



POLICY BRIEF

Best Fiscal Management Practices for Rural Schools

By Jerry Johnson and Greg Malhoit

November 2004

RURAL TRUST POLICY BRIEF SERIES ON RURAL EDUCATION

Copyright © 2004 by the Rural School and Community Trust. All rights reserved.
Printed in the United States of America.

The authors wish to thank William J. Mathis for his counsel and advice in the publication of this policy brief.

Editor: Alison Yaunches

Except as permitted under the United States Copyright Act of 1976, no part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system without prior written permission of the publisher.

Rural School and Community Trust
1530 Wilson Blvd., Suite 240
Arlington, VA 22209
Telephone: (703) 243-1487
Fax: (703) 243-6035
www.ruraledu.org
E-mail: info@ruraledu.org

The Rural School and Community Trust (Rural Trust) is the premier national nonprofit organization addressing the crucial relationship between good schools and thriving rural communities. Working in some of the poorest, most challenging rural places, the Rural Trust involves young people in learning linked to their communities, improves the quality of teaching and school leadership, advocates for appropriate state educational policies, and addresses the critical issue of funding for rural schools.

Table of Contents

I. Introduction	5
Guiding Principles of Sound Fiscal Management Systems	8
The School District Budget Process	9
II. Best Fiscal Practices: Responsibilities and Roles	10
Planning the Budget	10
Formal Review and Approval of the Budget	13
Implementing the Budget	14
Monitoring and Evaluating Expenditure of Funds	15
Communicating How Funds are Used	17
III. Rural-Specific Concerns and Strategies in the Budget Process	19
IV. State Policy Options to Ensure Sound Fiscal Management	22
V. Conclusion	25
End Notes and References	26
Appendices	
Appendix A - Budgeting Models	27
Appendix B - Glossary	28
Appendix C - Resources	30

I: INTRODUCTION

The operation of public schools and efforts to improve them often revolve around three central questions about funding. First, do schools and districts have sufficient or “adequate” funding to offer all children a quality education? Second, are state and local financial resources distributed fairly or “equitably” among school districts and schools? And, finally, are funds for education effectively and efficiently managed?

At the core of these three questions are two generally agreed upon principles: 1) a high quality education is vital to every child and to the well-being of American society as a whole, and 2) financial and material resources are crucial to providing that high-quality education. This paper recognizes the existence of inadequacy and inequity in school funding, particularly for rural schools and districts. While supporting and encouraging efforts to reverse this trend and provide adequate and equitable funding for schools, we also recognize the practical realities of operating within the contexts of today’s schools. It is with that in mind that we offer suggestions here for maximizing the effectiveness and efficiency of existing resource levels.

A high quality public education system is vital to children, and to the well-being of the nation’s citizens and society as a whole. Research¹ has consistently demonstrated the benefits of education as measured by traditional social outcomes like increased personal income levels, decreased likelihood of criminal activity, and decreased reliance on public assistance. Moreover, schools play a critical role in the ongoing work of democracy by preparing students to participate fully in the civic life

of their community, state, and nation. In short, schools can—and are expected to—prepare children to participate in a competitive and ever-changing economy, and to assume the responsibilities of citizenship in a democratic society.

Substantial resources are required for providing the kind of high quality education that can meet these expectations. At present, about \$480 billion per year in public funds is expended for education. Local communities, state governments and the public at large have a responsibility to make available the financial and material resources required to provide all children with access to a quality education. In return, educators and citizens have an equally important responsibility for using all of those resources efficiently and effectively.

But, providing adequate resources for education can be a challenge, particularly for communities with low property and/or income wealth. The level of resources available to these low wealth schools is often a problem, and inequities among schools competing for high quality teachers and other personnel often aggravate the situation. Moreover, ineffective or inefficient fiscal management can

sometimes mean that even adequate and equitable funding fails to provide students with the education they require and deserve. Rural schools, in particular, need to make the most of every dollar available to teach their children. Anything less than the most efficient and effective use of resources is a disservice to children that adds to educational achievement barriers they may already face.

In rural areas, fiscal management is often provided at very small units of administration, because both schools and districts are small. Fiscal personnel in such districts are rarely specialized and frequently have inadequate training for the work. But today's environment of budgetary constraints and an increasing focus on high stakes test results, means that state and local policymakers are demanding greater financial and educational accountability on the part of all school leaders, including those from rural schools. Evolving from this accountability movement, parents and community members now have expanded opportunities to participate in schooling and to hold school leaders accountable. Sound fiscal management of limited education resources is therefore essential to building and maintaining confidence in the public school system among those whose children are its intended beneficiaries.

Along with concerns from policymakers and community members, courts are increasingly raising questions about fiscal management practices in school finance litigation. For example, in the pending school finance case in North Carolina (the *Leandro* case), the trial court held that state and local schools are responsible for implementing demonstrably sound fiscal management systems and practices.² In school finance cases across the nation, the defense almost always contends that there is enough funding available, but the schools and districts just use it inefficiently. In light of this trend, overcoming the barriers to effective and efficient fiscal management and developing policy environments that can ensure the sustained use of best practices is important for rural schools if they are to prevail in the courts and state legislatures.

Some rural districts have voluntarily addressed fiscal management issues through such innovative strategies as combining school superintendents or jointly hiring finance administrators to be shared by multiple districts. Under these administrative arrangements, questions arise about when it is cost effective to offer specialized budgetary and financial management services, what are the standards for budget services, and what kinds of skills and training should be required for serving in a fiscal management position. Allowing school districts to voluntarily engage in combining services and resources (in addition to other approaches and strategies) is not the only option available to states. Indeed, states have a menu of options available to increase collaborative efforts, ranging from creating incentives for districts to combine services to mandating shared administrative functions through *educational cooperatives* or *supervisory unions* comprised of multiple districts.

This policy brief is intended to highlight some of the leading policy issues faced by states, local school districts, policymakers, education leaders, and concerned citizens. State and local policies vary appreciably, and we acknowledge that a definitive statement on how school finances can and should be managed in every setting is beyond the scope of this paper. Rather, the goal is to present general recommendations about best fiscal practices that can be tailored to meet the needs and circumstances of individual states and school districts.

