# Mechanics of a School District Budget

## A Guide to Understanding the Illinois School District Budget Process


Illinois State Board of Education

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# Introduction

The Mechanics of a School District Budget describes the formatting and reporting requirements of the Illinois school district annual budget. This handbook explains budgetary components and accounting terms for individuals who want to know more about how education dollars are estimated to be received and spent. The intent is to provide an overall summary of the school district budgeting process.

This handbook is not a stand alone document and the issues discussed also relate directly to the following:

(1) The Illinois Compiled Statutes (ILCS);

(2) Effective July 1, 2008, the (23) Illinois Administrative Code – Part 100 which is the basis for school district accounting, budgeting, financial reporting, and auditing (hereafter referred to as the accounting rules - 23 IAC 100); and

(3) The School District Annual Financial Report (ISBE Form 50-35).

The importance of clear, reliable and understandable budgetary information cannot be overstated. Once adopted, the annual school district budget is the plan to accomplish the financial goals of the school board.

**Note:** The Mechanics of a School District Budget is focused toward school districts in cities under 500,000 inhabitants. The budget and appropriations for school districts in cities with more than 500,000 inhabitants are governed by Sections 34-42 through 34-82 of the Illinois School Code (105 ILCS 5/34-42 through 105 ILCS 5/34-82). ILCS refers to the Illinois Compiled Statutes. The Illinois School Code is Act 5 in Chapter 105.

Where educational services are provided under a joint agreement, the governing board, regional superintendent, or school board responsible for joint agreement administration must adopt an annual budget by September 30 of the fiscal year. The adoption and content of the joint agreement budget follow requirements similar to those of school districts as provided for in Section 17-1 of the Illinois School Code (105 ILCS 5/17-1). Joint agreement budgets must be filed electronically to Illinois State Board of Education (ISBE), and should be filed locally as determined by the provisions of the joint agreement.

Vocational Education Regional Delivery Systems (Education for Employment Regional Delivery Systems) use the same budget forms and have the same adoption requirements as do joint agreements (ISBE Form 50-39).

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# The Mechanics of a School District Budget
# A Guide to Understanding the Illinois School District Budget Process

## What Is The Format For The School District Budget?

The School District Budget Form (ISBE 50-36) is a standardized document designed to meet the budgetary requirements established under provisions of Section 17-1 of the Illinois School Code (105 ILCS 5/17-1)

The annual budget is adopted by all public elementary, secondary and unit school districts and includes all funds, that when taken as a whole, set the plan for accomplishing the financial goals of the local school board. All budgets must be entered (and adopted) on the budget form prepared and provided by the Illinois State Board of Education (ISBE).

Budgets, at a minimum, must also contain a statement of the year's beginning and ending cash on hand and estimated cash receipts and disbursements for the budget year. Specific requirements as to the budget form are enumerated in state statutes and in guidelines provided by ISBE.

The School District Budget Form (ISBE 50-36) includes the following parts:

- Cover
- Budget Summary
- Summary of Cash Transactions
- Estimated Receipts/Revenues
- Estimated Disbursements/Expenditures
- Deficit Budget Summary Information
- Deficit Reduction Plan, Background & Assumptions
- Estimated Limitation of Administrative Costs
- Reporting of Public Vendor Contracts of $1,000 or More
- Balancing Sheet

## What Purpose Does The Budget Serve?

The Budget is designed to:

- Meet requirements imposed by Illinois law and applicable rules;
- Provide expending and taxing authority; and
- Satisfy a minimum level of financial information for state, local and federal governments.

# What Must a School Board Do In Order To Adopt a Budget?

## Tentative Budget and Public Notice Requirements

Illinois law requires certain procedures a school board must follow to adopt (approve) an annual budget. These actions include:

- The designation of an individual(s) to develop the budget in tentative form. The tentative budget includes revenues and expenditures that are anticipated during the fiscal year and contains a statement of the estimated cash expected to be on hand at the beginning and end of the fiscal year.

- The secretary of the school board publishes a notice of where, when and during what hours the tentative budget will be on display for public inspection and where, when and what time the budget hearing will be held. The tentative budget must be on display for at least 30 days prior to the budget hearing. It shall be the duty of the secretary of the district board to make the tentative budget available for public inspection, and arrange for the budget hearing.

- Prior to taking final action on the budget, the school board must hold at least one budget hearing. The details of the tentative budget are explained during the hearing and the public may ask questions or provide input on the tentative budget.

- The budget is voted on and adopted (or rejected) by the school board at public meeting held after the budget hearing.

- The school district budget must be adopted by the end of the first quarter of the fiscal year (September 30).

*See Exhibit 6*

## Adopted Budget Filing Requirements

Section 18-50 of the Property Tax Code (35 ILCS 200/18-50) requires the governing authority of each school district to file with the county clerk within 30 days of adoption certified copies of its appropriation and budget ordinances or resolutions. If the governing authority fails to file the required documents, the county clerk has the authority, after giving timely notice of the failure to the school district, to **refuse** to extend the tax levy until the documents are so filed.

The School District Budget Form 50-36 is mandated to be submitted electronically to ISBE within 30 days of adoption and no later than October 31, annually. See the ISBE Attachment Manager @ https://sec1.isbe.net/attachmgr/default.aspx.

Regional Offices of Education (ROE) should communicate with their member districts if the ROE wishes to receive copies of district budgets.

Note: In accordance with Section 1A-8 of the Illinois School Code (105 ILCS 5/1A-8), districts certified to be financial difficulty must submit to ISBE a copy of the tentative budget that is put on display for public inspection. After local board approval, a certified school district must also submit a copy of the adopted budget to the ISBE. Annual budgets of districts certified in financial difficulty must be consistent with the ISBE approved financial plans.

## Posting of the Annual Budget on the Website

Section 17-1.2 of the Illinois School Code (105 ILCS 5/17-1.2) requires school districts with websites to do two things:

1) Post the current budget, itemized by receipts and expenditures, on their website.

2) Notify parents/guardians that the budget has been posted and the address of the website.

For many districts, the School District Budget Form (ISBE 50-36) contains the information necessary to comply with this requirement. The easiest way to use this official form is to post it on the website by creating a link to a copy of it. The budget form can be converted to Adobe's PDF format and posted if districts have the necessary software. The form can not be converted directly to the web's native language of HTML because it is password protected.

ISBE recommends school districts publish the budget when it is adopted at the beginning of the school year. Although it is not required by this law, ISBE encourages districts to publish any adopted amendments to the budget as they occur. This will ensure the public has access to the most recent budget plan.

In the case of notification, a student newspaper, a parent-teacher publication, or a similar publication may be used. Districts may also include the website information in a mail out to parents and guardians. Publishing a simple notice in a widely distributed local newspaper is yet another option. The main goal is ensuring that the notification reaches parents and guardians as required by law.

## Line Item Transfers

The school board may from time to time, by Board Resolution, make transfers between various items in any one fund so long as transfers do not exceed in the aggregate 10% of the total of such fund as set forth in the budget.

**Example:** Educational Fund Budget - $1,000,000 x 10% - $100,000

- ✓ *Transfer $65,000 from Function 6000 Provision for Contingencies to Function 1000 Instruction*
- ✓ *Transfer $35,000 from Function 6000 Provision for Contingencies to Function 2400 Support Services – School Administration*

The total of both transfers equals 10% of the Educational Fund Budget. If the school board wants to make another transfer from Function 6000, the board must follow the original budget adoption process.

## Budget Amendments

The board may from time to time amend such budget by the same procedure as for the budget's original adoption. These requirements include:

- Post notice of budget hearing and availability of budget for public inspection for at least 30 days prior to budget hearing.
- Adopt amended budget at a public meeting held after the budget hearing.
- Post amended budget on the district website (if applicable).
- Submit amended budget electronically to ISBE within 30 days of adoption using the ISBE Attachment Manager at: https://sec1.isbe.net/attachmgr/default.aspx.

**Example:** During the school year, three pupils requiring special education services move into the district. Since the district does not provide the required services, the district must pay tuition to another school district or special educational cooperative that can provide the required services.

The tuition for these three pupils is estimated to be $35,000. The district's original budget has sufficient revenues and school administrators do not anticipate any further expenditure increases during the fiscal year. The original budget must be amended to reflect the $35,000 tuition estimated to be paid prior to June 30.

The board is required to follow one of two budgetary procedures to reflect the tuition payments in the Education Fund.

- ✓ If a change in the budget could be accomplished by making transfers between various line items that do not exceed in the aggregate 10% of the total Educational Fund budget, a transfer (by board resolution) would be the appropriate course of action.
- ✓ If a change in the budget results in estimated (total) expenditures greater than the initially adopted budget for the Educational Fund, a formal amendment is necessary. This amendment would require the same procedures as original budget adoption.

►*See Exhibit 6*

# What Are The Key Factors In The School District Budget Form?

Each year, the budget is entered/adopted on the School District Budget Form (ISBE 50-36) provided by ISBE. The budget once adopted by the local school board, specifies the function and object of expenditures and the revenue necessary to meet estimated expenses and liabilities. All school district accounts are identified by fund.

Download the School District Budget Form from the ISBE website
http://www.isbe.net/sfms/budget/default.htm

## Fund

The school district's accounting records, budgets and financial reports are organized and reported on a fund basis.

A fund is established for specific activities and objectives and is operated in accordance with laws, regulations, restrictions or other designated purposes.

Each fund is a separate and independent accounting entity with its own assets, liabilities and fund balance.

The number of funds created depends on the school district's operations, rather than size. Nine reporting funds are listed on the School District Budget Form (ISBE 50-36).

The following account codes/definitions are provided in the accounting rules [23 IAC 100] and are used to designate nine funds for reporting purposes:

| | |
|---|---|
| 10 | Educational |
| 20 | Operations & Maintenance |
| 30 | Debt Service |
| 40 | Transportation |
| 50 | Municipal Retirement/Social Security |
| 60 | Capital Projects |
| 70 | Working Cash |
| 80 | Tort |
| 90 | Fire Prevention & Safety |

10 - Educational Fund - The most varied and the largest volume of transactions will be recorded in the Educational Fund. This is due most because the Educational Fund covers transactions that are not specifically covered in another fund. Certain expenditures that must be charged to this fund include the direct costs of instruction, health and attendance services, lunch programs, all costs of administration (even those for buildings and grounds), and related

insurance costs. Certain revenues that must be credited to this fund include educational tax levies, tuition and textbook rentals.

The salaries of janitors, engineers, and other custodial employees and all costs of fuel, lights, gas, water, telephone service, and custodial supplies and equipment shall be charged to this fund. The school board may approve, by resolution, to charge to the Operations and Maintenance Fund all salaries of janitors, engineers, or other custodial employees and all costs of fuel, lights, gas, water, telephone service, and custodial supplies and equipment or any one or more of these items, per Section 17-7 of the Illinois School Code (105 ILCS 5/17-7).

20 - Operations & Maintenance Fund - All costs of maintaining, improving, or repairing school buildings and property, renting buildings and property for school purposes, or for the payment of premiums for insurance on school buildings shall be charged to the Operations and Maintenance Fund and paid from the tax levied for that purpose.

30 - Debt Service Fund - Bonds are generally issued to finance the construction of buildings, but may also be issued for other purposes. Taxes are levied to provide cash to retire these bonds and to pay related interest. To protect the bondholders, these tax collections must be accounted for in the Debt Service Fund and maintained in separate bond and interest accounts for each bond issue. If the school board pledges other revenue to pay principal, interest, or service charges on long-term debt, a separate set of accounts shall also be established for each additional debt issue (not applicable to pledged revenue in the Transportation Fund).

40 - Transportation Fund - If a school district pays for transporting pupils for any purpose, a Transportation Fund must be created. Costs of transportation, including the purchase of vehicles and insurance on buses, are to be paid from this fund. Moneys received for transportation purposes from any source must be deposited into this fund, except for the portion of state reimbursement applicable to other funds (e.g., utility costs from the Operations and Maintenance Fund) as provided in Section 29-5 of the Illinois School Code (105 ILCS 5/29-5).

50 - Municipal Retirement/Social Security Fund - This fund is created if a separate tax is levied for the school district's share of retirement benefits for covered employees or a separate tax is levied for the purpose of providing resources for the district's share of Social Security and/or Medicare only payments for covered employees. If any of these taxes are not levied, payments for such purposes shall be charged to the fund where the salaries are charged.

