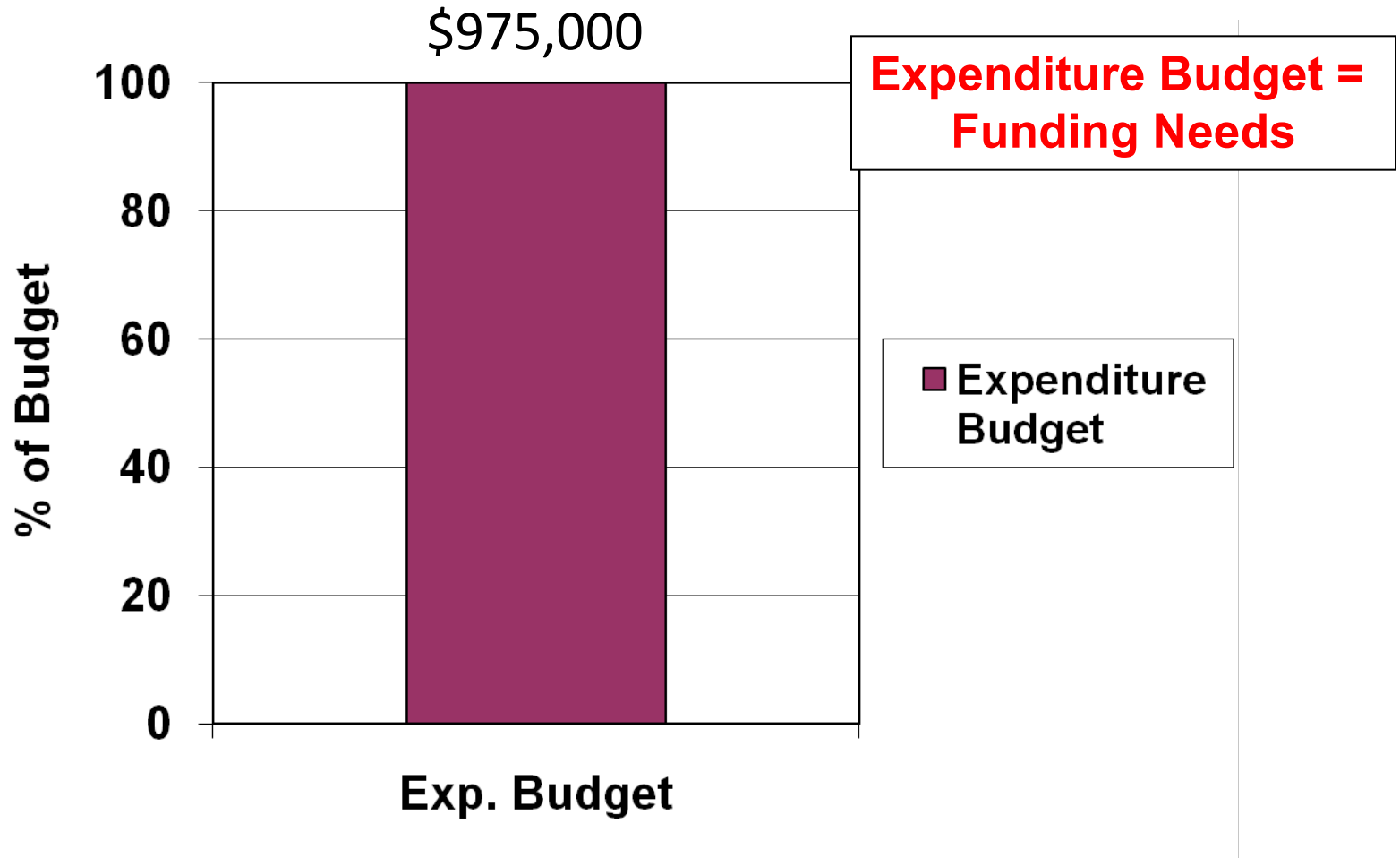
Reserves (keep
for cash flow
purposes)

\$12,500

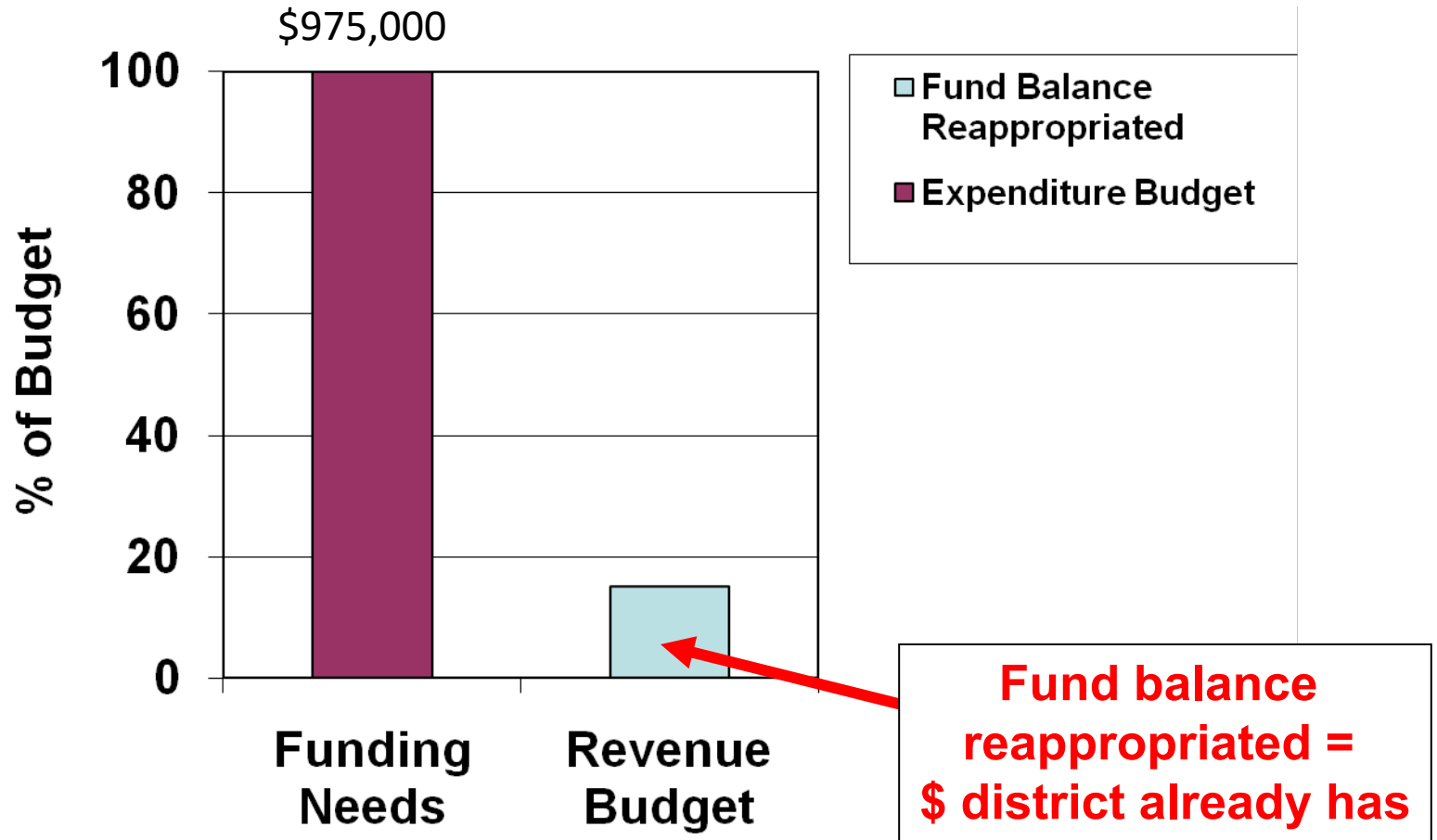
