

## **Budget Laws**

### **SIGNIFICANT LAWS THAT IMPACT**

#### **BUDGET AND FISCAL ADMINISTRATION**

The Pennsylvania Public School Code of 1949, as amended, gives local Boards the authority to conduct the financial affairs of the District. The School Code contains provisions that require the Board to perform certain acts (mandatory) and provisions that provide discretion to the Board to either act or refrain certain conditions have been satisfied (prohibited). The School District is also subject to statutes of the Commonwealth such as the Municipal Code, the Fiscal Code and other laws that apply to governmental entities.

##### **Budget Statutes**

The School Laws of Pennsylvania, as enacted by the Commonwealth legislature, mandate that public schools districts approve an annual budget on the modified accrual basis of accounting for the operation of Governmental Funds (the General Fund and the Special Revenue Funds) prior to the start of the fiscal year. Section 687 of the School Code requires that a proposed budget be prepared at least thirty (30) days prior to adoption of the budget for the following fiscal year in a format stipulated by the Department of Education. The format requires that revenues and expenditures be presented by function and object classification.

The School Code also mandates that the proposed budget be available for public inspection at least twenty (20) days prior to the date set for adoption. Districts are also required to provide notice prior to any final action on the budget. The "Notice of Proposed Budget" must be published at least once in a newspaper of general circulation within the community at least ten (10) days before the adoption is a final budget. The notice must include the time and place of the meeting at which the final budget will be adopted and a statement that the proposed budget is available for public inspection.

The actions for final adoption of the budget and the necessary appropriations required to put it into effect must be voted on at a duly advertised public meeting. Section 508 of the School Code requires a majority vote of the Board of School Directors to adopt the annual budget and to levy and assess taxes. The vote must be by a duly recorded (roll call) vote that records how each member voted. Failure to have five affirmative votes renders action of the Board of Directors void and unenforceable. Failure to adopt a budget by July 1 causes the District to lose authority to expend funds.

Within fifteen (15) days after adoption of the budget, a certified copy of the adopted budget must be provided to the Department of Community Affairs in conformance with section 687 of the School Code. Section 687 of the School Code also prohibits deficit financing in public schools. Accordingly, the total amount of the adopted budget may not exceed the amount of funds, including the proposed annual tax levy and state appropriations, available to the District.

The Commonwealth has established a mandatory accounting system that must be used by every school entity that is based on Generally Accepted Accounting Principles (GAAP) for governmental units. GAAP is consistent with state and federal laws. The accounting system provides for the establishment of Governmental Funds including a General (Operating) Fund and Special Revenue Funds that include a Capital Reserve Fund and an Athletic Fund. The legal authority for the operation of the Capital Reserve Fund is specially provided in Section 2932 of the Municipal Code. Monies in the Capital Reserve Fund must be kept in a special fund or account, separate and apart from any other fund. All interest earnings from the investment of Capital Reserve funds must be paid into the Capital Reserve Fund as set forth in Section 2932 of the Municipal Code.

The monies in the Capital Reserve Fund may be expended only for capital improvements and for replacement of and or additions to public works and improvements, and for deferred maintenance thereof,

as approved by the Board of School Directors. Specific projects must be identified, together with the year of proposed completion.

Under Section 2932 of the Municipal Code, the Board of Directors may authorize transfers from the General Fund into the Capital Reserve Fund from a one (1) mill levy of general taxes designated for the purpose of this fund. Additional monies in the Capital Reserve Fund may consist (a) of monies transferred into the Capital Reserve Fund during any fiscal year from appropriations made for any particular purposes, which may not be needed; and (b) of surplus monies in the General Fund of the treasury of the District at the end of any fiscal year.

The authority for the establishment of the Athletic Fund is located in Section 511 of the Public School Code. The purpose of the Fund is to account for revenues generated through gate receipts incurred by the interscholastic athletic program. Section 511 mandates that the Board of Directors prescribe, adopt and enforce reasonable rules and regulations, as it may deem proper, regarding the management, supervision, control or prohibition of exercises, athletics, or games of any kind.

### **Audits of Financial Records**

All school districts are required to have an annual audit of financial records. The audit must be completed by an independent certified public accountant. Such audit must be prepared in accordance with Generally Accepted Accounting Principles (GAAP) to insure consistency. Completion of the audit and insurance of the audit report marks the end of the budget cycle for a single year.

In addition to the requirement of an annual audit, Section 2553 of the Public School Code requires the comptroller of the Department of Education to perform regular audits and field audits and may, at his or her discretion, perform special audits to verify receipts and expenditures. Such audits are usually limited to specific use of program funds given for state and federal projects.

