



**Board of Directors
Professional
Development
Budget and Finance**



**SAGINAW VALLEY
STATE UNIVERSITY**

SCHOOL/UNIVERSITY PARTNERSHIP OFFICE

STATE BUDGET INFORMATION

The Fiscal Year 2023 budget is balanced, does not raise taxes, pays down billions in debt, and brings Michigan's fund balance to an all-time high of \$1.6 billion.

The FY23 budget totals \$74.1 billion, including a general fund total of \$15.2 billion and a school aid budget totaling \$17.5 billion. It provides a significant amount of one-time funding while maintaining balance in future years and does not utilize one-time funds for ongoing purposes.

In Michigan, there are essentially major pots of funds that are subdivided into various categories:

School Aid Fund



\$ 17.5 BILLION

General Fund



\$ 15.2 BILLION

**State/Federal
Restricted/Other**



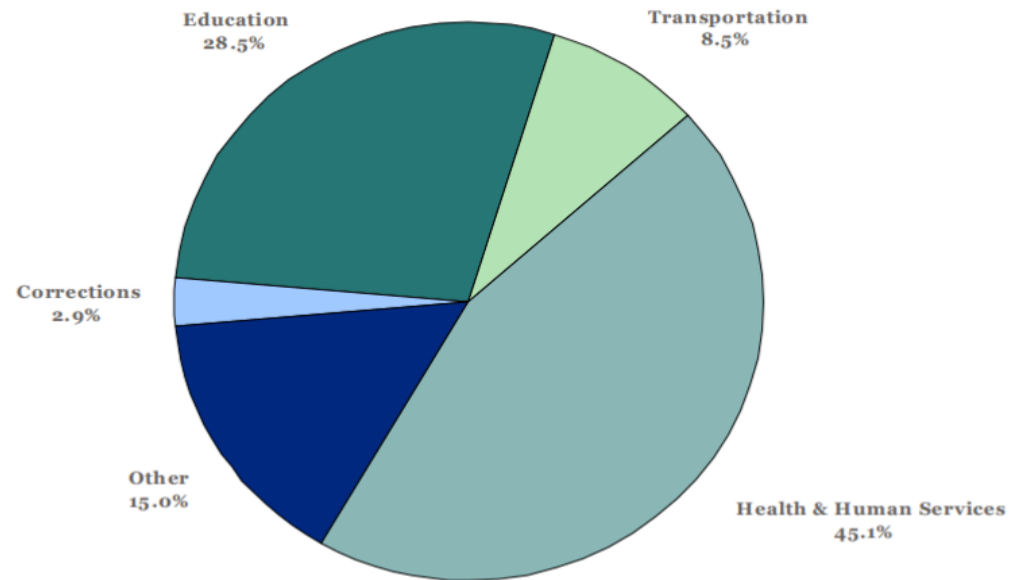
\$ 41.4 BILLION

STATE BUDGET INFORMATION-APPROPRIATIONS

Figure B

Gross Appropriations by Major Category

FY 2022-23 Governor's Recommendation

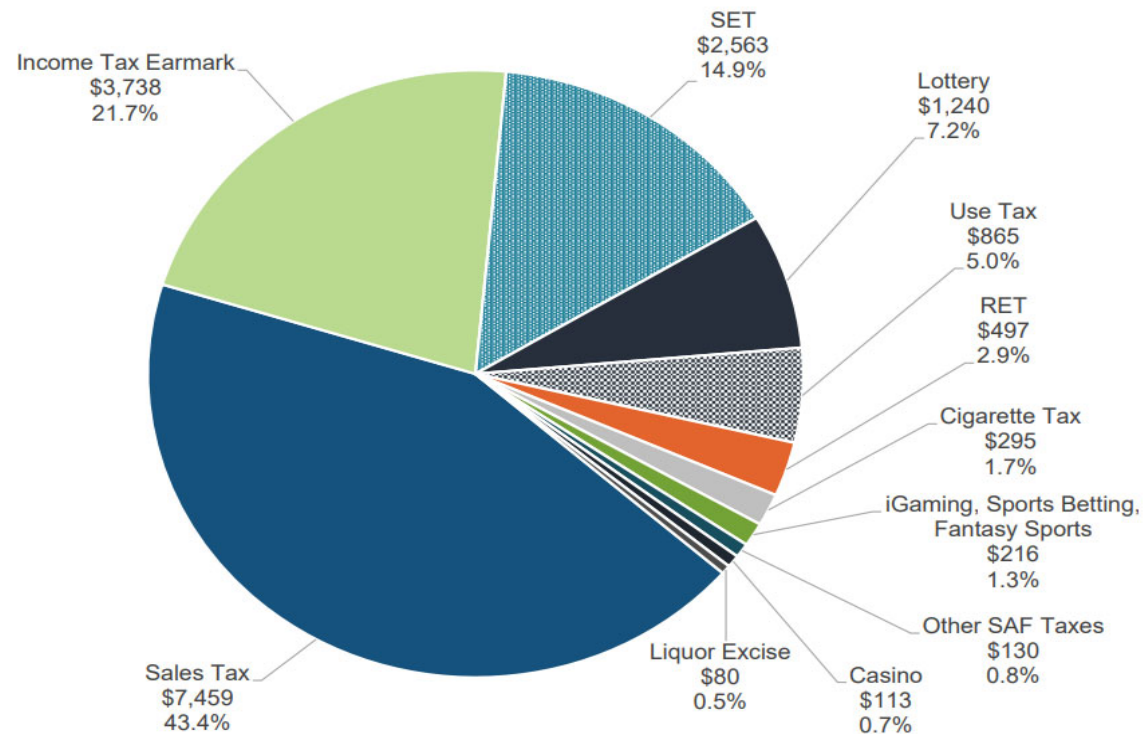


Total = \$ 74,136,505,400

STATE BUDGET INFORMATION-SCHOOL REVENUES

FY 2022-23 SAF Tax and Lottery Revenue

The School Aid Fund is projected to total approximately \$17.2 billion in FY 2022-23. Dollar amounts below are in millions.



BUDGET PROCESS AND TIMELINES

The major steps of a typical budget process are:

- Budget Development – **November to June**
- Resolution to approve date of public hearing on budget – **May/June**
- Advertise in major media and website on date of public hearing – **May/June**
- Provide copy of proposed budget as requested and show on website
- Hold public hearing on the budget