60 – Capital Projects Fund - All proceeds of each construction bond issue (other than Fire Prevention and Safety) shall be placed in the Capital Projects Fund to separately identify these special funds from operating funds. Such moneys are to be spent for the purpose specified in the bond indenture and on the ballot. A separate account is also established:

- If a capital improvement tax is levied in accordance with Section 17-2.3 of the Illinois School Code (105 ILCS 5/17-2.3). The moneys received from such levy shall be accumulated until spent for the capital improvements described in the resolution and on the ballot, per Section 17-2.3.

- For receipts from other long-term financing agreements (including impact fee agreements); construction or maintenance grants used to finance a capital project; capital leases; or lease purchase agreements (not applicable to Transportation Fund receipts).

Expenditures which would ordinarily be charged to the Educational Fund, but which may be charged to the Capital Projects Fund (unless paid before the fund is created), include election expenses, fidelity insurance, architect's fees, legal fees for title search on sites, fees for the legal opinion on the bonds, and other such administrative costs directly related to the construction project or issuance of bonds.

Expenditures which would ordinarily be charged to the Operations and Maintenance Fund, but which may be charged to the Capital Projects Fund (unless paid before the fund is created), include the actual construction costs, builder's risk insurance, purchase of land and other site costs, landscaping, parking lots, sidewalks, utility connections, etc., and other items directly related to the construction project.

70 - Working Cash Fund - If a separate tax is levied for working cash purposes or if bonds are sold for this purpose, this fund shall be created. Cash available in this fund may be loaned to any fund for which taxes are levied.

80 - Tort Fund – This fund is created if taxes are levied or bonds are sold for tort immunity or tort judgment purposes.

90 - Fire Prevention and Safety Fund - When a tax is levied or bonds issued for fire prevention, safety, energy conservation, disabled accessibility, school security and specified purposes, such proceeds shall be deposited and accounted for separately within the Fire Prevention and Safety Fund. The .05% levy is to be made only when there are not sufficient funds available in the Operations and Maintenance Fund; School Facility Occupation Tax Fund; or Fire Prevention and Safety Fund as determined by the district on the basis of regulations adopted the ISBE to make such alterations, repairs, or reconstruction, or to purchase and install such permanent fixed equipment ordered or determined necessary.

## Budget Summary

The "Budget Summary" shows the estimated change in financial position (fund balance) resulting from the school district's operations during the fiscal year. This information is summarized from the revenue, expenditure and other source/use information, and projects whether the district's financial position will improve or worsen.

Estimated (Beginning) Fund Balance shows what the school district owns, by fund, on July 1 (the beginning of the fiscal year). This can be an estimated fund balance from the district's records as of June 30th of the prior fiscal year or can be retrieved from the previous fiscal year's annual financial report as of June 30th.

Revenues - Summary of receipts/revenues.

Expenditures - Summary of disbursements/expenditures.

Other Sources (Uses) - Summarizes other transactions that do not relate to revenues or expenditures.

Estimated (Ending) Fund Balance shows what the school district owns, by fund, on June 30 (the end of the fiscal year). This reflects the change in equity that will occur as a result of operations during the fiscal year and adjusts the beginning fund balance accordingly.

Budget Summary calculation can be estimated as follows:

| | |
|---|---|
| | Beginning Fund Balance July 1, XX |
| + | Total Direct Receipts/Revenues |
| – | Total Direct Disbursements/Expenditures |
| + | Total Other Sources |
| + | Total Other Uses |
| = | Ending Fund Balance June 30, XX |

## Summary of Cash Transactions

The "Summary of Cash Transactions" shows the change in cash position as a result of operations estimated for the fiscal year. This summary projects whether sufficient cash will be available to meet anticipated expenditures and identifies borrowing, if needed.

Estimated (Beginning) Cash Balance on Hand is the cash on hand (plus investments at cost) on July 1 of the fiscal year. This amount may or may not equal the beginning fund balance (Budget Summary) and **can never be a negative number**.

Total Direct Receipts and Other Sources are what the school district anticipates during the fiscal year. If the district is on a cash basis, this amount will be the same as "Total Receipts/Revenues" plus "Other Sources" (Budget Summary).

Other Receipts include short-term debt issuances and inter-fund loans (and/or repayments) during the fiscal year. Other receipts are the following balance sheet transactions:

Accounts:

411 Inter-Fund Loans Payable (Loans from Other Funds)

141 Inter-Fund Loans Receivable (Repayment of Loans)

433 Notes and Warrants Payable

199 Other Current Assets

Total Direct Disbursements and Other Uses - This line reflects the school district's cash disbursements/other uses during the fiscal year. If the district is on a cash basis, this amount will be the same as "Total Direct Disbursements/Expenditures" plus "Other Uses" (Budget Summary).

Other Disbursements include short-term debt repayments, inter-fund loans (and inter-fund loan repayments) during the fiscal year. Other disbursements are the following balance sheet transactions:

141 Inter-Fund Loans Receivable (Loans to Other Funds)

411 Inter-Fund Loans Payable (Repayment of Loans)

433 Notes and Warrants Payable

499 Other Current Liabilities

Estimated (Ending) **Cash Balance on Hand** is the cash on hand (plus investments at cost) on June 30 of the fiscal year. This amount may or may not equal the ending fund balance (Budget Summary) and **can never be a negative number**.

The Summary of Cash Transactions can be estimated as follows:

| | |
|---|---|
| | Beginning Cash Balance on Hand (must be zero or greater) |
| + | Total Direct Receipts and Other Sources |
| + | Total Other Receipts |
| – | Total Direct Disbursements and Other Uses |
| – | Total Other Disbursements |
| = | Ending Cash Balance on Hand (must be zero or greater) |

## Estimated Receipts/Revenues

Revenues are the monies estimated to be received by the school district that do not create an offsetting liability (debt/obligation to repay) or cancel an asset. The district will need to annually consider each fund's four major categories:

Accounts:

| | | |
|---|---|---|
| 1000 | Local Revenue | Revenue earned within the boundaries of the district. |
| 2000 | Flow through Revenue | Revenue received for specific grant purposes for transfer to another district/joint agreement. |

| | | |
|---|---|---|
| 3000 | State Revenue | Revenue from funds collected by the state and distributed to the district. |
| 4000 | Federal Revenue | Revenue from funds collected by the Federal Government and distributed to the district (either directly or through the state). |

Other Sources of Funds are estimated non-revenue receipts that may or may not increase the total combined fund balance. All such transactions are recorded, by fund, in the 7000 series of accounts:

### Accounts:

7100 Transfer from Various Funds
7200 Sale of Bonds
7300 Sale or Compensation for Fixed Assets
7400 Transfer from Other Funds to Pay Principal Capital Leases
7500 Transfer from Other Funds to Pay Interest on Capital Leases
7600 Transfer from Other Funds to Pay Principal on Revenue Bonds
7700 Transfer from Other Funds to Pay Interest on Revenue Bonds
7800 Transfer from Other Funds for Capital Projects
7900 ISBE Loan Proceeds
7990 Other Sources Not Classified Elsewhere

## Estimated Disbursements/Expenditures

Expenditures are charges estimated during the fiscal year that involve the disbursement of cash or the establishment of an obligation without creating an asset or canceling a liability. The school district will need to consider fund, function and object classifications when determining expenditures.

### Functions:

| | | |
|---|---|---|
| 1000 | Instruction - | The teaching of pupils or the interaction between teacher and pupils. |
| 2000 | Support Services – | Services which provide administrative, technical, and logistical support to facilitate and enhance instructions. |
| 3000 | Community Services - | Services provided by the district for the community as a whole or some segment of the community. |
| 4000 | Payments to Other Districts and Govt. Units - | Payments to other districts/joint agreements |
| 5000 | Debt Services - | Payments for specific debt service activities. |
| 6000 | Provision for Contingencies - | Not an account for recording entries, but the number would be used in the budget as a means of identifying contingency provisions. |

## Objects:

| | | |
|---|---|---|
| 100 | Salaries - | Gross salary for personal services rendered while on the payroll of the district. |
| 200 | Employee Benefits - | Fringe benefits paid by the district on behalf of the employee. |
| 300 | Purchased Services - | Amounts paid for personal services rendered by personnel who are not district employees, and other services which the district may purchase. |
| 400 | Supplies and Materials - | Amount paid for material items of an expendable nature. |
| 500 | Capital Outlay - | Amount paid for the acquisition of fixed assets or additions to fixed assets. |
| 600 | Other Objects - | Amounts for goods and services not otherwise classified above. |
| 700 | Non-Capitalized Equipment - | Items that would be classified as capital assets except that they cost less than the capitalization threshold adopted by the school board but more than $500. |
| 800 | Termination Benefits - | Limited solely to payments made to terminated or retiring employees as compensation for unused sick or vacation days. |

Note: These costs directly impact the ISBE calculation of indirect cost rates for federal programs and should only reflect costs for individuals leaving the district by June 30th. This object does not encompass the broader definition of GASB Statement No. 47, (Accounts for Termination Benefits); or related provisions.

Other Uses are estimated non-expenditure disbursements that may or may not decrease the total combined fund balance. All such transactions are recorded, by fund, in the 8000 series of accounts:

8100 Transfer to Various Funds
8400 Transfer to Debt Service Fund to Pay Principal on Capital Leases
8500 Transfer to Debt Service Fund to Pay Interest on Capital Leases
8600 Transfer to Debt Service Fund to Pay Principal on Revenue Bonds
8700 Transfer to Debt Service Fund to Pay Interest on Revenue Bonds
8800 Transfer to Capital Projects Fund for Capital Projects
8900 Transfer to Debt Service Fund to Pay Principal on ISBE Loans
8990 Other Uses of Funds Not Classified Elsewhere

# What Is the (23) Illinois Administrative Code – Part 100

Part 100 establishes the requirements for school district budgets and accounts as mandated by Section 2-3.27 of the Illinois School Code (105 ILCS 5/2-3.27).

These rules provide a classification system that uses fund and other accounting dimensions to permit a school district to design its chart of accounts. This chart is the list of all accounts generally used by the school district.

The account titles and numbers are assigned so that information is arranged in similar grouping, such as assets, liabilities, revenues, expenditures, etc.

Part 100 is applicable to all public K-12 school districts (joint agreements) and provides comparable financial information on a statewide basis. As a school district develops the chart of accounts, it has the option to use additional account codes or dimensions most appropriate for its operations. Each school district will need to establish and maintain the number and types of funds necessitated by the nature and scope of its operations.

ISBE has established the minimum number of accounts that must be used for reporting purposes. This accounting corresponds with the School District Budget Form (ISBE 50-36), but may be expanded to meet the needs of each school district.

The minimum coding requirements are illustrated below to generate the budgetary accounts and line items. Additional dimensions may be used by a school district to expand account code detail, but are not required by ISBE.

**MINIMUM CODING REQUIREMENTS**

**BALANCE SHEET ACCOUNTS**

| | |
|---|---|
| FUND (2 digits) + BALANCE SHEET ACCOUNTS (3 digits) | XX + XXX |
| (Example) Educational Fund + Taxes Receivables | 10 + 130 |

**REVENUE ACCOUNTS**

| | |
|---|---|
| FUND (2 digits) + REVENUE ACCOUNTS (4 digits) | XX + XXXX |
| (Example) Educational Fund + Local Sources | 10 + 1000 |

**EXPENDITURE ACCOUNTS**

| | |
|---|---|
| FUND (2 digits) + FUNCTION (4 digits) + OBJECT (3 digits) | XX + XXXX + XXX |
| (Example) Educational Fund + Instruction-Regular Program + Salaries | 10 + 1000 + 100 |

**OPTIONAL ACCOUNT DIMENSIONS**

**[(23) IAC 100.30 (d)** Each school board will use the account codes assigned by ISBE. However, any number not listed in Part 100 may be used if the description falls within the relevant classification. Prefixes and suffixes may also be used, provided that the basic code assigned by ISBE remains discernible for purpose of aggregating and reporting information.

► *See Exhibit 2, 3 & 4*

# What Monies May Be Transferred From One Fund To Another?

Throughout this section, "transfer" denotes a permanent, one-time movement of funds. Under the fund accounting required of school districts, the revenues and assets of a given fund are restricted to the purposes of that fund. Under specific circumstances and conditions, monies may be transferred from one fund to another. This section outlines monies permissible for inter-fund transfers that require the specific authorization of the local school board. Districts should also refer to the accounting rules [23 IAC 100.50 Intra-Fund and Inter-Fund Transactions], past board resolutions and original bond indenture documents to ensure compliance.