The state Fiscal Code requires the auditor general's office to audit the accounts and records of all school districts. Examination is made by the Auditor General of receipts and expenditures related to state payments for public education. The purpose is to verify that the monies received from the Commonwealth were properly paid and that the District properly complied with all laws and regulations.

The Bureau of School Audits of the Auditor General's office has also published specific guidelines for the audit of student activity funds (Agency Funds). The objectives are to insure that basic internal controls are established for effective management of the organization; that all cash intended for the organization is received, promptly recorded, reconciled and kept under adequate security; that cash is disbursed only upon proper authorization, for valid purposes, and is properly recorded; that purchases and accounts payable are supported by appropriate documentation, promptly paid and properly recorded; and that inventory is appropriately safeguarded and properly recorded.

### **Bidding and Purchasing Statutes**

School Boards are required under Section 801 of the Public School Code to purchase and provide all furniture, equipment, textbooks, school supplies and other items for the use of the District to maintain the educational environment. Section 807.1 (as amended by Act 30 of 1990) sets forth the requirement for competitive bidding at \$10,000 or more. However, any purchases of \$4,000 but less than \$10,000 requires three price quotations.

Purchases of \$10,000 or more require public notice by advertisement once a week for three weeks in not less than two newspapers of general circulation. The Board must accept the lowest responsible bid (where kind, quality and material are equal). Boards may reject any and all bids or select a single item from any bid.

Section 521 of the school Code permits purchases to be made through intergovernmental cooperative agreements (joint purchases agreements). School entities may also "piggy-back" on state or other government contracts following the appropriate legal requirements. Even though purchasing may require competitive bidding, Boards may establish reasonable criteria such as color, unit/size, or any other

reasonable criteria specific to the District's needs. The School Code also provides for the exemption of several items from competitive bids. The exceptions include but are not limited to: globes, maps, textbooks, educational films, and teacher demonstration devices. Services are also excluded from the competitive bidding requirement but school districts may choose to bid service agreements and contracts.

### **Cash Management and Investments Statues**

Section 440.1 of the Public School Code permits the investment of funds in (a) United States Treasury bills; (b) short-term obligations of the United States Government or its agencies or instrumentalities; (c) obligations of the United States of America or any of its agencies or instrumentalities back by the full faith and credit of the United States of America; (d) obligations of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth; (e) obligations of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision; or (f) deposits in savings accounts, time deposits or share accounts of institutions insured by the Federal deposit Insurance Corporation or the National Credit Union Share Insurance Fund to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository.

### **Construction of Facilities**

Boards are charged with the requirement to provide the necessary grounds and suitable buildings to accommodate all school-age children in the district. This authority also includes the renovation and expansion of existing facilities. In most cases, school districts seeking state reimbursement are required to participate in PlanCon, an acronym for the Pennsylvania Department of Education's Planning Construction Workbook. The process involves a number of phases, beginning with a definition of the project and justification of its need. Succeeding steps include: site approval; estimated project cost data; architectural reviews; cost data based on actual bids; and finally, approval of the bond issue or other funding mechanism. Specific requirements are detailed in regulations adopted by the State Board of Education and in standards promulgated by the Pennsylvania Department of Education.

School Boards are required by Act 34 of 1973 to conduct public hearings. A second hearing is required if the bids are received if a construction project exceeds the initial Department of Education approved estimates by eight (8) percent. Act 34 is also referred to as the "Taj Mahal Law," because it requires voter approval of any building project tat exceeds per-pupil cost figures that are revised annually to reflect changes in the cost of living. Alterations to existing buildings are excluded from this requirement. School buildings may be financed in a variety of ways that include: local authority, state authority, general obligation bonds or local funds.

### **Payment of Financial Obligations**

Section 439 and 607 of the Public School Code provide direction on the payment of financial obligations. Section 439 requires that all payments be approved by the Board of School Directors. An order to pay must be signed directly or through facsimile signature by the Board President. Bills may be paid prior to Board approval for certain conditions that include the receipt of a discount or the avoidance of a late charge or due to other advantages that may accrue to the District such as increased interest income through proper cash management. Section 607 requires that proper school order be drawn prior to payment, that there be sufficient funds in the treasury and that a separate order be drawn for each account or payment. Boards are also permitted to establish policy regarding process and procedures for the disbursements of school funds including such matters as payments prior to Board approval.

The Fiscal Code of the Commonwealth (as amended by Act 138 of 1994) also requires political subdivisions, including school entities, to pay interest penalties to certain qualified small businesses for regular, every day, normal goods and services when payments are more than fifteen (15) days past due. Past due is defined as the terms for payment as specified in the contract or thirty (30) days after receipt of a proper invoice.