- Approve budget for all required funds by June 30. (See section below)
- Within 15 days of budget approval or budget amendment approval, public school academies must post transparency information as reflected in the “State Transparency Reporting Requirements” section below.
- State law requires that traditional school districts and public-school academies approve budget without end-of-year fund deficits in ANY fund.
- Budget should be monitored throughout the year and adjusted as needed.

BUDGET PROCESS AND TIMELINES

Each school should have a standard budget development and adoption process.

The general fund, debt fund, and school service are REQUIRED to have adopted budgets without deficit fund balances. Adopted budgets for other funds such as capital project funds can be considered a best practice.

Fund balance is only determined at the end of the school year when the books are closed and the audit is conducted.

Budgets and budget amendments must be approved by the board of education and posted to the transparency website within 15 days of approval.

BUDGET PROCESS AND TIMELINES

What is the optimum fund balance?

Auditors – will tell you it depends on what the board and administration are comfortable with but ideal would be 15%.

State – Anything over 5%.

To Avoid Borrowing – Depends! May be between 10%- 20% depending on factors.

My advice – A blend of all of the above depending on what the board and administration believes is appropriate and still be able to provide students with programs and services that meet their needs and the goals of the school.

REMEMBER – Fund balance % or \$ amount is only one STATIC data point. Equally as important is the trend of fund balance up or down.