## Permanent Transfers Among Operating Funds

Pursuant to Section 17-2A of the Illinois School Code (105 ILCS 5/17-2A), the school board of any district having a population of less than 500,000 inhabitants may, by proper resolution following a public hearing set by the school board or the president of the school board (that is preceded (i) by at least one published notice over the name of the clerk/secretary of the board, occurring at least seven days and not more than thirty days prior to the hearing, in a newspaper of general circulation within the school district and (ii) by posted notice over the name of the clerk/secretary of the board, at least 48 hours before the hearing, at the principal office of the school board or at the building where the hearing is to be held if a principal office does not exist, with both notices setting forth the time, date, place, and subject matter of the hearing), transfer money from:

(1) The Educational Fund to the Operations and Maintenance Fund or the Transportation Fund.

(2) The Operations and Maintenance Fund to the Educational Fund or the Transportation Fund; or

(3) The Transportation Fund to the Educational Fund or the Operations and Maintenance Fund.

Permanent transfers are made solely for the purpose of meeting one-time, nonrecurring expenses. However, transfers made during the period from July 1, 2003 through June 30, 2011 do not have to be made solely for the purpose of meeting one-time, nonrecurring expenses.

## Transfer of Interest Earned

The law **limits or prohibits** the transfer of interest earned on monies invested for:

- Illinois Municipal Retirement
- Tort Immunity
- Fire Prevention, Safety, Energy Conservations, Disabled Accessibility, School Security, and Specified Repair Purposes
- Capital Improvement Purposes

Special provisions apply to the transfer of interest from the Working Cash Fund. (See Working Cash Fund Interest, page 19)

Interest earnings on State grants are treated in accordance with the provisions of the Illinois Grants Recovery Act (30 ILCS 705). Interest earnings on federal funds are restricted to the purpose(s) for which the funds are received. Interest earnings on federal funds are limited to $100 per year for administrative expenses of the grant. Excess earning must be returned to the federal government via ISBE. See the ISBE/State and Federal Grant Administration Policy and Fiscal Requirements and Procedures Handbook (May 2007) http://www.isbe.net/funding/pdf/fiscal_procedure_handbk.pdf .

Section 10-22.44 of the Illinois School Code (105 ILCS 5/10-22.44) delineates the general conditions that apply to the interest earned in a fund. Unless prohibited, school boards are permitted to transfer interest earned on the monies in any fund of the district to the respective fund of the district that is most in need of such interest income, as determined by the school board. The transfer is permissible unless the interest earned has been previously earmarked or restricted by the board for a designated purpose.

In accordance with 23 IAC 100.500 (a-4), unless otherwise provided by statute or specified by board resolution adopted prior to June 30 of a fiscal year, interest earnings are added to and become part of principal as of June 30 of the fiscal year.

## Excess Bond and Interest Monies (Debt Service Fund)

If monies remain in a bond and interest account (Debt Service Fund) and these monies are attributable to earnings on investments, the provisions of Sections 10-22.14 and 10-22.44 of the Illinois School Code (105 ILCS 5/10-22.14 and 105 ILCS 5/10-22.44) are applicable. Under these provisions the excess monies may be transferred to the district fund that is most in need of such interest income, as determined by the school board.

If monies remain in a bond and interest account (Debt Service Fund) and these monies are attributable to excess tax proceeds (taxes levied to pay interest on and redeem principal of bonds), there is no authorization to use the monies for any purpose. A district might consider transferring such excess tax proceeds to another bond and interest account and abating an equal amount of the taxes that will otherwise be levied for that purpose.

## Bond Premium Treatment

Pursuant to Section 10-22.14 of the Illinois School Code (105 ILCS 5/10-22.14), school districts shall exercise an option with regard to bond premiums. When proceeds from the sale of bonds include a premium, the board shall determine by resolution whether the premium realized in the sale of bonds is to be used for the purposes for which the bonds were issued, or instead, for payment of the principal and interest on those bonds.

## Treatment of Interest Earned on the Investment of Bond Proceeds

When proceeds from the sale of bonds issued for fire prevention, safety, energy conservation, disabled accessibility, school security and specified repair purposes, as specified in Section 17-2.11 of the Illinois School Code (105 ILCS 5/17-2.11), are invested as authorized by law, the board shall determine by resolution whether the interest on the investment of such bond proceeds is to be used for the purposes for which the bonds were issued or for payment of the principal indebtedness and interest on those bonds. When any such transfer is made to the Debt Service Fund, the secretary of the school board shall notify the county clerk(s) within 30 days of the amount of the transfer and direct the county clerks(s) to abate the taxes to be extended to make principal and interest payments on those bonds by an amount equal to the transfer, per Section 10-22.14 of the Illinois School Code (105 ILCS 5/10-22.14). When bonds are issued for any other purpose and the proceeds are invested as authorized by law, the interest earned on such investments may be transferred in accordance with the provisions of Section 10-22.44 of the Illinois School Code (105 ILCS 5/10-22.44).

## Treatment of Excess Bond Proceeds

When bonds other than bonds issued for fire prevention, safety, energy conservation, disabled accessibility, school security and specified repair purposes are issued by any school district and the purposes for which the bonds have been issued are accomplished and paid for in full, excess proceeds of the bonds may be transferred by board resolution to the Operations and Maintenance Fund.

When bonds are issued by any school district for fire prevention, safety, energy conservation, disabled accessibility, school security, and specified repair purposes, as specified in Section 17-2.11 of the Illinois School Code (105 ILCS 5/17-2.11), and the purposes for which the bonds have been issued are accomplished and paid for in full, the board, by resolution, shall use any excess funds for:

Other authorized fire prevention, safety, energy conservation, disabled accessibility, school security, and specified repair purposes as specified in Section 17-2.11; or

- Payment of principal and interest on those bonds through transfer to the Debt Service Fund.

If any transfer is made to the Debt Service Fund, the secretary of the school board shall notify the county clerk(s) within 30 days of the amount of that transfer and direct the county clerk(s) to abate the taxes to be extended for the purposes of principal and interest payments on the

respective bonds issued under Section 17-2.11 by an amount equal to such transfer, per Section 10-22.14 of the Illinois School Code (105 ILCS 10-22.14).

## Transfer of Excess Fire Prevention and Safety Tax Proceeds

When taxes are levied by any school district for fire prevention, safety, energy conservation, disabled accessibility, school security, and specified repair purposes as specified in Section 17-2.11 of the Illinois School Code (105 ILCS 17-2.11) and the purposes for which the taxes have been levied are accomplished and paid in full and there remain funds on hand in the Fire Prevention and Safety Fund from the proceeds of the taxes levied, including interest earnings thereon, the school board by resolution shall use such excess and other board-restricted funds excluding bond proceeds and earnings from such proceeds (1) for other authorized fire prevention, safety, energy conservation, disabled accessibility, school security, and specified repair purposes or (2) for transfer to the Operations and Maintenance Fund for the purpose of abating an equal amount of operations and maintenance purposes taxes. If any transfer is made to the Operations and Maintenance Fund, the secretary of the school board shall within 30 days notify the county clerk(s) to abate the taxes to be extended for the purposes of operations and maintenance authorized under Section 17-2 of the Illinois School Code (105 ILCS 5/17-2) by an amount equal to such transfer.

## Working Cash Fund Interest

Monies earned as interest from investment of the Working Cash Fund may be transferred from the Working Cash Fund upon the authority of the school board. A separate resolution must be enacted directing the school treasurer to make such transfer to any other fund of the district. Specific provisions are contained in Section 20-5 of the Illinois School Code (105 ILCS 5/20-5).

## Working Cash Fund Balance to Educational Fund (Abolishment of Working Cash Fund)

The school board of any school district may, by resolution, abolish its Working Cash Fund and transfer any balance to the Educational Fund at the end of the fiscal year. Outstanding inter-fund loans from the Working Cash Fund shall be paid or become payable to the Educational Fund at the end of the fiscal year. Uncollected Working Cash Fund taxes, when collected, must be paid into the Educational Fund (Section 20-8 of the Illinois School Code (105 ILCS 5/20-8).

## "Abatement" of Working Cash Fund

Section 20-8 of the Illinois School Code (105 ILCS 5/20-8) permits a district to abolish its Working Cash Fund and to transfer the balance of the fund to the Educational Fund. Although Section 20-8 does not mention abatement of the fund, Section 20-9 of the Illinois School Code (105 ILCS 5/20-9) refers to re-creating a Working Cash Fund which has been "abolished or abated." Accordingly, "implicit in the provisions of Section 20-9...is the authority to abate a Working Cash Fund." (In re Application of Walgenbach (1984), 104 Ill.2d 121, 125.) Since the

balance of the Fund when abolished is transferred to the Educational Fund, it follows that any balance transferred from the Fund when abated is to be deposited in the Educational Fund as well.

## Other Working Cash Fund Limitations

Section 20-6 of the Illinois School Code (105 ILCS 5/20-6) contains strong penalties for any member of a school board or any other person holding any office, trust, or employment under a school district who is found guilty of willful violation of any of the provisions of Article 20 (the Working Cash Fund).

Further limitations to the Working Cash Fund are included in the Tax Anticipation Note Act (50 ILCS 420/0.01). These limitations affect Working Cash Fund transfers when tax anticipation notes have been issued. The following is an excerpt from Section 5 of the Act:

> Whenever the unit of government has established a Working Cash Fund, as provided by law, the tax rate shall not be reduced below the amount necessary to reimburse any money borrowed from the Working Cash Fund. It shall be the duty of the clerk or secretary of the unit of government, annually, not less than 30 days prior to the tax extension date, to certify to the county clerk the amount of money borrowed from the Working Cash Fund to be reimbursed from the specific tax levy. No reimbursement shall be made to the Working Cash Fund until there has been accumulated from the tax levy to pay the notes an amount sufficient to pay the principal of and interest on the notes to maturity. At such time as there are no notes outstanding, all proceeds of such levy shall be applied for the specific purpose or purposes for which the notes were issued.

# What Are The Short-Term Debt/Borrowing Alternatives?

The issuance of short-term debt by an Illinois school district is governed by specific statutory provisions and related regulations. When borrowing becomes necessary, care must be given to understand: (1) the applicable debt instrument(s) given the district's unique needs; (2) the amount of time such borrowing may be necessary; and (3) how borrowing will impact the district's overall borrowing authority.

The following summary of short-term debt/borrowing alternatives is meant to provide a general overview of the available options. Additional assistance may be required from the school district's attorney, accountant, and/or lender.

Section 18-18 of the Illinois School Code (105 ILCS 5/18-18) limits school districts' issuance of state aid anticipation certificates, general obligation notes, and tax anticipation warrants so that the total amount of state aid certificates, notes, and warrants outstanding for any fiscal year may not exceed 85% of the taxes levied by the district for that year.

A district is also limited in the amount which can be accumulated in the Working Cash Fund. Whether through the sale of working cash bonds or through annual levy, the maximum amount that can be accumulated in the Working Cash Fund is 85% of the taxes permitted to be levied for educational purposes for the then current year plus 85% of the district's last known Corporate Personal Property Replacement Tax entitlement (Section 20-2 of the Illinois School Code (105 ILCS 5/20-2).

## Inter-Fund Loans

Section 10-22.33 of the Illinois School Code (105 ILCS 5/10-22.33) authorizes school districts to make inter-fund loans as follows:

- Operations and Maintenance Fund to the Educational Fund or the Transportation Fund or the Fire Prevention and Safety Fund,
- Educational Fund to the Operations and Maintenance Fund or the Transportation Fund or the Fire Prevention and Safety Fund,
- Transportation Fund to the Educational Fund or the Operations and Maintenance Fund or the Fire Prevention and Safety Fund, or

Section 20-4 of the Illinois School Code (105 ILCS 5/20-4) authorizes school districts to make inter-fund loans from:

- Working Cash Fund to any fund of the district for which taxes are levied.

Monies that are temporarily idle and/or surplus in specific funds may be loaned to cover anticipated interim needs in certain other funds, as cited above. Such monies, excluding Working Cash Fund loans, must be repaid to the proper fund within three years. Working Cash

Fund loans must be repaid upon the collection of anticipated taxes. Exceptions to the payment of Working Cash Fund loans exist when tax anticipation notes are outstanding.

Even though inter-fund loans can be made **to** the Fire Prevention and Safety Fund, no inter-fund loans are permitted to be made **from** the Fire Prevention and Safety Fund.

All inter-fund loans require appropriate authorization by the school board of the district.

## Tax Anticipation Warrants (TAWs)

When there is no money in the treasury to pay the necessary expenses of the district, a school board may issue warrants or may provide a fund by issuing and disposing of warrants drawn against, and in anticipation of, any taxes levied for payment of necessary district expenses for transportation, educational, fire prevention and safety, and operations and maintenance purposes, or for payments to the Illinois Municipal Retirement System (but not the Social Security System), or for payments of maturing principal and interest of bonds. Warrants may be issued to a legal maximum of 85% of the total amount of the tax levied less the amount available for loan in or loaned from the Working Cash Fund.