Sound fiscal management of limited education resources is therefore essential to building and maintaining confidence in the public school system among those whose children are its intended beneficiaries.

The document is organized into five sections. Following a list of "guiding principles of sound fiscal management systems," Section II outlines responsibilities and roles in the fiscal management

process. This section is organized according to the five major steps in the budgeting process, and emphasizes opportunities for engagement by various constituencies at each step in the process. An integral part of both responsive schooling practices and a sound fiscal management system is active participation by teachers, parents, students, and community members. The roles of school officials, elected or appointed governance bodies, and state departments of education are crucial as well: school officials can and should encourage that active participation and be responsive to it; governance bodies can and should actively seek the insights and concerns of their constituencies; and state departments of education can and should create policy contexts that facilitate this kind of participatory process.

With that in mind, we consider the roles and responsibilities for each of these groups:

- Teachers/parents/students/community members,
- School officials,

- Elected/appointed governance bodies, and
- State departments of education.

The involvement of these multiple groups in the process of fiscal management broadens the perspectives and knowledge base that go into setting priorities and making decisions. It also provides for a system of checks and balances that can ensure that public funds are managed effectively, efficiently, and in accord with priorities developed by the school and community.

Section III considers rural-specific concerns and strategies, and Section IV examines the options available to state policymakers in ensuring sound fiscal management practices at the school and district level. Following the fifth and final section, the conclusion, are appendices offering specific information on budgeting models, a glossary of school finance terms, and resources for obtaining additional information.

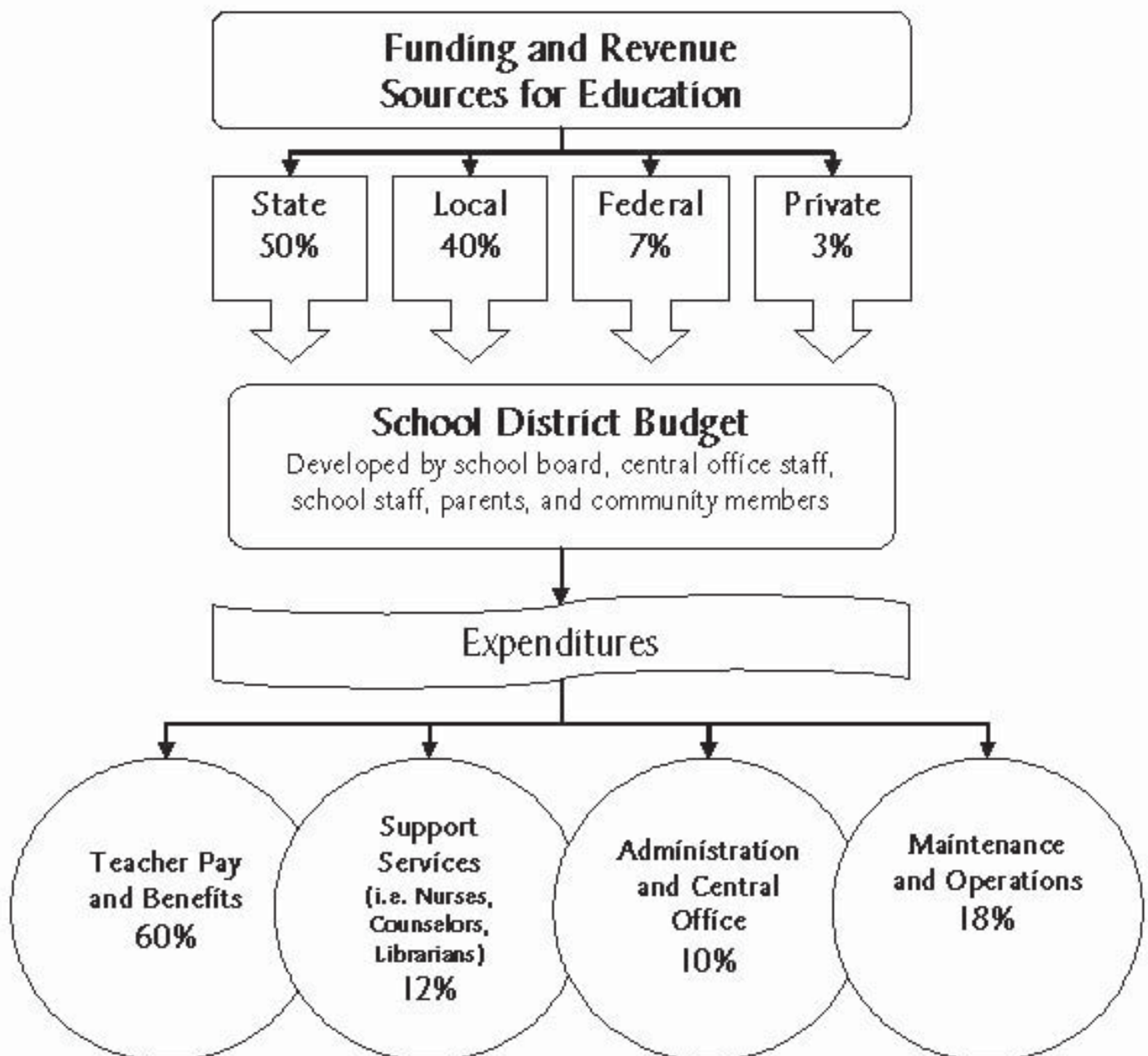
Guiding Principles of Sound Fiscal Management Systems

School districts spend and account for millions of dollars (about \$480 billion per year nationally) in public funds for education. As such, their practices should be guided by principles ensuring that systems, policies, and processes are designed, coordinated, and directed toward student learning and the wise investment of public dollars for education. Sound fiscal management practices are characterized by the following eight guiding principles.