BUDGET PROCESS AND TIMELINES

ABC ACADEMY GENERAL FUND STATEMENT OF REVENUES AND EXPENDITURES

REPORT FOR THE MONTH ENDING: May 2019

Item	Budget	Current Month	Previous Month YTD	YTD	% Budget YTD
REVENUE:					
100 Local	\$ 50,000.00		\$ 42,450.00	\$ 42,450.00	84.90%
200 Other Political Subdivisions	\$ -			\$ -	
300 State	\$ 8,000,000.00		\$ 5,756,000.00	\$ 5,756,000.00	71.95%
400 Federal	\$ 150,000.00		\$ 21,000.00	\$ 21,000.00	14.00%
500 Incoming Transfers & Other Transactions	\$ -			\$ -	
TOTAL REVENUE:	\$ 8,200,000.00	\$ -	\$ 5,819,450.00	\$ 5,819,450.00	70.97%
EXPENDITURES:					
100 Instruction					
110 Basic Programs	\$ 5,000,000.00	\$ -	\$ 4,600,000.00	\$ 4,600,000.00	92.00%
120 Added Needs	\$ 1,200,000.00		\$ 856,000.00	\$ 856,000.00	71.33%
130 Unclassified				\$ -	
200 Support Services					
210 Pupil	\$ 50,000.00		\$ 35,000.00	\$ 35,000.00	70.00%
220 Instructional Staff	\$ 100,000.00		\$ 145,000.00	\$ 145,000.00	145.00%
230 General Administration	\$ 175,000.00		\$ 141,000.00	\$ 141,000.00	80.57%
240 School Administration	\$ 150,000.00		\$ 123,000.00	\$ 123,000.00	82.00%
250 Business	\$ 70,000.00		\$ 55,000.00	\$ 55,000.00	78.57%
260 Operations and Maintenance	\$ 90,000.00		\$ 155,000.00	\$ 155,000.00	172.22%
270 Transportation	\$ 100,000.00		\$ 80,000.00	\$ 80,000.00	80.00%
280 Central	\$ 94,000.00			\$ -	0.00%
290 Other				\$ -	
300 Community Services				\$ -	
400 Outgoing Transfers and Other Transactions	\$ 1,000,000.00		\$ 20,000.00	\$ 20,000.00	2.00%
TOTAL EXPENDITURES:	\$ 8,029,000.00	\$ -	\$ 6,210,000.00	\$ 6,210,000.00	77.34%
EXCESS REVENUE OR (EXPENDITURES)	\$ 171,000.00	\$ -	\$ (390,550.00)	\$ (390,550.00)	-228.39%
BEGINNING YEAR FUND BALANCE	\$ 350,000.00				
ENDING YEAR FUND BALANCE	\$ 521,000.00				

SCHOOL BUDGET AND FINANCE – BUDGET HEARINGS

Budget Hearings: Per Michigan Legislature MCL 141.412 –

- A local unit shall hold a public hearing on its proposed budget. The local unit shall give notice of the hearing by publication in a newspaper of general circulation within the local unit **at least 6 days** before the hearing. **The notice shall include the time and place of the hearing and shall state the place where a copy of the budget is available for public inspection.”** Budget Hearings MUST also have a quorum as this is a legal meeting. The notice must be of a specified font size.
- A budget hearing is only held once – for approval of the beginning budget for the year. Budget amendments do not require a budget hearing.

SCHOOL BUDGET AND FINANCE – BUDGET HEARINGS

- The board should approve a resolution as to the date, time, and location of the public hearing at least several weeks prior. As an example, for a June budget hearing, the resolution would be approved at the May board meeting.
- For purposes of public members obtaining a copy of the proposed budget, the copy is the actual detail budget not the summary budget as it appears in the budget resolution.
- The board must have a public comment portion specifically for the budget hearing.
- The budget can be approved at any meeting after the budget hearing is conducted but must be done by June 30.
- The board cannot approve the budget of any fund that has a negative fund balance.
- The Academy must post the budget or budget amendments on its Transparency website no later than 15 days after approval.