The warrants show upon their face that they are payable in the numerical order of their issuance solely from such taxes when collected. Taxes must be set aside and held for warrant payment. Every warrant bears interest payable out of the taxes against which it is drawn at a rate not exceeding the greater of 9%, or 125% of the General Obligation Bonds Index of average municipal bond yields, per annum from the date of issuance until paid, or until notice is given that the money for the warrant is available (Section 17-16 of the Illinois School Code (105 ILCS 5/17-16).

## General Obligation Tax Anticipation Warrants

General Obligation Tax Anticipation Warrants are authorized by the Local Government Debt Reform Act (30 ILCS 350/).

The warrants bear a specified due date and are secured by a levy of ad valorem taxes upon all taxable property in the district without limit as to rate or amount. No additional money should accrue to the district as a result of the tax levied to pay general obligation warrants because when the warrants are issued, the county clerk is instructed to reduce the specific tax rate by the percentage necessary to produce an amount to pay the principal of and interest on the warrants. A district may not issue general obligation tax anticipation warrants in excess of the 85% formula described above.

Under the Local Government Debt Reform Act, a district may issue refunding warrants or general obligation bonds to refund warrants should taxes or other revenues be delayed or insufficient to pay the warrants. The refunding warrants or bonds may also be secured by a levy of ad valorem taxes upon all taxable property in the district without limit as to rate or amount or, for a district subject to the Extension Limitation Law, may be issued as limited bonds.

Warrants initially issued are not regarded as or included in any computation of indebtedness for the purpose of any statutory provision or limitation. Refunding warrants and general obligation

bonds issued to refund warrants may be issued without regard to existing debt limitations. Upon being issued, however, such general obligation refunding bonds or warrants must be included and regarded as indebtedness.

## Issuance of Notes, Bonds, or Other Obligations in Lieu of Tax Anticipation Warrants

In lieu of issuing tax anticipation warrants in accordance with Section 17-16 of the Illinois School Code (105 ILCS 5/17-16), the school board of a school district may issue notes, bonds, or other obligations (and in connection with that issuance, establish a line of credit with a bank) in an amount not to exceed 85% of the amount of property taxes most recently levied for educational and building purposes. Moneys thus borrowed shall be applied to the purposes for which they were obtained and no other purpose. All moneys so borrowed shall be repaid exclusively from property tax revenues within 60 days after the property tax revenues have been received by the board.

The borrowing shall bear interest at a rate not to exceed the maximum rate authorized by the Bond Authorization Act (30 ILCS 305), from the date of issuance until paid.

Prior to the board borrowing or establishing a line of credit, the board shall authorize, by resolution, the borrowing or line of credit. The resolution shall set forth facts demonstrating the need for the borrowing or line of credit, state the amount to be borrowed, establish a maximum interest rate limit not to exceed the maximum rate authorized by the Bond Authorization Act, and provide a date by which the borrowed funds shall be repaid. The resolution shall direct the relevant officials to make arrangements to set apart and hold the taxes, as received, which will be used to repay the borrowing. In addition, the resolution may authorize the relevant officials to make partial repayments of the borrowing as the taxes become available and may contain any other terms restrictions, or limitations not inconsistent with the provisions of Section 17-17 of the Illinois School Code (105 ILCS 5/17-17).

## Tax Anticipation Notes (TANs)

School districts are authorized to issue *general obligation* notes in an amount (including principal, interest, and costs of note issuance) not to exceed 85% of the taxes levied less the amount available for loan in or loaned from the Working Cash Fund. Anticipation notes may be issued in anticipation of all taxes, including those for which tax anticipation warrants may not be issued. No notes shall be issued during any fiscal year in which tax anticipation warrants are outstanding against the tax levied for the fiscal year.

Anticipation notes bear interest at a rate not exceeding the greater of 9%, or 125% of the General Obligation Bonds Index of average municipal bond yields. Notes must mature within two years. A school board is required to adopt a resolution fixing the amount of notes, the date and the maturity date, the rate of interest (unless the notes are to be sold by public bid), the place of payment, and the denomination (in equal multiples of $1,000). The board resolution must also provide for the levy and collection of a direct annual tax upon all taxable property in the district sufficient to pay the principal and interest on the notes to maturity (30 ILCS 305/2).

When tax anticipation notes are outstanding, it is the duty of the county clerk to reduce a district's specific tax rate by the percentage necessary to produce an amount to pay the principal and interest on the outstanding notes. When the district has established a Working Cash Fund, the tax rate is not reduced below the amount necessary to reimburse any money borrowed from the Working Cash Fund. It is the duty of the clerk or secretary of the district annually, and not less than 30 days prior to the tax extension date, to certify to the county clerk the amount of money borrowed from the Working Cash Fund that is to be reimbursed from the specific tax levy. No reimbursement may be made to the Working Cash Fund until an amount sufficient to pay the principal of, and interest on, the notes to maturity has been accumulated from the tax levy.

The notes are executed in the name of the district by manual or facsimile signatures of district officials designated by the resolution. At least one signature on each note must be a manual signature. The notes may be issued in excess of any statutory debt limitation and do not operate to reduce the authority to incur debt otherwise authorized for the district. The issuance of notes does not require a referendum (50 ILCS 420/5, 50 ILCS 420/6, and 50 ILCS 420/7).

## State Aid Anticipation Certificates

Section 18-18 of the Illinois School Code (105 ILCS 5/18-18) allows school districts to issue a type of short-term debt known as State Aid Anticipation Certificates. Using certificates, money is loaned to a district against anticipated General State Aid payments (Also see next section Revenue Anticipation Notes if GSA payments are a pledged revenue source for such borrowing). The certificates have the following general characteristics:

- Certificates may not be outstanding for more than 13 months.
- Certificates are payable solely from General State Aid payments.
- Certificates may be issued without referenda.
- The amount of certificates to be issued may not exceed 75% of the state aid allocated to the school district for that year as certified by the state superintendent after subtracting the amount of funds available for transfer from the district's Working Cash Fund.
- The amount of certificates plus the amount of funds transferred from or available for transfer from the district's Working Cash Fund, plus the amount of the district's general obligation notes and tax anticipation warrants outstanding for the year may not exceed 85% of taxes levied by the district for that year.
- The board, prior to issuing the certificates, must adopt a resolution designating the purposes for which the proceeds of the certificates are to be expended, the amount to be issued, maturity dates, rate of interest, and other optional provisions.
- Upon the issuance of said certificates, the board shall give written notification to the appropriate regional superintendent and the state superintendent of education of the issuance of the certificates and the terms thereof, including, but not limited to, any assignment of state aid payments made pursuant to this Section, the name and address of each assignee, the amounts and dates of the payments to be made by the state superintendent of education directly to each assignee under Section 18-11 [105 ILCS 5/18-11], the amount of the certificates held by each assignee and the maturity date of the certificates.
- Districts may borrow up to 100% of their July state aid payments; these loans must be repaid by August 1.

## Revenue Anticipation Notes (RANs)

The Anticipation of Revenue Act, commonly referred to as Revenue Anticipation Notes (RANs), (50 ILCS 425/1 et seq.) authorizes units of local government and school districts to issue obligations to anticipate revenue from any sources including, but not limited to, federal aid, state revenue sharing, local taxes and fees.

Anticipatory obligations issued against such expected revenues for any purpose shall not exceed 85% of such revenues. Written assurance of the amount of revenue to be received from a particular source must be filed with the proper county clerk before the obligations can be issued.

Obligations issued under this Act shall be due not more than 12 months from the date of issue and shall bear interest at a rate not exceeding the maximum rate authorized by the Bond Authorization Act (30 ILCS 305/0.01) at the time of issuance. No notes shall be issued or sold, unless such issuance and sale is authorized by a vote of at least 2/3 of the members of the school board.

Several duties are imposed upon the treasurer of the district including authentication of notes and coupons, providing certificates of authenticity, keeping a registry of each series of notes issued, transmitting funds to pay principal and interest, and insuring that notes are paid.

Severe penalties are provided if notes are issued in excess of the limitations. Any official of the unit of local government or school district who votes for or otherwise influences the issuance of notes under this Act in excess of the limitations provided in the Act…"shall be liable for twice the sum of such excessive notes to the unit of local government or school district as the case may be and shall be ineligible for his office and be subject to removal from office."

## Personal Property Replacement Tax Notes

Personal property replacement tax notes may be issued in an amount not to exceed 75% of the entitlement of replacement taxes anticipated for the year less the amount available for loan in or loaned from the Working Cash Fund.

The entitlement amount must be certified by the director of the Illinois Department of Revenue. If the entitlement has not yet been certified, notes may be issued based upon 90% of the last known entitlement as certified by the director of the Illinois Department of Revenue (50 ILCS 420/4.1).

## Teacher/Employee* Orders

Teachers' orders are, in effect, promissory notes for wages due, paid in lieu of cash or a check to a teacher. Wages of teachers are paid in a manner agreed upon by the school board, but at least one payment must be made during each school month. The board issues and delivers an order to the school treasurer for the amount of salary due. Teachers' orders must be issued when due, even though there is no money in the Educational Fund, and the orders become a liability against future Educational Fund revenue of the district.

The school treasurer cannot pay out funds of a district except upon an order of the school board signed by the president and clerk, or secretary, or by a majority of the board. When teachers' orders are presented to the treasurer and cannot be paid because of lack of funds, the treasurer endorses the orders over his or her signature "not paid for want of funds," marks the date of presentation and records the endorsements. After an endorsement, the order becomes negotiable and bears interest not exceeding the greater of 9%, or 125% of the General Obligation Bonds Index of average municipal bond yields per annum. The order remains outstanding and interest accumulates until the treasurer notifies the clerk or secretary, in writing, that he or she has funds to pay the order. The order draws no interest after notice is given to the clerk or secretary (Section 8-16 of the Illinois School Code (105 ILCS 5/8-16).

* Charter school districts having a population of less than 500,000 may issue to teachers and other employees of the district orders in payment of salaries (Section 32-4.14 of the Illinois School Code (105 ILCS 5/32-4.14).

# What Is The Limitation of Administrative Costs?

Under provisions of Section 17-1.5 of the Illinois School Code (105 ILCS 5/17-1.5), each school district's budgeted administrative expenditures can not increase more than 5% over their prior year actual administrative expenditures.

Administrative costs are expenditures properly attributable to specific expenditure functions as defined in the (23) Illinois Administrative Code, Part 100. The following functions are included under "administrative expenditures" as prescribed by statute:

### Function:

2320 Executive Administration Services (example: Superintendents & Assistants)

2330 Special Area Administration Services (example: supervisor – Federal Programs, Special Programs & Title Programs)

2490 Other Support Services - School Administration (example: Department Heads and Deans [not principals])

2510 Direction of Business Support Services (example: Chief School Business Officials and Business Manager)

2570 Internal Services (example: Distributing supplies, duplicating, etc. for the school system)

2610 Direction of Central Support Services (example: Director / Manager of Planning, Information Services, Staff Services, etc.)

Expenditures should include salaries, employee benefits, purchased services, supplies and materials, capital outlay, non-capitalized equipment, termination benefits and other objects. Explanations and object descriptions may be found in the (23) Illinois Administrative Code, Part 100. The Limitation of Administrative Costs legislation also states that state-mandated retirement costs are not included, e.g., payments to the Teachers' Retirement System (TRS) and the Illinois Municipal Retirement System (IMRF).

School districts with administrative expenditures per pupil in the 25th percentile and below (the fourth quartile) for all districts of the same type (elementary, high school, unit) may waive the limitation imposed under Section 17-1.5 for any year following a public hearing. Waiver of this limitation requires the affirmative vote of at least two-thirds of the members of the school board for each applicable year. Any district waiving the limitation shall notify the ISBE within 45 days of such action.

Note: Districts should first determine that the administrative costs will increase more than 5% prior to waiving the limitation. ISBE is required by statute to publish a list of all school districts waiving the limitation.

If a school district that is ineligible to waive the limitation on administrative expenditures by board action exceeds the limitation imposed by Section 17-1.5 solely because of circumstances beyond the control of the district and the district has exhausted all available and reasonable remedies to comply with the limitation, the district may request a waiver pursuant to Section 2-3.25g of the Illinois School Code (105 ILCS 5/2-3.25g). If approved, this waiver shall only apply to the specific school year for which the request is made.