Reappropriate
(reduces revenue
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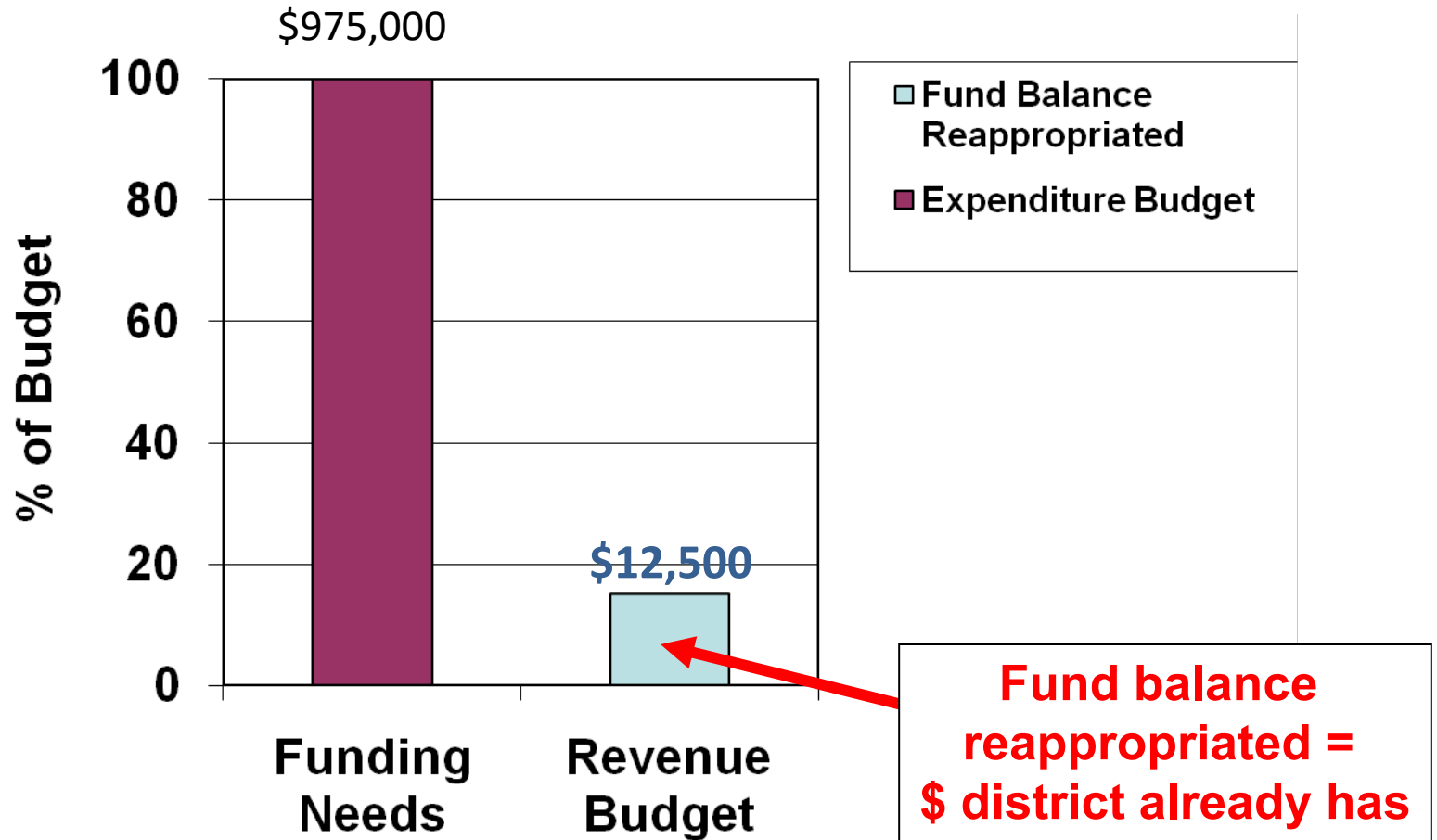