SCHOOL BUDGET AND FINANCE – FINANCIAL REPORTS FOR BOARD

- A complete set of monthly financial reports should be presented to and APPROVED by the FULL board of directors each month. If a meeting must be cancelled or re-scheduled, this can be completed at that time.
- Administration should summarize financial reports at the board meetings for board members, staff, and community.
- SVSU requires the following financial documents to be provided and approved:
 - ✓ Budget to actual monthly and year-to-date revenues, expenditures, and fund balance.
 - ✓ Check register- all disbursements MUST be formally approved by the full board of directors
 - ✓ Statement of Cash Flow (general fund only) that reflects actual up-to-date revenues, expenditures, and cash balance AND estimated monthly cash flow moving forward. It is recommended that cash flows reflect actual and projected activity for between 15 to 24 months and the estimated months be at least 3 to 6 months in advance. This helps prevent unexpected cash flow shortages particularly towards the end of one school year and the first few months of the new school year.
- In addition, the board may ask for additional reports as desired such as a monthly state aid report, aging accounts payable summary, or balance sheet.

SCHOOL BUDGET AND FINANCE – BUDGET AND CASH FLOW

- A budget is a PLAN that includes estimates of revenues and related expenditures allocated within an organization to achieve specific goals and outcomes.
- An audit documents ACTUAL results in comparison with the budget. An audit also assesses the effectiveness of an organization's internal controls and compliance with federal and state laws and requirements.
- School boards are required to approve budgets that reflect a non-negative fund balance in each fund.
- In Michigan, the Michigan Department of Education and Department of Treasury tracks information that can be used to monitor schools, require administrative oversight, or the appointment of emergency managers. That data includes:
 - ✓ Actual revenues that are 1% below estimated revenues while fund balance decreases
 - ✓ Default of bonds, loans, and notes
 - ✓ Violation of federal or state laws and requirements as noted through audits
 - ✓ Fund balance history with a pattern of significant or steady declines
 - ✓ Fund balance that drops below 5% of expenditures
 - ✓ Significant levels of un-spent grant funds
 - ✓ Pattern of significant declining student count

SCHOOL BUDGET AND FINANCE – BUDGET AND CASH FLOW

- The State of Michigan permits budget revisions. Revisions should be done at least once each year to adjust for actual or expected changes in revenues and expenditures.
- Best practice is to complete revisions within a reasonable time depending on the school year. Timely budget adjustments allow for appropriate control of resources and adjust planning based on up-to-date information. EXAMPLE: Making major revisions near the end of the school year is not reflective of healthy planning and operational control.
- Best practice for effective budget and budget adjustment review should include a document with the following items:

Major budget assumptions:

- ✓ EXAMPLE: Student count for 2018-19 was 500. 2019-20 budget is based on 520 students.
- ✓ EXAMPLE: Heating and electric costs are budgeted to increase by 5%.
- ✓ EXAMPLE: State Aid per student is budgeted to increase \$140 from 2018-19 for a total of \$8,140 per student.

CASE DISCUSSION

Spring Lake Academy has conducted its budget hearing in June for the general fund and hot lunch fund. The information is as follows:

<u>General Fund</u>		<u>Hot Lunch Fund</u>	
Revenues	\$500,000	Revenues	\$35,000
Expenditures	<u>\$545,000</u>	Expenditures	<u>\$40,000</u>
Over (Under)	(\$ 45,000)	Over (Under)	(\$ 5,000)
Beg. Fund Balance	\$ 55,000	Beg. Fund Balance	\$ 2,000
End Fund Balance	\$ 10,000	End Fund Balance	(\$ 3,000)

Can the Board legally adopt these budgets? What legal and practical problems are there if any?

SCHOOL BUDGET AND FINANCE – BUDGET AND CASH FLOW

- Monitor revenues/expenditures. **AT LEAST MONTHLY**
- Depending on your cash situation, you might want to do bi-weekly cash flow. An ending positive cash balance may not tell the story of where cash is on payroll or bill paying weeks. **BE SURE YOU CAN MEET THOSE NEEDS.**
- Reconcile your bank statements. **MONTHLY**
- Review your State Aid Status Report **MONTHLY** – Inquire about any unknown differences.
- Cash Flow and Budget are not the same thing but annual totals for each revenue and expenditure should be reasonably close.