If the report and information required by Section 17-1.5 are not submitted on time or are determined to be incomplete or inaccurate, the district shall be notified in writing of the reporting deficiencies. Within 60 days of notification, the school districts must provide adequate assurance that corrective action has been or will be taken. If a school district fails to provide adequate assurance or to undertake the necessary corrective actions, the State Superintendent may impose progressive sanctions, which may culminate in withholding all subsequent payments of General State Aid until the assurance is provided or the corrective actions are taken.

School districts shall file with the ISBE by November 15th of each year a one page report that lists:

- The actual administrative expenditures for the prior year from the districts audited Annual Financial Report.
- The projected administrative expenditures for the current year from the budget adopted by the school board.

►*See Exhibit 5*

# What Are The Provisions for Filing The Annual Budget and Deficit Reduction Plan with ISBE?

Section 17-1 of the School Code (105 ILCS 5/17-1), includes the requirement that the school district's adopted (or amended) annual budget must be filed with ISBE within 30 days of local board action. This is in addition to: (1) filing a certified copy with the county clerk(s); and (2) posting the budget on the district's internet website, if created.

The provision has an additional requirement that to the extent the school district's budget is not balanced; the local school board must also formally adopt a "deficit reduction plan" to balance the budget within three years. The deficit reduction plan is based on ISBE guidelines and must be filed concurrently with the adopted annual budget.

Also refer to pages 5 and 6 of this handbook for additional information on filing and posting the adopted budget.

# What Is A Deficit Reduction Plan?

**A** deficit reduction plan is necessary if the local school board adopts (or amends) the annual budget in which the "operating funds" (Educational; Operations & Maintenance; Transportation and Working Cash Funds) result in total direct revenues being less than total direct expenditures by an amount greater than one-third (1/3) of the ending fund balance (June 30). Note - amounts are determined using only the four funds listed above. If the estimated ending fund balance is not greater than three times the deficit spending, the district must also adopt and file with ISBE a deficit reduction plan to balance the budget within three year. The deficit reduction plan must be developed using ISBE guidelines and format.

Example: By combining the four operating funds, the result is total direct revenues equal $2,500,000 and total direct expenditures equal $2,750,000. The combined ending fund balance in the operating funds (June 30, annually) must be at least $750,000 (three times the deficit of $250,000). If not, a deficit reduction plan is required.

## Deficit Reduction Plan Guidelines

Budgetary Targets - The deficit reduction plan should be developed around targeted revenues and expenditures that reduce the combined annual deficit in the operating funds. Using forms provided by ISBE, the estimated budgets for the current budget year and next three school years are to be completed.

**Operating Funds Included Within The Plan:**

(10) Educational

(20) Operation & Maintenance
(40) Transportation
(70) Working Cash

Current School Year – The remainder of the current year's budget should be examined for expenditure reductions such as a freeze on hiring, supplies and capital outlay. The budget estimates should be verified as this information will serve as baseline data for assessing changes in the remaining years of the deficit reduction plan.

Subsequent Years – For the next three school years, the budget figures should reflect a material reduction of the district's combined operating deficit. An estimate, by fiscal year and fund, is to be completed and constitutes the primary representation of the multi-year deficit reduction plan. A review of the district's fee structure/policy should also be made to determine estimated collections in future years.

Narrative of Budget Reductions/Assumptions – A brief description should be included to identify any areas of the budget that will be impacted from one year to the next. If the deficit reduction plan relies upon new local revenues, identify contingencies for further budget reductions which will be enacted in the event those new revenues are not available.

Assumptions should include the change in foundation level for General State Aid, change in equalized assessed valuation/tax rates, adjustment to salaries/benefits and any debt instrument which will be relied upon during the course of the deficit reduction plan.

Educational Impact - Provide an assessment of the impact the deficit reduction plan may have on the educational mission of the district. Discuss the extent of any educational courses and services which will be reduced. Provide assurances concerning the district's ability to meet the minimum requirements of state/federal law and sound practices with regard to educational services.

## What Format Is Used?

ISBE provides the School District Budget Form (ISBE 50-36) and deficit reduction plan in a Microsoft Excel 97-Excel 2003 workbook version. The Agency will support only Excel Version 97 (and higher) running under Windows 2000 or higher. The forms are available at the ISBE website http://www.isbe.net/sfms/budget/default.htm.

## What Are The Filing Timelines To ISBE?

The School District Budget Form ISBE (ISBE 50-36) and deficit reduction plan, if required, are filed with ISBE within 30 days of adoption (or amendment) by the local school board. Upon request, the State Superintendent may extend the three year deadline to achieve a balanced budget if the situation warrants.

## How Is Information Submitted To ISBE?

The School District Budget Form ISBE (ISBE 50-36) and deficit reduction plan, if required, is to be transmitted electronically in an Excel workbook format using the ISBE attachment manager located at ISBE.net send ISBE a file.

1. Under Internet Submission at ISBE.Net, Select "Submit budget via ISBE Attachment Manager" and complete all required information on the screen.

   Under "Receiver Information": Select SCHOOL FINANCIAL REPORTS GROUP.

   Under "Attachments" either type in the file names to be submitted or use the browse function to locate the files on your computer.

2. When the submission is completed, a notification immediately follows that the file was submitted successfully. This will be the receipt and should be printed. Notify ISBE if the submission was completed and no notification was received. In addition, you will receive an email from ISBE after the budget has been reviewed and all errors are corrected.
3. All budgets and deficit reduction plans, if required, should be named with the LEAs eleven-digit number.

## Budgeting Reminders

- ✓ When presenting the budget to the school board, justification (e.g. budgetary assumptions/rationale) should be available to support the tentative proposal. Explanations should be readily available for any large increases or decreases in line items. A comparison of line items budgeted to the previous year's actual amounts might be helpful.

- ✓ Remember - The budget is an estimate of revenues, expenditures and other sources/uses and is not be expected to come out exactly to the penny. The budget is a tentative outline or plan for the fiscal year.

- ✓ By school board authority, budgeted amounts can be transferred to other line items within the same fund. These transfers can be made up to 10% of the total of that fund. Expending more than the budgeted total for a fund requires the budget to be amended using the same procedures as for the budget's original adoption.

- ✓ Use proper categories and account numbers that are consistent with the (23) Illinois Administrative Code, Part 100. Proper coding and reference to Part 100, eliminates the necessity to add lines on the School District Budget Form (ISBE 50-36). Avoid using an incorrect number just because an amount was budgeted.

- ✓ Budgeting for "Provision for Contingencies (Function 6000)" in each fund is practical way to allow for unexpected expenditures. Use of this account will help eliminate overspending and often the need for a formal budgetary amendment.

> **Note:** The "Provision For Contingencies" account is not for recording entries, but is used as a means of identifying the amount of the contingency provision. Spending is not done directly from the budgeted contingency amounts. Transfers are made by school board approval to the appropriate line items; with expenditures subsequently being made from those line items. Board action is required to authorize all line item transfers. If the aggregate of line item transfers in a fund exceeds 10% then the budget must be amended.

## Common Budget Problems

- ✓ The potential need to distinguish differences between fund balances and cash (and investment) balances.

- ✓ The omission of beginning fund balances and/or cash (and investment) balances on the Budget Summary and the Summary of Cash Transactions.

- ✓ The reporting of the cash (and investment) balances on the Summary of Cash Transactions at amounts (by fund) that are less than zero. Cash and investments must be greater than or equal to zero, by fund.

- ✓ The omission of inter-fund loans (or repayment of such loans) on the Summary of Cash Transactions.

- ✓ The reporting of short-term borrowing (original issuance & repayment of principal) as a receipt (revenue) and/or disbursement (expenditure).

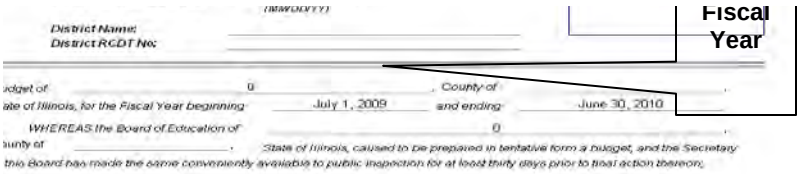
- ✓ The omission of short and/or long-term debt issuances.

- ✓ The implementation of strong budgetary controls throughout the fiscal year. The budget should be monitored for any line item variances.

- ✓ The absence of "zero-based" budgeting techniques to annually reevaluate ongoing programs and services.

# Exhibit 1a
# School District Budget Form (ISBE 50-36)
## (Sample Forms, dates will not be updated)

*AND WHEREAS a public hearing was held as to such budget on the* _____ day of _____, 20 _____,
*tice of said hearing was given at least thirty days prior thereto as required by law, and all other legal requirements have been mplied with;*




**Date of Public Hearing**

*AND WHEREAS a public hearing was held as to such budget on the* _____ day of _____, 20 _____,
*notice of said hearing was given at least thirty days prior thereto as required by law, and all other legal requirements have been complied with;*

**Fiscal Year**

*NOW, THEREFORE, Be it resolved by the Board of Education of said district as follows:*
*Section 1: That the fiscal year of this school district be and the same hereby is fixed and declared to be*

*eginning* July 1, 2009 *and ending* June 30, 2010 .

**Fiscal Year**

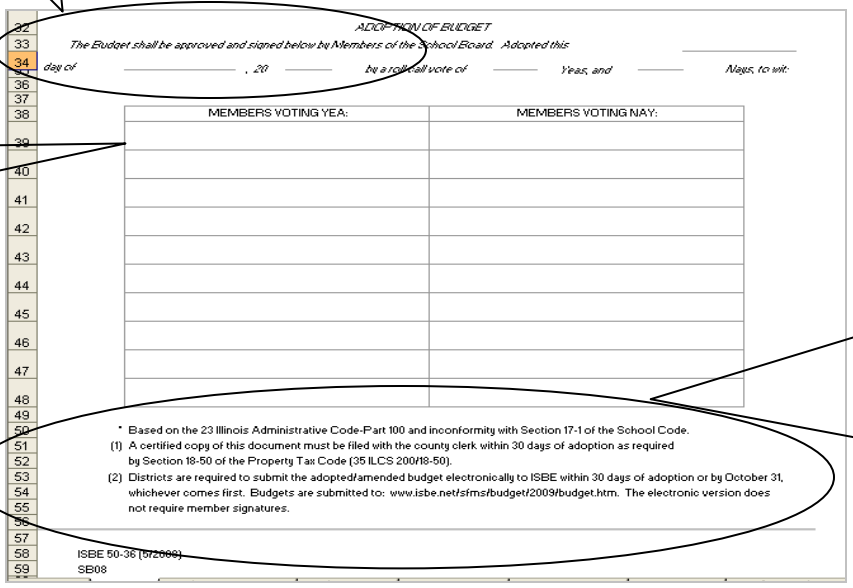
# Exhibit 1b
# School District Budget Form (ISBE 50-36)

## *COVER PAGE*

**Date of Budget**

**School Board adopts budget and signs cover page**

**A certified copy of the adopted budget, as well as, the estimate (certified by the chief fiscal officer) of revenues, by source, anticipated to be received by the district in the following fiscal year are filed with the county clerk(s).**



ADOPTION OF BUDGET

*The Budget shall be approved and signed below by Members of the School Board. Adopted this*

*day of* _____ *, 20* ____ *by a roll call vote of* ____ *Yeas, and* ____ *Nays, to wit:*

| MEMBERS VOTING YEA: | MEMBERS VOTING NAY: |
|---|---|
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |

* Based on the 23 Illinois Administrative Code-Part 100 and inconformity with Section 17-1 of the School Code.

(1) A certified copy of this document must be filed with the county clerk within 30 days of adoption as required by Section 18-50 of the Property Tax Code (35 ILCS 200/18-50).

(2) Districts are required to submit the adopted/amended budget electronically to ISBE within 30 days of adoption or by October 31, whichever comes first. Budgets are submitted to: www.isbe.net/sfms/budget/2009/budget.htm. The electronic version does not require member signatures.