Understanding Fund Balance Reappropriated



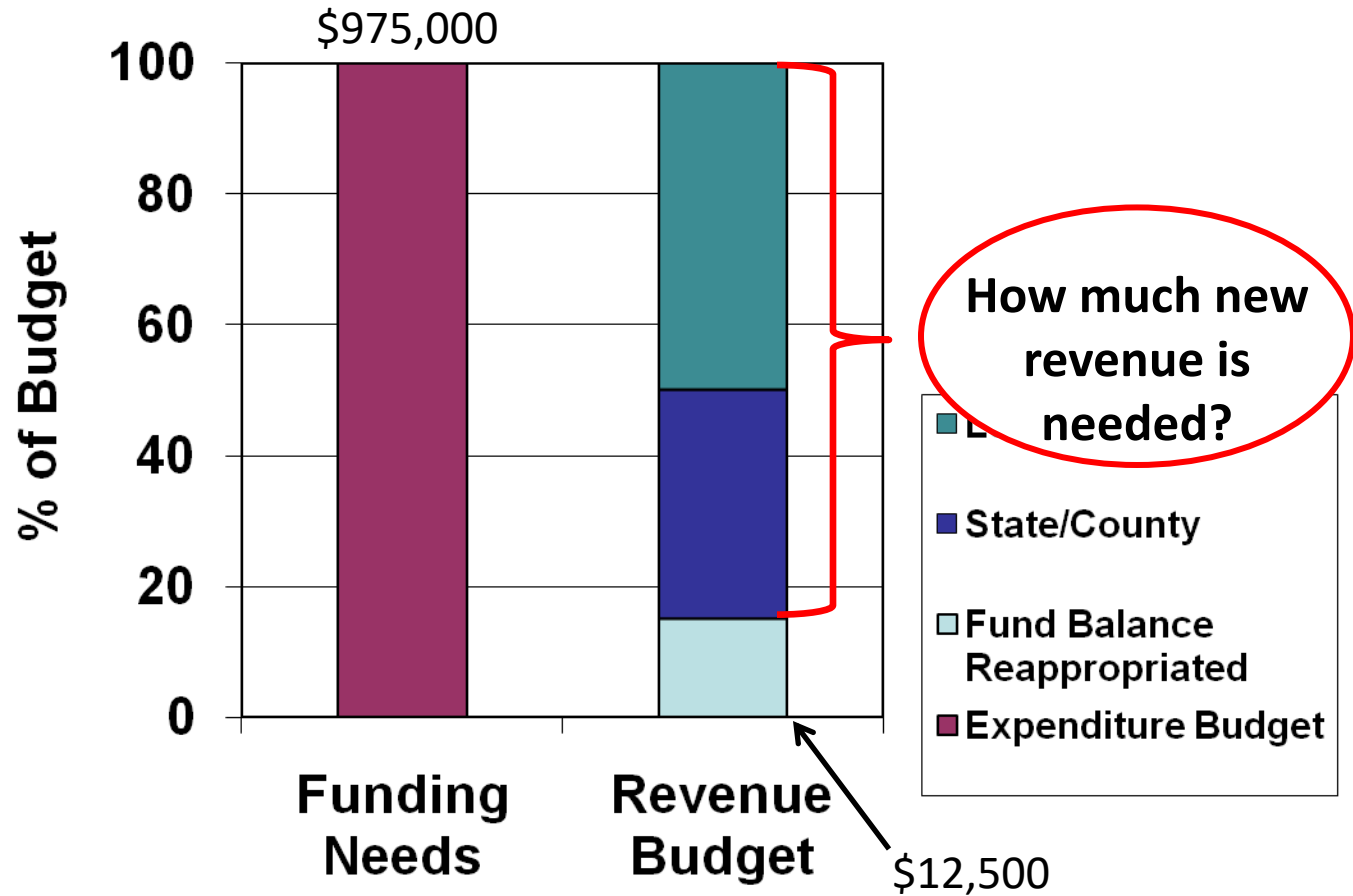
Understanding Fund Balance Reappropriated