STATE AID ANTICIPATION NOTE BORROWING

- Schools in Michigan borrow for one or a combination of two reasons:
 - ✓ State Payment System- State Fiscal Year starts in October where Schools start in June.
 - ✓ Fund balance not sufficient to cover expenditures given the State Payment System.
- It is very common for many schools to borrow for cash flow because of the above factors
- Borrowing is not necessarily indicative of ineffective financial management – Depends on the circumstances

STATE AID ANTICIPATION NOTE BORROWING

- There are three forms of cash flow borrowing in Michigan:
 - ✓ State Aid Anticipation Notes (current year state aid payments are collateral)
 - ✓ Property Tax Anticipation Notes (only available if you levy property taxes)
 - ✓ Line of Credit (Restrictive conditions make this difficult to use in most circumstances)
- Because of the number of schools that must borrow each year, the State has a pool program for State Aid Anticipation Notes that runs from mid-August to mid-August.
- Schools sometimes participate in this State pool and separately request bids from financial institutions they work with and see which gives the best rates.
- Projected cash flows should be conservative/flexible within what is allowed by State law and IRS regulations so that projected expenditure obligations can be paid as required. If bi-weekly payroll, be sure to allow for the 3 pay months that occur twice each year.

SCHOOL BUDGET AND FINANCE – BUDGET AND CASH FLOW

NOTE 1: Cash flow totals for revenue and expenditures are shown. This can be done with more detail such as state aid or salaries. The budget for each item is also listed. Compare each item and adjust cash flow

NOTE 2: Let us assume the June bank reconciled balance was \$61,487. This is a large difference from the \$31,967 listed on the cash flow and needs to be reviewed.

NOTE 3: As an option, if you enjoy numbers and want to get more technical in checking totals, you can perform revenue and expenditure calculations between cash flow and budget by backing out of cash flow previous July and August accrued expenses and adding current July and August accrued expenses. The tests performed in the blue and green boxes above reflect these additional testing procedures.

XYZ Academy
Cash Flow 2017-18

	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	Total Cash Flow	Total Budgeted
Beginning Cash Balance (Actual)	37,294	22,674	135,077	68,741	53,705	36,945	22,796	31,587	39,063	36,539	35,015	33,491	37,294	83,143
Total Revenues	55,912	179,771	3,335	58,257	56,244	54,054	64,835	60,410	60,410	60,410	60,410	60,410	774,458	633,781
Total Available Cash	93,206	202,446	138,412	127,998	109,949	90,999	87,631	91,997	99,473	96,949	95,425	93,901		
Non-Salary/Benefits Expenditure	38,045	34,808	34,445	40,273	38,922	34,789	19,729	19,434	29,434	28,434	28,434	28,434	375,381	
Available for Salaries and Benefits	55,161	167,637	103,967	87,725	71,027	56,210	67,902	72,563	70,039	68,515	66,991	65,467		
Salaries and Benefits	32,487	32,560	34,226	34,020	34,082	33,414	36,315	33,500	33,500	33,500	33,500	33,500	404,604	
Total Expenditures	70,532	67,368	68,671	74,293	73,004	68,203	56,044	52,934	62,934	61,934	61,934	61,934	779,785	711,130
Ending Cash Balance	22,674	135,077	68,741	53,705	36,945	22,796	31,587	39,063	36,539	35,015	33,491	31,967	33,967	3,794
	VERIFIED	VERIFIED	VERIFIED	VERIFIED	VERIFIED	VERIFIED	VERIFIED	VERIFIED	VERIFIED	VERIFIED	VERIFIED	VERIFIED		

CASH FLOW REVENUES TO BUDGET TEST:

Cash Flow Revenues	774,458
Subtract Borrowing	(120,000)
Subtract July/Aug 16 St.	(108,353)
Add July/Aug 17 State A	101,320
Adjusted Cash Flow Re-	647,425
Budgeted Revenue	633,781

CASH FLOW TO BUDGET REVENUE IS REASONABLE

CASH FLOW EXPENDITURES TO BUDGET TEST:

Cash Flow Expenditures	779,785
Subtract Borrowing	(120,000)
Land Contract Reduct	50,000
Adjusted Cash Flow Exp	709,785
Budgeted Expenditures	711,130