ISBE 50-36 (5/2008)

SB08

# Exhibit 2
# School District Budget Form (ISBE 50-36)

## *Budget Summary*

**FUND BALANCE – What the district owns/equity at the beginning of the year.**

| | A | B | C | D |
|---|---|---|---|---|
| 1 | *[See page 29 for references]* | | (10) | (20) |
| 2 | Description | Acct # | Educational | Operations & Maintenance |
| 3 | ESTIMATED BEGINNING FUND BALANCE July 1, 2009 [1] | | | |
| 4 | RECEIPTS/REVENUES | | | |
| 5 | LOCAL SOURCES | 1000 | 0 | 0 |
| 6 | FLOW-THROUGH RECEIPTS/REVENUES FROM ONE DISTRICT TO ANOTHER DISTRICT | 2000 | 0 | 0 |
| 7 | STATE SOURCES | 3000 | 0 | 0 |
| 8 | FEDERAL SOURCES | 4000 | 0 | 0 |
| 9 | Total Direct Receipts/Revenues | | 0 | 0 |
| 10 | Receipts/Revenues for "On Behalf" Payments [2] | 3998 | | |
| 11 | Total Receipts/Revenues | | 0 | 0 |
| 12 | DISBURSEMENTS/EXPENDITURES | | | |
| 13 | INSTRUCTION | 1000 | 0 | |
| 14 | SUPPORT SERVICES | 2000 | 0 | 0 |
| 15 | COMMUNITY SERVICES | 3000 | 0 | 0 |
| 16 | PAYMENTS TO OTHER DISTRICTS & GOVT UNITS | 4000 | 0 | 0 |
| 17 | DEBT SERVICES | 5000 | 0 | 0 |
| 18 | PROVISION FOR CONTINGENCIES | 6000 | 0 | 0 |
| 19 | Total Direct Disbursements/Expenditures | | 0 | 0 |
| 20 | Disbursements/Expenditures for "On Behalf" Payments [2] | 4180 | 0 | 0 |
| 21 | Total Disbursements/Expenditures | | 0 | 0 |
| 22 | Excess of Direct Receipts/Revenues Over (Under) Direct Disbursements/Expenditures | | 0 | 0 |
| 23 | OTHER SOURCES/USES OF FUNDS | | | |
| 24 | OTHER SOURCES OF FUNDS (7000) | | | |
| 25 | PERMANENT TRANSFER FROM VARIOUS FUNDS | | | |
| 26 | Abolishment or Abatement of the Working Cash Fund | 7110 | | |
| 27 | Transfer of Working Cash Fund Interest | 7120 | | |

Cover | BudgetSum 2-3 | CashSum 4 | EstRev 5-10 | EstExp 11-17 | Itemize 18 | Def

**Fund**

**Expenditure Functions**

**Revenue**

**Summary pages automatically calculate**

**How much better or worse the district is, after operating for the year.**

| | A | B | C | D |
|---|---|---|---|---|
| 1 | *[See page 29 for references]* | | (10) | (20) |
| 2 | Description | Acct # | Educational | Operations & Maintenance |
| 22 | Excess of Direct Receipts/Revenues Over (Under) Direct Disbursements/Expenditures | | 0 | 0 |
| 23 | OTHER SOURCES/USES OF FUNDS | | | |
| 24 | OTHER SOURCES OF FUNDS (7000) | | | |
| 25 | PERMANENT TRANSFER FROM VARIOUS FUNDS | | | |
| 26 | Abolishment or Abatement of the Working Cash Fund | 7110 | | |
| 27 | Transfer of Working Cash Fund Interest | 7120 | | |
| 28 | Transfer Among Funds | 7130 | | |
| 29 | Transfer of Interest | 7140 | | |
| 30 | Transfer from Capital Projects Fund to O&M Fund | 7150 | | |
| 56 | Transfer to Debt Service Fund to Pay Principal on Capital Leases | 8400 | | |
| 57 | Transfer to Debt Service Fund to Pay Interest on Capital Leases | 8500 | | |
| 58 | Transfer to Debt Service Fund to Pay Principal on Revenue Bonds | 8600 | | |
| 59 | Transfer to Debt Service Fund to Pay Interest on Revenue Bonds | 8700 | | |
| 60 | Transfer to Capital Projects Fund | 8800 | | |
| 61 | Transfer to Debt Service Fund to Pay Principal on ISBE Loans | 8910 | | |
| 62 | Other Uses Not Classified Elsewhere | 8990 | | |
| 63 | Total Other Uses of Funds | | 0 | 0 |
| 64 | Total Other Sources/Uses of Fund | | 0 | 0 |
| 65 | ESTIMATED ENDING FUND BALANCE June 30, 2010 | | 0 | 0 |

**FUND BALANCE – What the district owns/equity at the end of the year**

# Exhibit 3
# School District Budget Form (ISBE 50-36)

### *Summary of Cash Transactions*

**ESTIMATED BALANCE ON HAND – What cash and investments the district has on hand at the beginning of the year.**

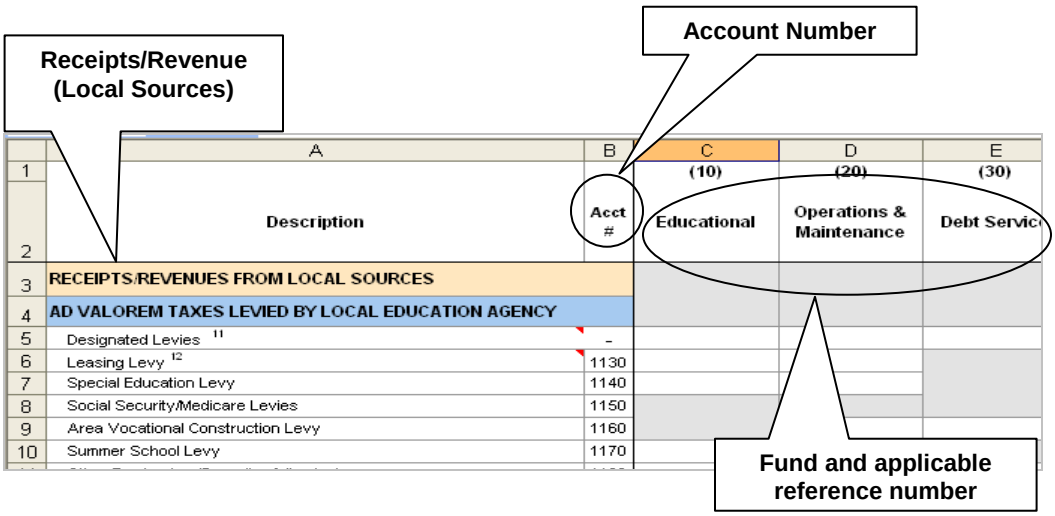
**Fund**

| | A | B | C | D |
|---|---|---|---|---|
| 1 | | | (10) | (20) |
| 2 | Description | Acct # | Educational | Operations & Maintenance |
| 3 | **BEGINNING CASH BALANCE ON HAND July 1, 2009** [7] | | | |
| 4 | **Total Direct Receipts & Other Sources** [8] | | 0 | 0 |
| 5 | **OTHER RECEIPTS** | | | |
| 6 | Interfund Loans Payable (Loans from Other Funds) | 411 | | |
| 7 | Interfund Loans Receivable (Repayment of Loans) | 141 | | |
| 8 | Notes and Warrants Payable | 433 | | |
| 9 | Other Current Assets | 199 | | |
| 10 | **Total Other Receipts** | | 0 | 0 |
| 11 | **Total Direct Receipts, Other Sources, & Other Receipts** | | 0 | 0 |
| 12 | **Total Amount Available** | | 0 | 0 |
| 13 | **Total Direct Disbursements & Other Uses** [9] | | 0 | 0 |
| 14 | **OTHER DISBURSEMENTS** | | | |
| 15 | Interfund Loans Receivable (Loans to Other Funds) [10] | 141 | | |
| 16 | Interfund Loans Payable (Repayment of Loans) | 411 | | |
| 17 | Notes and Warrants Payable | 433 | | |
| 18 | Other Current Liabilities | 499 | | |
| 19 | **Total Other Disbursements** | | 0 | 0 |
| 20 | **Total Direct Disbursements, Other Uses, & Other Disbursements** | | 0 | 0 |
| 21 | **ENDING CASH BALANCE ON HAND June 30, 2010** [7] | | 0 | 0 |

**"Negative" amounts are not allowed for a Beginning Cash Balance on Hand – Transfers must be made prior to beginning of fiscal year.**

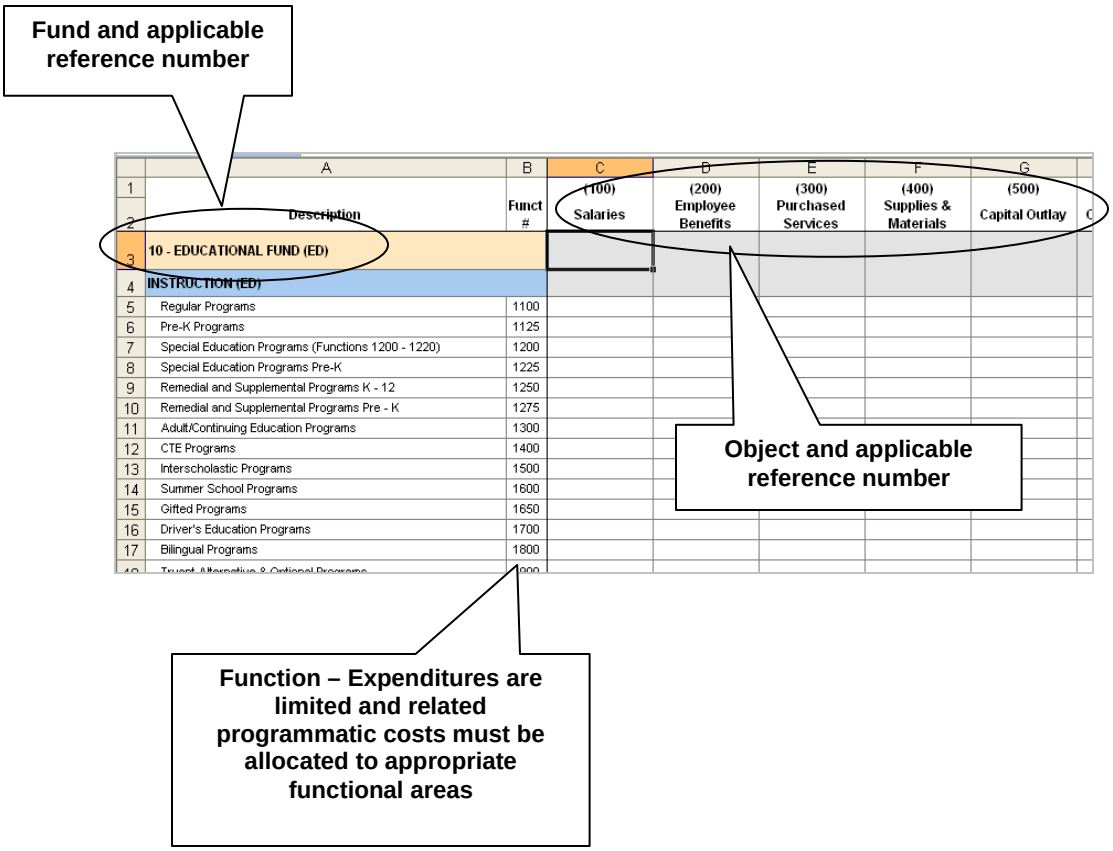
# Exhibit 4
# School District Budget Form (ISBE 50-36)

### *Estimated Receipts/Revenues*




| | A | B | C | D | E |
|---|---|---|---|---|---|
| 1 | | | (10) | (20) | (30) |
| 2 | Description | Acct # | Educational | Operations & Maintenance | Debt Servic |
| 3 | RECEIPTS/REVENUES FROM LOCAL SOURCES | | | | |
| 4 | AD VALOREM TAXES LEVIED BY LOCAL EDUCATION AGENCY | | | | |
| 5 | Designated Levies [11] | - | | | |
| 6 | Leasing Levy [12] | 1130 | | | |
| 7 | Special Education Levy | 1140 | | | |
| 8 | Social Security/Medicare Levies | 1150 | | | |
| 9 | Area Vocational Construction Levy | 1160 | | | |
| 10 | Summer School Levy | 1170 | | | |