The Public Works Contract Regulation Law (as amended by Act 142 of 1994) regulates the payment to contractors and subcontractors working on public construction projects. Under the law, school districts are required to make payment or incur interest penalties, to contractors and subcontractors within twenty (20) days after delivery of the invoice unless other terms are set forth in contract documents to which school districts must adhere or incur interest penalties.

## GLOSSARY

This glossary contains definitions of terms commonly used in budget discussions and preparation, and not specially defined elsewhere, and such additional terms as seem necessary to provide a common understanding concerning financial accounting procedures for schools. The glossary has been divided into three sections: (1) those terms specially used in the Revenue Budget; (2) those terms specifically used in the Expenditure Budget; and (3) those terms which are not primarily financial accounting terms but have been included because of their significance for school budgets.

### REVENUE BUDGET TERMS

**Federal Sources:** That revenue from funds collected by the Federal Government and distributed to school districts in amounts that differ in proportion from those which were collected within such school districts. Examples of this revenue would be restricted or unrestricted grants-in-aid such as funds for Handicapped Children, Disadvantaged Children, Vocational Education, and Child Nutrition Programs.

**Fund Balance Appropriations:** Monies appropriated from the district's fund balance to offset the shortfall in expected revenues.

**Local Sources:** That amount of money produced within the boundaries of the school district and available to the school district for its use. Examples of this revenue would be real estate taxes, interest income, rentals and tuition payments.

**Other Financing Sources:** These include funds received from the proceeds from long-term debt, receipt of interfund transfers.

**State Sources:** That revenue from funds produced within the boundaries of and collected by the state and distributed to school districts in amounts different proportionately from the amounts collected within such school districts. Examples of this revenue would be the basic instructional and operating subsidies, and subsidies for specific educational programs such as Special Education and Vocational Education.

### EXPENDITURE BUDGET TERMS

**Benefits:** Money budgeted for benefits of all paid personnel which includes: retirement contribution, Social Security, hospitalization insurance, life insurance, dental insurance, disability insurance, prescription drug insurance, unemployment compensation, worker's compensation and tuition reimbursement.

**Budgetary Reserve:** This account is not an expenditure function or account. It is strictly a budgetary account to provide for contingencies.

**Business Services:** Those activities concerned with the administering of the district's business functions, the accounting for the district's physical inventories, purchasing, storage, and data processing.

**Central Support Services:** Activities, other than general administration, which support each of the other instructional and supporting services programs. These activities include planning, research, development, evaluation, information, staff, and data processing services.

**Community Services:** Activities concerned with providing recreation for the community as a whole, or for

some segment.

**Debt Service:** Includes payments of both principal and interest on all debt of the school district.

**Equipment:** Money budgeted for the purchase of equipment to be used in the operation of the school district.

**Food Services:** This service area includes the preparation and serving of regular and incidental meals, lunches, or snacks in connection with school activities and the delivery of food.

**Fund Transfer:** The transfer of funds from the General Fund to the Capital Reserve Fund, the Athletic Fund and the food Service Fund.

**Instructional Staff Services:** Those activities associated with assisting the instructional staff in improving the content and process of providing learning experiences for students. These activities include library/audio-visual operations, curriculum development, and staff development.

**Other Financing Uses:** Money budgeted for principal payments on debt service and transfers to other funds including General Fund contributions to the Athletic and Food Service Funds.

**Other Instructional Programs:** Elementary and secondary programs not included in regular, special, or vocational education. This includes federal programs, homebound instruction, summer school and alternative regular education programs.

**Other Objects:** Money budgeted for interest payments on debt service, dues, fees, and memberships in school-related organizations.

**Other Support Services:** All other support services not classified elsewhere in the 2000 series.

**Plant Services:** Those activities concerned with keeping the physical plant open, comfortable, and safe.

**Pupil Health Services:** Activities that provide health services, which are not a part of curriculum and instruction. Included are activities that provide students and staff with appropriate, medical, dental, and nursing services as required by the state.

**Pupil Services:** Activities designed to assess and improve the well being of students, to supplement the teaching process, and meet the provisions of Article XIII of the Public School Code of 1949. This includes the Director of Pupil Services, guidance counselors, and psychological services.

**Purchased Professional & Technical Services:** Those services provided by independent persons or firms with specialized skills or knowledge. This includes educational services purchased from the intermediate unit or independent providers.