CASH TO BUDGET EXPENDITURES IS REASONABLE

SCHOOL BUDGET AND FINANCE – PURCHASING

- The state competitive bid threshold for purchasing for 2021-22 was \$26,046. The new competitive bid thresholds are typically communicated by the Michigan Department of Education by October 1 of the school year. This limit applies to all purchases of products and materials. Purchases ABOVE this threshold must adhere to the following requirements:
 - ✓ Notice must be made in a local newspaper indicating that ABC Academy is requesting bids for.....
 - ✓ Deadline including time, date, and location must be included. No bids can be received after this designated time.
 - ✓ Time, date, and location of when the bids will be opened. Administration opens bids publicly and then vets the bids in order to make recommendation to school board.
 - ✓ Where/how to obtain bid packet if applicable.
 - ✓ Must be advertised at least one day in two consecutive weeks.
 - ✓ Board must approve purchase at board meeting.
- The State does not have a bid limit for services. However school boards have the right to establish requirements or limits for services through a board purchasing policy.
- School boards should establish clear purchasing policies and administrative guidelines. School boards have the right to create policies that meet the needs of their academies as long as those policies and procedures do not violate State or Federal requirements.

CASE DISCUSSION

It is June and Pleasantville Academy needs to replace its roof which is starting to have problems. The school leader has sought out quotes to share with the board and receives three offers. The offers are: \$37,000, \$43,000, and \$44,500. The highest quote is from a local vendor while the other two are non-local.

At the June meeting, the board discusses the quotes and is concerned that with rising construction costs and the long wait times until work can be done, that a quote should be approved tonight so the work can be completed before school starts.

However, board members have some questions as to whether some specific items related to the roof work is included in the quotes. The board passes a motion to accept the \$37,000 bid contingent on answers to those questions and includes a provision in the motion to allow for up to \$5,000 to do those specific items if not included.

What did the school leader and board do correctly and incorrectly with this issue?

SCHOOL BUDGET AND FINANCE – PURCHASING

- Contracts, leases, and other purchasing commitments should not exceed the length of the authorization period for the academy unless cleared through SVSU. EXAMPLE: building mortgage and Educational Service Provider agreement.
- School boards can approve monthly check registers:
 - ✓ Prior to the issuance of checks. This may slow down check processing depending on when bills are due and when board meetings occur –or – after the issuance of checks at the next board meeting.
- At board meetings, approval of monthly finances must include but is not limited to:
 - ✓ Monthly financial statements
 - ✓ Updated cash flow
 - ✓ Monthly check register (should also include electronic payments)

CASE DISCUSSION

It is the second week of August. The budget for 2019-20 is in place. New Opportunity Academy's school board approved a budget in June for \$2,000,000. The Academy is K-12 and has student count of 220. 70 students are in the high school and 150 are K-8.

The fund balance has been hovering around \$100,000 for several years or 5%. The school has struggled academically for the past few years and has seen student count drop during that time from 245 to 220.

A new academy is opening for 2019-20 only 2 miles from New Opportunity Academy. The new academy has been aggressively advertising for K-12 students emphasizing math, science, art, and music. It has now come to the attention of administration that 40 students primarily from grades 7, 8, and 9 have transferred. In addition, 15 students expected to start in kindergarten this year are now going to the new academy. As a result, the budget will be \$300,000 negative.

One of the board members wants to call a special meeting tomorrow to cut programs at both elementary and high school in music, art, and athletics, lay off teachers and increase class size.

What should the Academy do?

BOARD PD MATERIALS ON SUPO WEBSITE

1. Board Training PowerPoint for Each Topic
2. Financial Best Practices Handbook
3. MDE Transparency Requirements
4. Budget Amendment Examples
5. Budget Assumptions Worksheet
6. Sales Tax Examples
7. Website Transparency Checklist
8. Michigan Association of School Boards (MASB) – Board Governance Standards
9. Tips for Communicating with Media
10. MASB Sample Organization Meeting Agenda
11. MASB Board Self-Evaluation Example
12. Open Meetings Act
13. MASB Overview of Administrator/Superintendent/Director Evaluation Document
14. MASB Sample Administrator/Superintendent/Director Evaluation Tool from Washtenaw
ISD

OUR SUPO STAFF MEMBERS

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School/University Partnership Office Website
<https://www.svsu.edu/supo>