### *Estimated Disbursements/Expenditures*

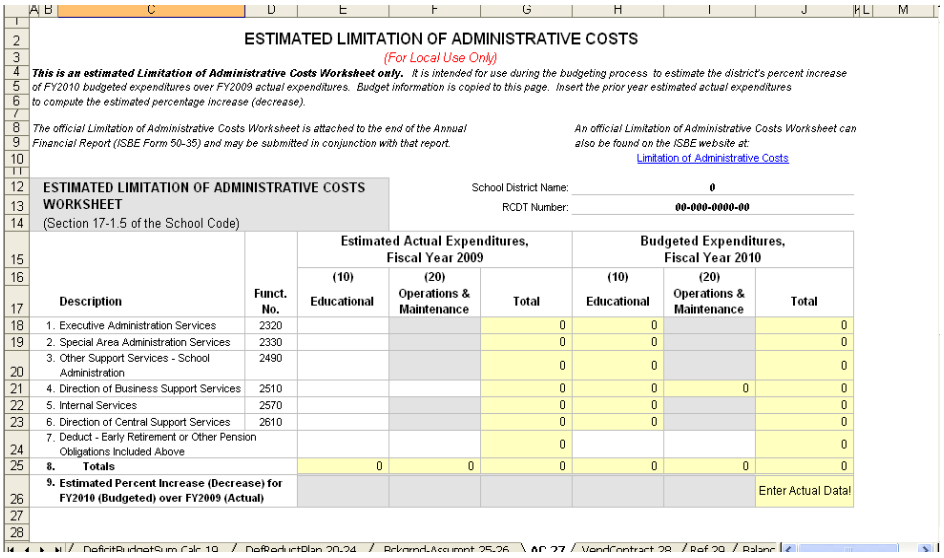



| | A | B | C | D | E | F | G |
|---|---|---|---|---|---|---|---|
| 1 | | | (100) | (200) | (300) | (400) | (500) |
| 2 | Description | Funct # | Salaries | Employee Benefits | Purchased Services | Supplies & Materials | Capital Outlay |
| 3 | 10 - EDUCATIONAL FUND (ED) | | | | | | |
| 4 | INSTRUCTION (ED) | | | | | | |
| 5 | Regular Programs | 1100 | | | | | |
| 6 | Pre-K Programs | 1125 | | | | | |
| 7 | Special Education Programs (Functions 1200 - 1220) | 1200 | | | | | |
| 8 | Special Education Programs Pre-K | 1225 | | | | | |
| 9 | Remedial and Supplemental Programs K - 12 | 1250 | | | | | |
| 10 | Remedial and Supplemental Programs Pre - K | 1275 | | | | | |
| 11 | Adult/Continuing Education Programs | 1300 | | | | | |
| 12 | CTE Programs | 1400 | | | | | |
| 13 | Interscholastic Programs | 1500 | | | | | |
| 14 | Summer School Programs | 1600 | | | | | |
| 15 | Gifted Programs | 1650 | | | | | |
| 16 | Driver's Education Programs | 1700 | | | | | |
| 17 | Bilingual Programs | 1800 | | | | | |

# Exhibit 5
# Limitation of Administrative Costs Worksheet

## From the School District Budget Form (ISBE 50-36)

**This form is included in the Budget, and is only a working copy**



ESTIMATED LIMITATION OF ADMINISTRATIVE COSTS

*(For Local Use Only)*

***This is an estimated Limitation of Administrative Costs Worksheet only.*** *It is intended for use during the budgeting process to estimate the district's percent increase of FY2010 budgeted expenditures over FY2009 actual expenditures. Budget information is copied to this page. Insert the prior year estimated actual expenditures to compute the estimated percentage increase (decrease).*

*The official Limitation of Administrative Costs Worksheet is attached to the end of the Annual Financial Report (ISBE Form 50-35) and may be submitted in conjunction with that report.*

*An official Limitation of Administrative Costs Worksheet can also be found on the ISBE website at:*
Limitation of Administrative Costs

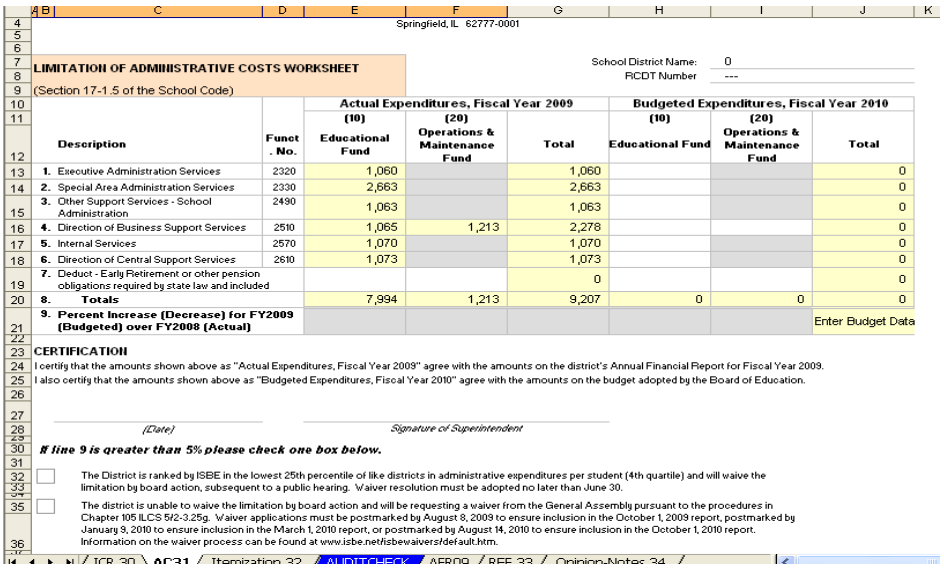
**ESTIMATED LIMITATION OF ADMINISTRATIVE COSTS WORKSHEET**
(Section 17-1.5 of the School Code)

School District Name: **0**
RCDT Number: **00-000-0000-00**

| Description | Funct. No. | Estimated Actual Expenditures, Fiscal Year 2009 (10) Educational | (20) Operations & Maintenance | Total | Budgeted Expenditures, Fiscal Year 2010 (10) Educational | (20) Operations & Maintenance | Total |
|---|---|---|---|---|---|---|---|
| 1. Executive Administration Services | 2320 | | | 0 | 0 | | 0 |
| 2. Special Area Administration Services | 2330 | | | 0 | 0 | | 0 |
| 3. Other Support Services - School Administration | 2490 | | | 0 | 0 | | 0 |
| 4. Direction of Business Support Services | 2510 | | | 0 | 0 | 0 | 0 |
| 5. Internal Services | 2570 | | | 0 | 0 | | 0 |
| 6. Direction of Central Support Services | 2610 | | | 0 | 0 | | 0 |
| 7. Deduct - Early Retirement or Other Pension Obligations Included Above | | | | 0 | | | 0 |
| **8. Totals** | | 0 | 0 | 0 | 0 | 0 | 0 |
| **9. Estimated Percent Increase (Decrease) for FY2010 (Budgeted) over FY2009 (Actual)** | | | | | | | Enter Actual Data! |

## From the School District Annual Financial Report Form (ISBE 50-35)

**This form is included in the Annual Financial Report, and must be filed by the school district with ISBE by November 15th**



Springfield, IL 62777-0001

**LIMITATION OF ADMINISTRATIVE COSTS WORKSHEET**
(Section 17-1.5 of the School Code)

School District Name: 0
RCDT Number ---

| Description | Funct. No. | Actual Expenditures, Fiscal Year 2009 (10) Educational Fund | (20) Operations & Maintenance Fund | Total | Budgeted Expenditures, Fiscal Year 2010 (10) Educational Fund | (20) Operations & Maintenance Fund | Total |
|---|---|---|---|---|---|---|---|
| 1. Executive Administration Services | 2320 | 1,060 | | 1,060 | | | 0 |
| 2. Special Area Administration Services | 2330 | 2,663 | | 2,663 | | | 0 |
| 3. Other Support Services - School Administration | 2490 | 1,063 | | 1,063 | | | 0 |
| 4. Direction of Business Support Services | 2510 | 1,065 | 1,213 | 2,278 | | | 0 |
| 5. Internal Services | 2570 | 1,070 | | 1,070 | | | 0 |
| 6. Direction of Central Support Services | 2610 | 1,073 | | 1,073 | | | 0 |
| 7. Deduct - Early Retirement or other pension obligations required by state law and included | | | | 0 | | | 0 |
| **8. Totals** | | 7,994 | 1,213 | 9,207 | 0 | 0 | 0 |
| **9. Percent Increase (Decrease) for FY2009 (Budgeted) over FY2008 (Actual)** | | | | | | | Enter Budget Data |

**CERTIFICATION**

I certify that the amounts shown above as "Actual Expenditures, Fiscal Year 2009" agree with the amounts on the district's Annual Financial Report for Fiscal Year 2009.
I also certify that the amounts shown above as "Budgeted Expenditures, Fiscal Year 2010" agree with the amounts on the budget adopted by the Board of Education.

*(Date)* *Signature of Superintendent*

***If line 9 is greater than 5% please check one box below.***

☐ The District is ranked by ISBE in the lowest 25th percentile of like districts in administrative expenditures per student (4th quartile) and will waive the limitation by board action, subsequent to a public hearing. Waiver resolution must be adopted no later than June 30.

☐ The district is unable to waive the limitation by board action and will be requesting a waiver from the General Assembly pursuant to the procedures in Chapter 105 ILCS 5/2-3.25g. Waiver applications must be postmarked by August 8, 2009 to ensure inclusion in the October 1, 2009 report, postmarked by January 9, 2010 to ensure inclusion in the March 1, 2010 report, or postmarked by August 14, 2010 to ensure inclusion in the October 1, 2010 report. Information on the waiver process can be found at www.isbe.net/isbewaivers/default.htm.

# Exhibit 6
# Procedures for Preparing the Annual Budget

The following examples are included as samples only. Prior to using, school districts should consult their attorneys to ensure applicability with their specific situations.

## Establishing Fiscal Year

The school board shall establish a fiscal year for the school district under the provisions of Section 17-1 of the Illinois School Code (105 ILCS 5/17-1). The fiscal year is established as July 1 of one year through June 30 of the following year.

## Designation of a Person or Persons to Prepare Tentative Budget

The school board, by resolution, shall designate some person or persons to prepare a tentative budget. A **sample** resolution follows:

> BE IT RESOLVED by the school board of School District Number _____ in the County of _____, State of Illinois, that_____ is hereby appointed to prepare a tentative budget for said School District for the fiscal year beginning _____, 20__, and ending _____, 20__, which tentative budget shall be filed with the Secretary of this Board.

Such budget shall be prepared in tentative form by some person or persons designated by the board, and in such tentative form shall be made conveniently available to public inspection for at least 30 days prior to final action thereon.

## Notice of the Availability of Tentative Budget for Public Inspection and Public Hearing

The school board is to hold at least one public hearing on the proposed budget prior to final action. A notice of availability for public inspection of the tentative budget and of such public hearing is given by publication in a newspaper published in the district, at least 30 days prior to the time of the hearing. The notice states where, when and during what hours the tentative budget will be on display for public inspection and where, when and at what time the budget hearing will be held. If there should not be a newspaper published in the district, notice is to be given by posting notices thereof in five of the most public places of the district,

The text for notices of the public hearing, whether published or posted, should read substantially as follows:

Notice of Public Hearing
(School Board)

NOTICE IS HEREBY GIVEN by the School board of School District Number ____, in the County of _____, State of Illinois, that tentative budget for said School District for the fiscal year beginning _____, 20__, will be on file and conveniently available to public inspection at_____ _____, Illinois in this School District
Address City

from and after _____o'clock _____m., on the _____day of _____, 20__. Notice is further hereby given that a public hearing on said budget will be held at _____ o'clock ___m., on the _____day of _____ 20__, at _____ in this School District Number _____. Dated this _____day of _____, 20__. School board of School District Number_____, in the County of _____, State of Illinois.

By _____
Secretary

Note: In addition, the notice must comply with the Legal Advertising Rate Act – Notices (715 ILCS 15/)

## Adoption of Annual Budget

The budget shall be approved and signed by members of the School Board as provided on the cover page of the School District Budget Form (ISBE 50-36).

*Adopted this _____day of _____20__ by a roll call vote of ____Yeas, and ____ Nays, to wit:*

| MEMBERS VOTING YEA: | MEMBERS VOTING NAY: |
|---|---|
| | |
| | |
| | |
| | |

# Hints to the School District Budget Summaries

**Q.** How much money is available at the beginning of the year?
***A.*** *Estimated Cash Balance on Hand (Summary of Cash Transactions, line 3)*

**Q.** How much does the district own at the beginning of the year?
***A.*** *Estimated Fund Balance, (Budget Summary, line 3)*

**Q.** How much Short-Term (external) Debt must be paid during the year?
***A.*** *Other Disbursements, (Summary of Cash Transaction, lines 8 & 9)*

**Q.** How much Long-Term Debt (Bonds) will be issued during the year?
***A.*** *Sale of Bonds, (Budget Summary, line 34)*

**Q.** Will Short-Term (external) borrowing be necessary?
***A.*** *Other Receipts, (Summary of Cash Transactions, line 8)*

**Q.** How much better or worse will the district be after operating during the year?
***A.*** *Excess of Receipts Over (Under) Disbursements, (Budget Summary, line 22)*

**Q.** How much local money will the district receive?
***A.*** *Receipts/Revenue, (Budget Summary, line 5)*

**Q.** How much state money will the district receive?
**A.** *Receipt/Revenue, (Budget Summary, line 7)*

**Q.** How much federal money will the district receive?
***A.*** *Receipts/Revenue, (Budget Summary, line 8)*

**Q.** How much will the district spend for instructions?
***A.*** *Disbursements/Expenditures, (Budget Summary, line 13).*

**Q.** How much will the district spend for support services (health, guidance, staff, development, administration, central office personnel, etc…)?
***A.*** *Disbursements/Expenditures, (Budget Summary, line 14)*

**Q.** How much will the district spend for community services?
***A.*** *Disbursements/Expenditures, (Budget Summary, line 15)*

**Q.** How much will the district pay to other districts for services provided to its students?
***A.*** *Disbursements/Expenditures (Budget Summary, line 16)*

# GLOSSARY

## A

**ACCOUNT:** A descriptive heading under which are recorded financial transactions that are similar in terms of a given frame of reference, such as purpose, object, or source.