- 1. Integrity.** Fiscal management practices must be implemented in ways that promote and sustain the integrity of the school district and the community: school institutions earn the trust of citizens, and citizens practice civic responsibility. Avoiding conflicts of interest, or even the appearance of such conflicts is vital.
- 2. Efficiency.** A school district's fiscal management system must use available resources in ways that most directly and effectively meet the educational needs of students. Resource allocations and expenditures should be justifiable in terms of their expected impact on teaching and learning.
- 3. Educational Excellence for All Children.** Fiscal management practices must support the provision of high quality learning environments, opportunities, and experiences that recognize the needs of individual students, and work toward the attainment of high levels of achievement for all students.
- 4. Funding Adequacy and Equity.** Fiscal management practices must ensure that all schools and programs are provided with sufficient resources to provide a quality education to all students. Policies and practices must also ensure the fair distribution of resources to students, taking into account their individual needs and the diverse and unique circumstances of schools and school districts. Significantly, funding equity is both an inter-district and intra-district concern—i.e., the distribution of state funds to districts should reflect fairness in meeting the needs of individual districts; likewise, the distribution of those funds by the district should reflect fairness in meeting the needs of individual schools.
- 5. Public Involvement.** Parents and community members have a major stake in how schools and districts use public resources to educate their children and support their communities. Accordingly, fiscal management systems must offer and encourage opportunities for significant and broad public involvement in the process of creating, implementing, and monitoring budgets.
- 6. Transparency.** Transparency in this context refers to the need for openness by school officials to share information about school finance matters with everyone. Schools and districts must develop and implement a fiscal management system that provides parents and community members with clear and easy-to-understand financial and accountability system information.
- 7. Accountability.** Fiscal management systems must guarantee that the processes involved in the administration of public funds are conducted openly, and that those involved are held accountable to the highest standards of professional ethics and competence. External and unbiased professional audits should be an integral part of any fiscal accountability system.
- 8. Competence/Professionalism.** The individuals who are responsible for handling and spending public dollars for education must demonstrate a professional level of competence in fiscal management. Local and/or state organizations should require and provide training that will enable individuals to reach a high professional level of competence.

The School District Budget Process

This diagram tracks primary sources of funding and major categories of expenditures. The school district budget, in the center, is the link between financial resources that flow into the district from various sources and the expenditures that support teaching and learning. The school budget, then, reflects the outcome of the active and thoughtful consideration of: (1) what kinds of resources—instructional staff, instructional materials, technology, transportation, etc.—are needed to provide all students with high quality learning opportunities, and (2) what sources and levels of available funds can be most effectively used to provide those needed resources.*



* All figures are based on national averages. Actual distributions vary considerably among states and school districts.

II. BEST FISCAL PRACTICES: RESPONSIBILITIES AND ROLES

A school district budget is, first and foremost, an instrument of *educational planning*—it is the primary means by which school leaders and communities express their beliefs about the educational needs, goals, and plans for their children. While a school budget is largely composed of figures (anticipated revenues, proposed expenditures, etc.), those numbers can and should represent the culmination of considerable and thoughtful deliberation and planning by a diverse group of people: parents, students, the community, board of education, administrators, and staff. That deliberation should be centered on how to effectively and efficiently provide all students with a high quality education.

A budget should answer these questions:

- What needs to be done to educate students?
- How should it be done?
- Who will do it?
- How much will it cost?
- Where will the funds come from to support the budget?

The budget can serve as an instrument of both fiscal guidance and control. Implemented effectively,

The ultimate goal in planning the budget is to align available funding and resources with the needs of students and schools.

the budget can serve as a guide for school budget leaders to determine whether proposed expenditures are aligned with the overall vision or mission of the school or district. In this role, the budget can also be used to hold education leaders accountable for spending public dollars according to a school district's priorities and plans.

Primary participants in the kind of effective fiscal management system we are advocating include:

- **Parents, Teachers, Students, and Community Members.** Their involvement brings diverse and objective voices not directly represented by school officials and governance bodies to the decision-making process, and their positions as non-school employees/non-elected officials provide a useful set of checks and balances.

- **School Officials.** They bring knowledge and skills in aligning both educational needs with programs and practices and also those programs and practices with available resources. They can translate the needs, goals, and approaches derived from broad-based decision-making into concrete educational and financial terms.

- **School Governing Bodies.** They play an important role by holding school officials accountable for responding to the expressed needs of the community. Acting on behalf of their constituents, they approve and monitor fiscal plans and their implementation. They serve (and should represent) the interests of not just their constituency, but the entire community, and they can provide a useful and important communications channel between the school and the community.

- **State Departments of Education.** They can hold both school officials and governing bodies accountable for effective, efficient, and responsive leadership. They have the joint responsibility of ensuring that schools and districts use resources wisely to meet the needs of their students and also of providing the training and resources that will enable them to do so.

Following is a brief review of fiscal management practices along with recommendations for the participation of the four above groups in five major areas: (1) planning, (2) review and approval, (3) implementation, (4) monitoring and evaluation, and (5) communication.

A. Planning the Budget

The ultimate goal in planning the budget is to align available funding and resources with the needs of students and schools. Many school districts start the process by estimating the funding they expect to receive, then allocating those limited resources to meet student needs. Ideally, however, the process should actually work in reverse. The budget planning process should begin by determining student and school needs, and then exploring ideas, concepts, and strategies to plan the most practical and most appropriate ways to meet those needs. Only after these processes, then, should the budgeting process turn to financial resources and attempt to match funding and resources with identified programs, projects, and services.

The following example illustrates how the process might work in the case of a new program to help struggling students. If a school district wants to start an after-school program, it will identify that program as a budget priority. After reviewing possibilities to determine the most appropriate after-school program for use with their students and in their community, the district determines the cost of developing and implementing the program. The next step then involves considering possible sources of funding from anticipated revenues—local, state, federal, other.

When sufficient funding is not available for providing pre-identified needed programs and services, schools and communities must commit themselves to pursuing additional and alternative revenue sources: increasing local revenues (in states where boards have taxing authority), lobbying municipal, county, and/or state government for additional funds, or grant writing. Based upon resource levels available, the after-school program is made a part of the working budget, or may be scaled back or eliminated if sufficient resources do not exist after higher priority items are funded.

That example also underlines the often overlooked aspect of contingency planning for the budget. Ensuring that funds are available for unforeseen

emergencies is important during budget planning. Otherwise, the district may have to cut essential services in order to address emergencies and unanticipated needs.

The planning stage of the budgeting process is the most open, allowing for the greatest public input. At this stage, the budget will normally reflect the organizational structure of the school district by breaking down the

elements of the district's operations into individual pieces or categories and considering how those pieces can be coordinated to create and maintain quality learning opportunities for all students. Most districts will break the budget down by categories: teacher and staff pay; teacher and staff fringe benefits; transportation, building maintenance; and instructional supplies. Many districts will also break down parts of the budget that are not centralized functions (e.g., instructional supplies) by individual schools, showing a total budget for each school in the district.