**Purchased Property Services:** Those services provided by and outside agency, firm or individual to operate, repair, or maintain equipment, buildings, and sites of the district. Included in this area are utilities such as electricity, water, sewer, and trash/recycling removal.

**Purchased Services:** Money budgeted for transportation services, tuition to other schools (intermediate unit, private schools, technical school, other school districts), insurance contracts, staff travel, printing of district information, postage, telephone charges and fidelity bonds for tax collectors and district officials.

**Regular Programs:** Provides for regular education of elementary and secondary students (K through 12).

**Salaries:** Money budgeted for all paid personnel of the school district.

**Special Programs:** Activities designed primarily for students having special needs. These programs include support classes for pre-kindergarten, kindergarten, elementary, and secondary students that have been identified as exceptional. Included here are Berks County Intermediate Unit special education classes and tuition paid to approved private schools for special needs students.

**Student Activities:** School sponsored extra-curricular activities including interscholastic and intramural athletics, band, chorus, speech and debate, etc.

**Supplies:** All items of an expendable nature, which are purchased for use in the schools including supplies and books, used in the operation of the schools, and fuel used to operate the buildings.

**Support Services-Administrative:** Those activities concerned with recommending new policies, administering existing policies, and the developing and implementing procedures in connection with the operation of the school district. It also includes the services of those professional, independent, and separate agencies or individuals that are elected, appointed, or retained to assist in the administration.

**Transportation Services:** Consists of those activities involved with the conveyance of pupils to and from school, as provided by state law. It includes transportation costs only for trips between home and school.

**Vocational Education Programs:** Activities designed to prepare students for entrance into and progress through various levels of employment in occupational fields such as agriculture, business, distribution, health, gainful and useful home economics, and trade and industry.

### **OTHER TERMS**

**Accounting System:** The total structure of records and procedures which discover, record, classify, and report information on the financial position and operations of a school district or any of its funds or account groups.

**Account Group:** These groups' account for and control general fixed assets and unmatured principle of general long-term debt.

**Accrual Basis:** The basis of accounting under which revenues are recorded when they are levied and expenditures are generally recorded when a related liability is incurred, regardless of when the revenue is actually received or the payment is actually made.

**Aid to Families with Dependent Children (AFDC):** This is a federal (60%) and state (40%) program, which provides direct cash payments to families with dependent children. Both the Title I program and the free and reduced meal programs are available to children from families receiving this aid.

**Americans with Disabilities Act (ADA):** This is federal legislation that mandates non-discrimination on the basis of handicap or disability and prescribes that services, activities, programs and facilities be accessible to and usable by handicapped or disabled persons.

**Appropriation:** An authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes. An appropriation is usually limited in amount and as to the time when it may be expended.

**Elementary:** As defined by state practice, expenditures of a school organization composed of the grades (k) through (6).

**Fund:** A fund is a fiscal and accounting entity, with a self-balancing set of accounts that are comprised of each fund's assets, liabilities, fund equity, revenues, and expenditures or expenses.

**Fund Balance:** The excess of assets over liabilities.

**Fund, General:** This is the general operating fund of the District. All activities of the District are accounted for through this fund except for those required to be accounted for in another fund.

**Fund, Proprietary:** This fund type accounts for District activities that are similar to business operations in the private sector or where the reporting focus is on determining net income, financial position, and cash flow. The Food Service Fund is a proprietary fund that accounts for all revenues, food purchases, and costs and expenses for the Food Service Program.

**Fund, Special Revenue:** These funds are maintained to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specified purposes. These include the Athletic Fund and the Capital Reserve Fund.

**Government Finance Officers Association (GFOA):** GFOA is a professional association of government finance managers. GFOA develops and administers programs and provides services in the areas of research, technical assistance, publications, and career development and training.

**Instructional Support Team (IST):** A state supported initiative where a team of school professionals reviews and discusses a child's learning and recommend appropriate strategies.

**Levy:** To impose taxes or special assessments.

**Mill:** Property tax rate per thousand dollars of assessed value. One mill is equal to \$1.00 per \$1,000 of assessed value. To calculate the tax rate, the total property tax amount levied by the assessed valuation of the taxable property, divided by 1,000.

**Object:** This term refers to the service or commodity obtained as the result of a specific expenditure; for example, Salaries, Fringe Benefits, Professional Services, Supplies, and Property.

**PDE:** Pennsylvania Department of Education

**Secondary:** As defined by state practice, expenditures of a school organization composed of the grades seven (7) through twelve (12).

**Underground Storage Tank and Spill Prevention Act (UST):** This is a federal program mandating registration, compliance monitoring and regulated removal by certified contractors of all underground fuel storage tanks to protect the public and the environment.