**ACCOUNTING SYSTEM:** The total mechanism of records and procedures of recording, retrieving and reporting information on the financial position and operations of a governmental unit or any classifying of its funds, balanced account groups and organizational components.

**ACCRUAL BASIS:** The basis of accounting under which revenues are recorded when earned or when levies are made, and expenditures are recorded as soon as they result in liabilities, regardless of when the revenue is actually received or the payment is actually made.

**ASSETS:** Those things of value (resources) held by the school district which has monetary value.

**AUDIT:** The examination of records and documents and the securing of other evidence for one or more of the following purposes: (a) determining the propriety of proposed or completed transactions, (b) ascertaining whether all transactions have been recorded, (c) determining whether transactions are accurately recorded in the accounts and in the statements drawn from the accounts.

## B

**BALANCE SHEET:** A formal statement of assets, liabilities, and fund balance as of a specific date.

**BUDGET:** A plan of financial operation embodying an estimate of proposed expenditures for a given period or purpose and the proposed means of financing them. The budget usually consists of three parts. The first part contains a message from the budget-making authority together with a summary of the proposed expenditures and the means of financing them. The second part consists of schedules supporting the summary. The schedules show in detail the proposed expenditures and means of financing them together with information as to past years' actual revenues and expenditures and other data used in making the estimates. The third part is composed of drafts of the appropriation, revenue, and borrowing measures necessary to put the budget into effect.

## C

**CASH:** Currency, checks, postal and express money orders, and bankers' drafts on hand or on deposit with an official or agent designated as custodian of cash, and bank deposits. Any restriction or limitations as to its availability should be indicated.

**CASH BASIS:** The basis of accounting under which revenues are recorded only when actually received, and when only cash disbursements are recorded as expenditures.

**CHART OF ACCOUNTS:** A list of all accounts generally used in an individual accounting system. In addition to account title, the chart includes an account number which has been assigned to each account. Accounts in the chart are arranged with accounts of a similar nature; for example, assets and liabilities.

**CURRENT ASSETS:** Cash or anything that can be readily converted into cash.

**CURRENT EXPENSE:** Any expenditure except for capital outlay and debt service. Current expense includes total charges incurred, whether paid or unpaid.

**CURRENT LIABILITIES:** Debts which are payable within a relatively short period of time, usually no longer than a year.

## D

**DEFERRED CHARGES:** Expenditures which are not chargeable to the fiscal period in which made but are carried on the asset side of the balance sheet pending amortization or other disposition. Deferred charges differ from prepaid expenses in that they usually extend over a long period of time and may or may not be regularly recurring costs of operation.

**DIRECT COSTS:** Those elements of cost which can be easily, obviously, and conveniently identified with specific activities or programs, as distinguished from those costs incurred for several different activities or programs and whose elements are not readily identifiable with specific activities.

**DISBURSEMENTS:** Payments in cash.

## E

**ESTIMATED REVENUE:** If the accounts are kept on an accrual basis, this term designates the amount of revenue estimated to accrue during a given period, regardless of whether or not it is all to be collected during the period. If the accounts are kept on a cash basis, the term designates the amount of revenues estimated to be collected during a given period. (II)

**EXPENDITURES:** Charges incurred, whether paid or unpaid, which are presumed to benefit the current fiscal year.

## F

**FEDERAL REVENUE:** Revenue provided by the Federal Government. Expenditures made with this revenue should be identifiable as federally supported expenditures.

**FINANCIAL ACCOUNTING:** The recording and reporting of activities and events affecting the money of an administrative

unit and its program. Specifically, it is concerned (1) with determining what accounting records are to be maintained, how they will be maintained, and the procedures, methods, and forms to be used; (2) with recording, classifying, and summarizing activities or events; (3) with analyzing and interpreting recorded data; and (4) with preparing reports and statements which reflect conditions as of a given date, the results of operations for a specific period, and the evaluation of status and results of operation in terms of established objectives.

**FISCAL PERIOD:** Any period at the end of which an LEA determines its financial condition and the results of its operations and closes its books. It is usually a year, though not necessarily a calendar year. The most common fiscal period for school systems is July 1 through June 30.

**FIXED ASSETS:** Land, buildings, machinery, furniture, and other equipment which the LEA intends to hold or continue in use over a long period of time. "Fixed" denotes probability or intent to continue use or possession and does not indicate immobility of an asset.

**FIXED ASSETS GROUP OF ACCOUNTS:** This self-balancing group of accounts is used to account for fixed assets owned by the LEA. Fixed assets purchased under Lease-Purchase agreements are entered in this group after the last payment is made.

**FUNCTION:** A function is the activity or action which is performed to accomplish an objective. The activities of a local school system are classified into six broad areas or functions: Instruction, Supporting Services, Community Services, Non-Programmed Charges, Debt Service, and Provisions for Contingencies.

**FUND:** An independent fiscal and accounting entity with its own assets, liabilities, and fund balances. Generally, funds are established to account for financing of specific activities of an agency's operations. The funds of a local school system are: Educational, Operations and Maintenance, Bond and Interest, Transportation, Municipal Retirement/Social Security, Work Cash, Rent, and Fire Prevention and Safety.

**FUND BALANCE:** The excess of the assets of a fund over its liabilities and reserves, except for funds subject to budgetary accounting where, prior to the end of a fiscal period, it represents the excess of the fund's assets and estimated revenues for the period over its liabilities, reserves, and appropriations for the period.

## G

**GENERAL LONG-TERM DEBT GROUP OF ACCOUNTS:** This self-balancing group of accounts is used to account for general long-term debt of a governmental unit.

## H (Reserved)

## I

**INTERNAL CONTROL:** A plan of organization under which employee's duties are arranged and records and procedures designed to make it possible to exercise effective accounting control over assets, liabilities, revenues, and expenditures. For example, under such a system, the employee's work is subdivided so that no one employee performs a complete cycle of operations. For instance, an employee handling cash would not post the accounts receivable records. Again, under such a system, the procedures to be followed are definitely laid down, and such procedures call for proper authorization by designated officials for all actions to be taken.

**INVESTMENTS:** Securities and real estate held for the production of income in the form of interest, dividends, rentals, or lease payments. The account does not include fixed assets used in LEA operations. (II M)

## J

**JOURNAL:** The accounting record in which the details of financial transactions are first recorded.

## K (Reserved)

## L

**LEDGER:** Contains all the accounts of a particular fund or all those detail accounts which support a particular General Ledger account. See also General Ledger, Appropriation Ledger, and Allotment Ledger.

**LEVY:** (Verb) To impose taxes or special assets. (Noun) The total of taxes or special assessments imposed by a governmental unit.

**LIABILITIES:** Debt or other legal obligations arising out of transactions in the past which are payable but not necessarily due. Encumbrances are not liabilities; they become liabilities when the services or materials for which the encumbrance was established have been rendered or received.

**LOCAL EDUCATION AGENCY (LEA):** An educational agency at the local level which exists primarily to operate schools or to contract for educational services. Normally, taxes may be levied by such publicly operated agencies for school purposes. These agencies may or may not be coterminous with county, city, or town boundaries. This term is used synonymously with the terms "school district," "school system," and "local basic administrative unit."

## M (Reserved)

## N

**NET EXPENDITURE:** The actual outlay of money by the LEA for some service or object after the deduction of any discounts, rebates, reimbursements, or revenue produced by the service or activity.

**NET INCOME:** The balance remaining to the LEA after deducting from the gross revenue for a given period all operating expense and income deductions during the same period.

## O

**OBJECT:** The commodity or service obtained from a specific expenditure. There are eight object categories for the local school system: Salaries, Employee Benefits, Purchased Services, Supplies and Materials, Capital Outlay, Other Objects, Transfers, and Tuition.

**OBJECT CLASSIFICATION:** A category of goods or services purchased.

## P

**PAYMENTS IN LIEU OF TAXES:** Payments made out of general revenues by a governmental unit to the LEA in lieu of taxes it would have had to pay, had its property or other tax base been subject to taxation by the local LEA on the same basis as other privately owned property or other tax bases. It would include payment made for privately owned property which is not subject to taxation on the same basis as other privately owned property due to action by the governmental unit owning or responsible for the property.

**PETTY CASH:** A sum of money set aside for the purpose of paying small obligations for which the issuance of a formal voucher and check would be too expensive and time-consuming. Also, a sum of money, either in the form of currency or a special bank deposit, set aside for the purpose of making change or immediate payments of comparatively small amount.

**PROGRAM:** A plan of activities and procedures designed to accomplish a predetermined objective or set of allied objectives.

## Q (Reserved)

## R

**RECEIPTS:** Cash received.

**RECEIVING AND DISBURSING:** Accepting and paying out funds. It includes the current audit of receipts and the pre-audit of requisitions or purchase orders before the order is placed to determine whether the amounts are within the budgetary allowances and whether such disbursements are lawful expenditures of the school or LEA.

**REIMBURSEMENT:** The return of an overpayment or over collection in cash.

**RESTRICTED GRANTS-IN-AID:** Revenues received as grants by the LEA which must be used for a categorical or specific purpose. If such money is not completely used by the LEA, it usually must be returned to the government unit. Separate accounts may be maintained for general source grants-in-aid which are not related to specific revenue sources of the governmental unit and for those assigned to specific source of revenue, as appropriate.

**REVENUES:** Additions to assets which do not increase any liability, do not represent the recovery of an expenditure, do not represent the cancellation of certain liabilities without a corresponding increase in other liabilities or a decrease in assets, and do not represent contributions of fund capital in Food Service and Pupil Activity funds.

## S

**STATE AID FOR EDUCATION:** Any grant made by a state government for the support of education.

## T

**TRANSFER FROM OTHER FUNDS:** Money received unconditionally from another fund without expectation of repayment. Such monies are revenues of the receiving fund, but not the LEA as a whole.

**TRIAL BALANCE:** A list of the balances of the accounts in a ledger kept by double entry with the debit and credit balances shown in separate columns. If the totals of the debit and credit columns are equal or their net balance agrees with a controlling account, the ledger from which the figures are taken is said to be "in balance."

## U

**UNRESTRICTED GRANTS-IN-AID:** Revenues received as grants by the LEA which can be used for any legal purpose desired by the LEA without restriction.

## V

**VOUCHER:** A document which authorizes the payment of money and usually indicates the accounts to be charged.

## W

**WARRANT:** An order drawn by the school board to the LEA treasurer ordering him/her to pay a specified amount to a payee named on the warrant. Once signed by the treasurer, the warrant becomes a check payable by a bank named on the warrant by the treasurer. (11 B M)

## X (Reserved)

## Y (Reserved)

## Z (Reserved)

# References


- *ABCs of the AFR:* http://www.isbe.net/sfms/ABCsofAFR/ABCsofAFRdefault.htm

- *Illinois Compiled Statutes/Illinois School Code: http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=1005&ChapAct=105%26nbsp%3BILCS%26nbsp%3B5%2F&ChapterID=17&ChapterName=SCHOOLS&ActName=School+Code%2E)*

- *Title 23: Education and Cultural Resources. Subtitle A: Education, Chapter I: State Board of Education, Subchapter C: Finance, (Part 100 Requirements for Accounting, Budgeting, Financial Reporting, and Auditing)* (http://www.isbe.net/rules/archive/default.htm ) See Section Subchapter C, Part 100

- *School District Annual Financial Report (ISBE Form 50-35)* http://www.isbe.net/sfms/afr/afr.htm

- *School District Budget Form (ISBE Form 50-36)* http://www.isbe.net/sfms/budget/default.htm )