No two school district budgets are alike. In most budgets the largest category of expenses is teacher pay and fringe benefits, often representing nearly 80% of a school district's expenses. The school budget is a complex document, made up of various elements that involve a variety of schools, programs, departments, and categories—some that directly support education (e.g., teachers) and some that provide support (e.g., transportation). Balancing these various elements and categories to fit into the overall budget is crucial.

A number of theoretical approaches (see Appendix A for some representative models, pg. 27) to budgeting have been developed in response to calls for greater educational efficiency, cost effectiveness,

When sufficient funding is not available for providing pre-identified needed programs and services, schools and communities must commit themselves to pursuing additional and alternative revenue sources.

and involvement by principals and teachers. While these approaches can offer creative and viable models for structuring the mechanical processes of budgeting, approaches and models are of secondary importance to the fundamental issues of understanding the budget and of its role in charting the direction of the school district.

Budget Planning Roles and Responsibilities: Parent/Teacher/Student/Community Member:

- Know your local school board representatives and school officials and how to contact them to ask for information or share concerns/ideas;
- Know and understand what opportunities for public involvement exist (e.g., many states require that final budget approval take place in a public meeting). If public input is allowed, speak out about questions, concerns or proposals;
- Contact the school district office or your school board representative to find out what opportunities for budget input exist and take advantage of them;
- Obtain copies of all budget documents and request an appointment with school officials to have the documents explained in non-technical language if needed;
- Identify the level of the budget. Is the budget for the district as a whole? Are there building level (i.e. by individual school) budgets? Do building-based budgets only cover teaching supplies or do they also include maintenance, teacher salaries, benefits and the like? Do local school citizen counsels or administrators have authority to make a budget? What is the nature of that authority?
- Find out what revenue or funds the school district expects to receive;
- Attend board meetings: ask questions and learn as much as possible about both the budget and the process followed by the school district for creating that budget;
- Make specific suggestions about programs or things you would like to see the school district do next year;

- Offer comments on or propose changes to the budget;
- If the school district is not cooperative or open during the budget planning process, bring your story to people who can help get the message out, such as state education leaders, lawyers, and the media.

School Officials (Superintendent, Principal, Finance Administrator, etc.):

- Develop and share with community members and the public a budget planning process and timeline that allows for public sharing and input;
- Make certain that all communications regarding the budget are prepared in an easy-to-understand format, using non-technical language as much as possible;
- Ensure that members of governing bodies (school councils, school boards, committees) have sufficient training to be able to understand the budget and contribute to its development.

Governing Bodies (Board of Education, Site-Based Decision-Making Council):

- Understand the mission of the school district, and use it as a guide in setting priorities
- Most school districts have a long-range, multi-year plan for improving the school system going by various names such as “strategic plans,” “action plans,” etc. The “priorities” of the strategic plan should be the first options considered after essential services are funded;
- Take steps to obtain additional or alternative funds when needed, including generating additional local funds through the (1) exercise of local taxing authority where it exists or (2) lobbying state and local government for additional financial support. Each district should have at least one person responsible for maximizing grants, since federal and other grants often have some flexibility to be used to target district goals;

- Participate in any available training or workshops offered by groups such as the state school boards association or school business managers organization that will increase knowledge of budget planning and/or school finance in general;
- Ask school district staff to explain budget documents in understandable terms and

While the approved budget is not carved in stone, and amendments can be made in the implementation phase, a significant amount of time and energy must be devoted to reviewing the budget for completeness and for accuracy before it is submitted for approval.

ask tough questions of those who produce the budget;

- In all deliberations and decision-making about the budget, think *holistically*—consider the “big picture” and remember that the budget reflects in numbers what the school district as a whole values and wants to accomplish;
- Insure that the public and all stakeholders are invited to fully participate in the budget planning process.

State Department of Education:

- Mandate and sponsor training for school finance administrators, school board members, and site-based decision-making councils where they exist—the emphasis for these training workshops should be on developing budgeting and school finance knowledge and skills, and establishing a common terminology.
- Set guidelines for district budget planning processes that both encourage the setting of school and district goals through community and public involvement, and allow for flexibility in how those goals are to be achieved.

B. Formal Review and Approval of the Budget

Reviewing and approving the budget—the document that will become the educational blueprint for the coming school year—represents the transition from the general and open-ended planning processes to a more formal and internal implementation processes.

This stage of the process is more mechanical and internal than the first—district finance staff and officials work to create a formal financial document that reflects the priorities identified in the planning process. This formal budget also must comply with state and federal laws and state department of education regulations. While the approved budget is not carved in stone, and amendments can be made in the implementation phase, a significant amount of time and energy must be devoted to reviewing the budget for completeness and for accuracy before it is submitted for approval. Again, maintaining a contingency fund is crucial.

Requirements for approving district budgets are normally spelled out in state law, and vary from state to state. In all cases, however, local school board approval of the budget is the first step. Whether the board has final authority varies by state. Sometimes boards can approve a budget up to a certain capped percentage increase or tax limit. Boards can go to a public vote to override the cap in some states. Others require a public vote on the budget each year. Still others grant boards the authority to develop a budget which they then present to municipal authorities (councils, commissioners, etc.). The National Center for Education Statistics provides descriptions of individual state’s school finance systems, including some information on statutory requirements for budget review and approval, at <http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2001309>.

Budget Review and Approval Roles and Responsibilities

Parent/Teacher/Student/Community Member:

- Carefully review draft budget documents made available to the public;

- Look for evidence that priorities set out in planning stages have remained;
- Meet with, call, or e-mail school officials to get answers to questions or explanations of confusing parts of the budget.