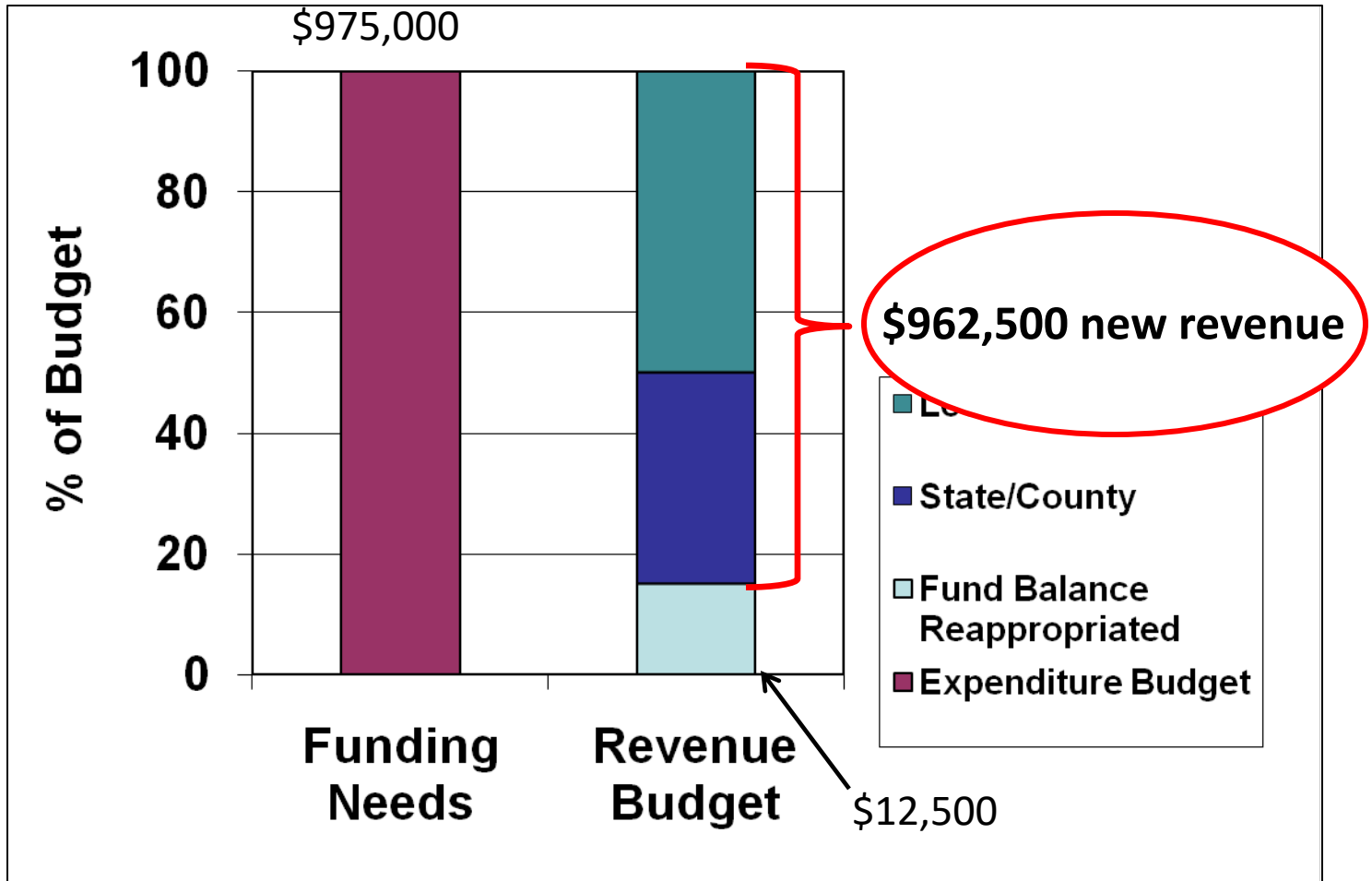
Understanding Fund Balance Reappropriated



Understanding Fund Balance Reappropriated



Understanding Fund Balance Reappropriated





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