School Officials (Superintendent, Principal, Finance Administrator, etc.):

- Revisit the mission/beliefs of the district and the priorities identified in the strategic plan and use them as the lens for examining and proposing/considering changes to draft budgets—use the language of the district mission/belief statements to discuss budget items;
- Know and adhere to all state requirements with regard to budgetary review and approval;
- Create additional opportunities for all citizens and constituencies (e.g., advisory boards, budget committees, etc.) to be involved in reviewing draft budgets;
- Provide public (readable, non-technical) budget documents; in the case of approval processes that include a public meeting, make the proposed budget available to interested parties early enough to allow for review, questions, and clarifications prior to the meeting;
- Develop and broadly distribute to the community a simple document that explains the budget in layperson language.

Governing Bodies (Board of Education, Site-Based Decision-Making Council):

- Revisit the mission/beliefs of the district and the priorities identified in planning stages, and continually return to them as draft budgets are reviewed and changes are proposed—use the language of the district mission/belief statements to discuss budget items;
- Participate fully in the review approval process by reading and understanding the entire budget document, asking questions as necessary, and participating in discus-

sions about proposed changes;

- Be prepared to answer the question “how does this expenditure promote student learning?” for each budget item;
- Ensure broad citizen involvement;
- Make sure the budget is written and presented in an easy-to-understand format.

State Department of Education:

- Mandate, at the very minimum, that review and final approval of the district budget take place in an open meeting, and that the proposed budget be made available to the public in advance of the meeting;
- Set guidelines for district budget review and approval that emphasize community and public involvement.

C. Implementing the Budget

Planning, reviewing, and approving a budget are essential parts of sound fiscal management practices. But, even a well-constructed budget can only be effective when it is actually followed and used as the primary guide for expenditures. Implemented in this way, the budget serves as an ongoing roadmap for school district leaders to ensure a school environment that both reflects the needs of children and respects the ideas and suggestions of school

and community members. If the budget is not used in this way, there is an increased possibility that children’s educational needs may not be met effectively, the distribution of resources may not be aligned

with identified and approved priorities, and the funding process moves away from democratic practices and toward autocratic decision-making.

The budget serves as an ongoing roadmap for school district leaders to ensure a school environment that both reflects the needs of children and respects the ideas and suggestions of school and community members.

Implementing the budget, then, is about first managing and expending education dollars according to that plan, and then taking the priorities articulated and approved by the district and community and putting them into action. Once staff and vendor contracts are signed, there is not much flexibility to change the budget. The day-to-day work is done internally by school and district employees, using the budget as a plan and guide for ensuring that expenditures serve the needs of children in the most efficient and effective ways possible. Officials can maintain transparency in this stage by reporting expenditures and allowing and encouraging parents, students, and community members to follow the implementation of the budget and to ask clarifying questions about expenditures.

Budget Implementation Roles and Responsibilities

Parent/Teacher/Student/Community Member:

- Attend school board and other public meetings where the budget or school finances are likely to be discussed, review available documents, and ask questions to make sure the budget is understood;
- Meet with school officials and/or contact board members to get an explanation of budget items that are hard to understand, and to discuss questions, raise concerns, and make suggestions.

School Officials (Superintendent, Principal, Finance Administrator, etc.):

- Use a uniform chart of accounts (i.e., a standardized list of accounts with a specific title and number assigned to each account);
- Prepare and make available to the public monthly budget updates by general categories (e.g., transportation, technology, professional development. Updates should be no longer than one page, front and back);
- Proactively explain perceived oddities in

the budget (e.g., a large jump related to beginning year salary encumbrance) in a straightforward, educational manner;

- Be prepared to answer the question “how does this expenditure relate to the mission/beliefs and/or promote student learning?” for any out-of-budget expenditures;
- Make certain that board members understand budget documents and expenditure reports.

Governing Bodies (Board of Education, Site-Based Decision-Making Council):

- Participate in any available training or workshops that will increase personal knowledge of budget implementation and/or school finance in general;
- Carefully review all financial statements, reports, and documents provided, looking carefully to see if budget expenditures are consistent with priorities and the approved budget;
- Ask questions of the superintendent and/or finance administrator as necessary;
- When reviewing budget expenditures, be able to answer the questions: How does a particular expenditure relate to the mission/beliefs of the school district? How does it promote student learning? Is it targeted toward the needs of students who may need extra help?

State Department of Education:

- Mandate and provide professional development/training for school finance administrators and school board members;
- Set reasonable guidelines for methods of accounting (e.g., accrual accounting) and using a standardized chart of accounts.

D. Monitoring and Evaluating the Expenditure of Funds

The school district budget, like any other planning and leadership document, should be assessed for its effectiveness in meeting the primary goals

for which it was developed. For a school budget, the primary goal is providing funding so all children can receive an education that enables them to reach their fullest potential. Assessment should be ongoing—monitoring expenditures, comparing current expenditures with planned expenditures, investigating instances of over- or under-spending, and making adjustments as necessary. Assessment should also be evaluative, with an annual outside professional audit to determine whether funds were expended

For a school budget, the primary goal is providing funding so all children can receive an education that enables them to reach their fullest potential. The evaluation of how funds are spent should reflect this goal.

in accordance with applicable policies, regulations, and statutes. In the case of both ongoing and evaluative assessments, open communication with parents and community

members is crucial—and should include distributing a management letter reporting on the audit’s important findings.

Both internal and external participants monitor the expenditure of funds. Internally, school officials—and, in some cases, board members—will review individual expenditures with an eye toward the working budget. Externally, parents, community members, and others in the public will review monthly budget updates (shorter documents that highlight spending by category) with an eye toward broad priorities.

Evaluating how funds are spent has both financial and educational implications. Annual audits evaluate whether district funds have been handled competently and ethically. Program evaluations help to determine the effectiveness of specific programs, shedding light on returns—or lack thereof—from specific investments in teaching and learning. Both forms of evaluation provide useful information for planning the next year’s budget.

Budget Monitoring and Evaluation Roles and Responsibilities

Teacher/Parent/Student/Community Member:

- Attend the board meeting that reports on the annual audit results, and review available materials and ask questions as necessary;
- Participate—and encourage others to participate—in any school surveys that are intended to assess program effectiveness, etc.;
- Meet with school officials to ask questions or share concerns;
- Use monthly budget performance summaries as an evaluative tool.

School Officials (Superintendent, Principal, Finance Administrator, etc.):

- Develop and implement a process for *ongoing* monitoring and evaluation of funds expenditures on at least a monthly basis;
- Have standing orders that staff are to immediately report any perceived irregularities in the budget;
- Ensure that documents providing public information on evaluations (e.g., CPA audit) contain an easy-to-understand executive summary/management letter;
- Use the mission statement/district beliefs as a guide for monitoring and evaluating the effectiveness and efficiency of expenditures;
- Include program evaluations as a key way to assess overall expenditures
- Use the audit as a management tool—e.g., as a significant piece of evidence in the evaluation of programs, services and personnel.

Governing Bodies (Board of Education, Site-Based Decision-Making Council):

- Include “fiscal management practices” as an important criterion in superintendent performance evaluations (and for the district’s chief financial officer, if applicable);
- Know the purposes of evaluation/auditing, and use their results as a learning

tool for enhancing future program and finance decisions. The annual audit provides a check and balance for boards to know if there is either incompetence, fraud or mishandling of funds, or just plain bookkeeping mistakes;

- Participate in any availshops that will increase knowledge of financial evaluation and/or school finance in general;
- When reviewing the results of a financial audit or program evaluations, continually revisit the mission/beliefs of the district and consider findings in light of priorities and student needs;
- Require and review brief expenditure summary reports on a monthly basis;
- Review and approve the annual audit/management letter in an open meeting.

State Department of Education:

- Set guidelines regarding processes for annual evaluation of fund expenditures that emphasize transparency and accountability, but that also allow some flexibility in how goals are to be achieved (e.g., alternatives to CPA audits);

E. Communicating How Funds are Used

Continuous communication with the public is an integral part of fiscal management. It is not enough for schools and school districts to comply with open records laws only when pressed. Rather, schools and districts should: be proactive

In all communications, the school or school district should strive to provide information that is accessible, meaningful, and understandable by all.

in involving the broader community in setting goals; keep them apprised of the ongoing work; and report to them annually or semi-annually on goal achievement and the effectiveness of different programs/expenditures. In all communications, the school or school district should strive to provide

information that is accessible, meaningful, and understandable by all. This can mean preparing an executive summary of a lengthy report or preparing a narrative to accompany data representations or graphic depictions of data and/or narrative information. One useful strategy for monitoring the effectiveness of communications is by soliciting feedback from parents, using a survey, for instance. Another strategy would be to form a parent advisory council to provide the same kind of feedback through ongoing dialogue.

Teacher/Parent/Student/Community Member:

- Read and understand communications from the school or school district;
- Ask questions about issues/communications that are unclear;
- Request additional information as needed;
- Meet with school officials to present any questions and comments you might have;
- Attend school board meetings and ask active informed questions, but be sure to strike a balance between being too quiet and being a gadfly who is easily dismissed.

School Officials (Superintendent, Principal Finance Administrator, etc.):

- Actively seek opportunities to inform the public about schooling and school finance issues;
- Present information in a style and format that is accessible, meaningful, and understandable by all (included here is the issue of document length and the need to prepare summary/synthesis documents);
- Broadly distribute a year-end report that informs stakeholders about the source of funds, how funds were expended, what programs and services were supported by the budget, and how the budget impacted students and the district. Include clear statements about surpluses or deficits and why either occurred.

Governing Bodies (Board of Education, Site-Based Decision-Making Council):

- Actively solicit from parents and community members their insights, comments, and suggestions about what and how the district can best meet the needs of students, and encourage them to attend and participate in board meetings, committee work, etc.;
- Provide a check (e.g., via a parent advisory group that pre-screens communications) for determining the accessibility, meaningfulness, or understandability of documents prepared by the district office;
- Boards of education may choose to establish board finance committees that review all expenditures and have an ongoing dialogue with the district administration. These committees must meet in public.

State Department of Education:

- Develop and provide school leaders with sample models for communicating budgetary and other school information to parents;
- Provide support for the development of school and district websites and other resources for communicating with the public;
- Require and enforce uniform data reporting methods to ensure data integrity, state reporting, and comparisons within and across school districts.

III. RURAL-SPECIFIC CONCERNS AND STRATEGIES IN THE BUDGET PROCESS

Nationally, rural students represent about a quarter of all students attending public school, and nearly a third of all schools are located in rural places. These rural schools and students have a number of unique characteristics and needs. For instance, the smaller size of many rural schools and districts can sometimes lead to per pupil expenditures that are higher than those of larger urban and suburban schools. Higher costs—in some cases, merely the *perception* of higher costs—are also caused by distance or isolation, high rates of poverty, lack of a social service infrastructure, and higher utility costs. Complicating the issue, small rural school districts frequently have a low or declining tax base. As a result, they often must operate with limited amounts of local funding for education.

In a number of states, policymakers have used “economies of scale” principles to argue that small rural schools with higher per pupil costs should be consolidated into larger schools that can educate students at a lower cost. More detailed analyses³ of educational costs (e.g., ones that take into account relevant influences such as the multiple roles played by administrators in smaller schools and districts, or the increased levels of donated time and materials in smaller schools and districts) have begun to call into question the logic of economies of scale. And policymakers and the public are finally beginning to understand that the costs of consolidating small rural schools and districts far outweigh any predicted financial savings. In fact, predicted financial savings are often offset by hidden financial costs (e.g., increased transportation costs), diminished academic performance by students, increased discipline problems, reduced parental involvement, and limited participation in school activities.⁴

A number of states have no provisions in their funding systems to account for increased per pupil costs in small rural schools. Even in those states that do, the provisions are often insufficient to completely level the playing field. This under-funding of rural schools has implications for teaching and learning in a number of areas. For instance, lower

teacher salaries than those in urban and suburban areas leads to difficulties in recruiting and retaining teachers, and lack of technology funds, along with often limited technological or communications infrastructures, makes it more difficult for small rural schools to make use of innovative distance learning opportunities.

School employees, parents, students, and community members can organize and work toward making changes in state school finance

systems that will provide fair and adequate distribution of funds. At the same time, schools and districts who strive to maintain democratic school governance and provide high quality services and learning opportunities for all children must find ways of working within constraints they currently face, and be creative in maximizing the efficiency of available resources.

Grouped by category, the following recommendations offer strategies that rural school districts can use to meet the challenges posed by their small size and diminished fiscal capacity:

A. Shared administrative staffing patterns.

Economies of scale and the small size of rural school districts can mean that the costs of traditional administrative staffing practices (e.g., one principal per school) are impractical. In these instances, districts can assign one principal to provide administrative support for more than one school. In all instances, however, a designated instructional leader (e.g., a lead teacher) should be physically located at each school site.

A number of states have no provisions in their funding systems to account for increased per pupil costs in small rural schools. The under-funding of rural schools has implications for teaching and learning in a number of areas.

B. Multi-grade instructional staffing patterns.

Traditional approaches to instructional staffing (e.g., separate classrooms for each individual grade) may also be impractical in rural school districts. In such cases, split-level grades and multi-grade classrooms can be an effective approach to working with smaller enrollments. Significantly, this is a practice that has positive financial and pedagogical outcomes—i.e., multi-age grouping is acknowledged as an effective innovative instructional practice, without regard to financial concerns.

C. Shared fiscal functions/other specialized services and functions.

As suggested throughout this document, best fiscal management practices require competency and professionalism on the part of district staff responsible for managing fiscal affairs. Geographic isolation and other factors can make it difficult for districts to recruit and retain qualified financial managers. Districts faced with this challenge can partner with other districts and share the services of one individual who provides specialized financial services. Likewise, districts can and should seek opportunities to “share” other specialized staff (e.g., school psychologists, speech therapists, teachers for the hearing impaired, etc.).

D. Sharing staff. The ability of schools and districts to offer a wide range of curricular programs can be made more difficult by their smaller enrollments and staff numbers. Programs like early childhood education can be offered effectively through inter-district partnership agreements. In a similar vein, districts can collaborate to provide co-curricular programs like vocal and instrumental music, by sharing staff and sharing or jointly purchasing materials (e.g., musical instruments, uniforms).

E. Distance learning. Distance learning technologies make specialized curricula, innovative programs, and cooperative/collaborative projects viable. They also offer enhanced learning opportunities for students and staff alike in instructional technology.

F. Capital projects. A declining local tax base and the diminished fiscal capacity of rural school

districts means they have less money available for capital construction and school facility renovation projects. In addition, state policies that favor the construction of large schools in centralized locations serving large geographic areas—and discourage or even disallow investment of resources in improving smaller schools located in rural communities—are damaging to both rural schools and their communities. Research suggests that rural communities with local schools are more able to retain their population and tend to have much healthier local economies.⁵

Schools and communities should work together to be agents for change in state policy and advocates for equity and adequacy in school funding.

Other research suggests that smaller schools are more effective at producing higher achievement for all children, particularly children from low income families and children of color (thus closing “achievement gaps”).⁶ For these reasons, rural school districts must do everything within their power to preserve and maintain their existing physical school structures. This means that upkeep and maintenance expenditures must be emphasized and protected at all costs in the district budget. It also means that state governments must play a greater role in funding the repair and maintenance of existing school facilities—and must ensure policy contexts that are conducive to doing so (i.e., policies that do not mandate a minimum size for receiving state aid), especially for resource-starved rural schools.

Advocacy for Equity and Adequacy

Regardless of creative steps taken by local districts to economize and cut costs, many rural schools are significantly disadvantaged by state school funding systems. The severe and persistent under-funding of rural schools has led rural districts in a number of states to file lawsuits challenging the constitutionality of existing state education funding sys-

tems. To date, legal challenges have been filed in 46 states, many with a rural focus (e.g., Kentucky, Tennessee, Arkansas). In many of these cases, courts have found in favor of the school districts ordering state lawmakers to significantly increase funding for education. Moreover, in this era of higher standards and NCLB, most states are grappling with methods to improve student achievement.

Under these circumstances, schools and commu-

nities should work together to be agents for change in state policy and advocates for equity and adequacy in school funding. Avenues for participation in this kind of advocacy include being informed about state policy, legislative and legal contexts, joining existing coalitions (or where none exists, starting one), learning about funding opportunities and writing grant proposals for additional funds or funds for special programs to enhance the education program.

IV. STATE POLICY OPTIONS TO ENSURE SOUND FISCAL MANAGEMENT

Balancing local control with state responsibility can be a delicate proposition. However, since states are constitutionally responsible for education, and since more than 50% of all funding now comes from state sources, states have a compelling duty to assume

State policy should mandate school finance training for school officials and governing bodies; support the provision of high quality training; and review and approve any alternate training offered by other groups.

an active role in educating children, including directing the management and use of resources.

Because school districts and schools vary so greatly in terms of both their strengths and their needs, approaches to

maximizing the effectiveness and efficiency of available resources must vary as well. Flexibility is the crucial component in meeting district and school variations. That flexibility must, however, be balanced by a policy context that ensures that government funds are used appropriately and in the service of achieving the state's educational objectives.

Recommended policy options:

- **External professional audits.** All sound fiscal systems, from the largest to the smallest, need an effective system of checks and balances. This protects the public's interest and the integrity of the school board, while providing management tools for school administrators. States should require annual external audits of school district finances (including special fund and enterprise accounts), conducted by a qualified and state licensed professional. The standards outlined in GAAP (Generally Accepted Accounting Procedures), while not

specified in law, represent the highest standards of accounting and should be employed by any external accountant.

- **School finance training for school officials and governing bodies.** To lead effectively and to fulfill their roles and responsibilities to their schools and communities, district personnel must possess knowledge and skills in the area of school finance. State policy should mandate school finance training for school officials and governing bodies; support the provision of high quality training; and review and approve any alternate training offered by other groups.
- **Effective budgeting processes.** Effective and efficient fiscal management practices require that budgeting is an ongoing process of assessing needs, monitoring the effectiveness of current resource expenditures, and seeking input from a variety of perspectives within the district and the community. State policy should set guidelines for budgeting processes that include a timeline for budget development and enforce compliance with open meetings laws.
- **Categorical programs accountability.** Categorical funds are resources targeted for specific student populations and/or specific programs for assisting students. Budgeting and implementation should ensure that these funds are used for their intended purposes. Expenditures should be monitored and reported in a format that allows governing bodies and the public to see how categorical funds are being expended, and to hold school officials accountable for using them in appropriate and effective ways.

- **Chart of accounts written in lay language.** All too often, financial bookkeeping and accounting uses specialized terms not readily understood by a layperson. In addition to using a standardized chart of accounts with common codes, district leadership should ensure “transparency” by using account titles that clearly indicate the nature of the expenditure item or category in non-technical terms.
- **Revenue sheets presented in non-technical language and format.** Revenue sheets, like charts of accounts, should follow a common format. Districts must assure that definitions and terms easily enable lay persons to understand how much money is received, from what sources, and for what purposes.
- **Enterprise or separate accounts for special purposes.** Funds for activities that fall outside the primary instructional, administrative, and support functions of schooling (e.g., funds for class reunions, teacher retirement gifts, athletic clubs, the transportation system, or construction, etc.) should be maintained in separate and clearly identified accounts. As the authorized agent for these funds could be an untrained lay person, these accounts sometimes become the subject of intense local controversy. Independent cost centers or separate accounts prevent the intentional or unintentional diversion of these resources and makes it easier for all involved to see and understand spending patterns. States should establish guidelines and procedures to account for enterprise funds and local districts should make sure such accounts are established and properly controlled.
- **GASB 34 and fixed assets.** Schools should comply fully with all federal requirements regarding GASB 34 (which requires school districts to document fixed assets), and should make use of the process at the local level as a tool for managing inventory and fixed assets, and determining replacement schedules for capital items such as computers, expensive lab and shop equipment, and school buses. States must provide guidance and models for these accounting procedures.
- **Monthly statements.** Monthly statements should be prepared and distributed in a fashion that allows for public involvement in monitoring the budget. This means communicating current expenditures and commitments (or encumbrances) by categories, providing the relevant budget figures that allow for comparisons with planned/expected expenditures, and offering information clarifying major over- or under-spending).
- **The role of board and board finance committees.** Separation must exist between those who place the purchase order, the person who approves the purchase, and the bookkeepers who keep records of the transactions. State policy should reflect this separation of roles. In rural districts with fewer people to review purchases, these roles are often in the hands of only one or two people. This is not acceptable practice. Consequently, local policy should mandate purchase authorization from the school board or a separate board finance committees. These finance committees (which may or may not include non-board members), should be held to the same open meeting regulations as regular board meetings, including notifying the public of meetings through local media.
- **School quality essentials.** As the right to an adequate educational program emerges in court case decisions and as

the primary way in which children are assured a true opportunity to learn, states are reviewing and establishing new ways of defining essential school quality components. Recent adequacy research in Kentucky and Arkansas shows, for example, that pre-school programs, full-day kindergarten, small class sizes, adequate instructional materials, curriculum development capacity, and the like are necessary if truly no child is to be left behind.

States must establish a definition of “school quality essentials” or review their current definition to determine whether

they are adequate for education in today’s world. Additionally, states must determine whether components are responsive to the needs of all schools and communities in rural areas as well as in urban and suburban areas. *Defining Adequacy in a Rural Context*⁷ is a document that offers concrete recommendations for ensuring such responsiveness.

Likewise, school districts must establish policies, practices, and support funds to make sure these essential services are available. Parents and members of the public must review and advocate for these essential learning opportunities.

SECTION V: CONCLUSION

It is vital that schools and communities understand the leading issues of policy and practice in the area of school finance if they are to ensure the efficient and effective management of resources for teaching and learning. The emphasis throughout this process should be on collective decision-making processes and the development of policy contexts that set high standards while allowing flexibility in meeting the needs and circumstances of individual states and school districts.

The policies and practices of managing public resources that support teaching and learning are of vital importance to us all, because:

- **Education matters.** A high quality education is vitally important for productive citizenship, and it is a guaranteed right for all children in most state constitutions.
- **Money matters.** A high quality education requires an adequate level of resources—a level not present in many places, and particularly not in low property wealth areas.
- **Fiscal management matters.** Given limited levels of resources and the mission to provide all children with high

quality learning opportunities, making effective and efficient use of resources is crucial to success.

- **The courts matter.** Courts are increasingly raising concerns about fiscal management practices in cases that challenge the levels of funding provided to school districts (e.g., North Carolina's *Leandro* case).

Sound fiscal management practices are not only important to us all, they also demand the focus and efforts of us all. This document offers recommendations for how individuals and organizations can contribute to the goal of providing high quality education for all children. We encourage you to accept the responsibility and participate.

REFERENCES

¹ see, e.g., Ashenfelter, O., & Rouse, C. (1999). Schooling, intelligence, and income in America: Cracks in the bell curve. National Bureau of Economic Research, Working Paper 6902, 3; Dryden Witte, A., & Tauchen, H. (1994). Work and crime: An exploration using panel data. National Bureau of Economic Research, Working Paper 4794; and Wolfe, B., and Zuvekas, S. (1995). Nonmarket outcomes of schooling. Institute for Research on Poverty, Discussion Paper 1065-95, 3.

² Hoke County v. North Carolina, Wake Co. Sup. Ct., Case No. 95 CVS 1158 (April 4, 2002), in accordance with Leandro v. North Carolina, 346 N.C. 336 (1997).

³ See, e.g., Legislative Resolution 180 Staff. (2003). *School District Organization Background Information*. Lincoln, NE: Author.

⁴ See <http://www.ruraledu.org/docs/consolidation/fiscal.pdf>, <http://www.ruraledu.org/docs/consolidation/schoolsize.pdf>, and <http://www.ruraledu.org/docs/consolidation/cotton.pdf> for reviews of the literature.

⁵ Lyson, T.A. (2002). What does a school mean to a community? Assessing the social and economic benefits of schools to rural villages in New York. *Journal of Research in Rural Education*, 17(3), 131-137.

Dreir, W.H. & Goudy, W. (1991). *Is there life in town after the death of the high school? High schools and the population of Midwest towns*, 1994. Paper presented at the Annual Rural and Small Schools Conference.

⁶ See <http://www.ruraledu.org/rpm/rpm604d.htm> for a summary of several studies in this line of inquiry.

⁷ Rural School and Community Trust (In Press). Defining adequacy in a rural context. To be available at: <http://www.ruraledu.org/>

APPENDIX A: BUDGETING MODELS*

The following are two of the more common budgeting models or theories of planning expenditures within an organization. These models can provide school and district leaders with a structured and systematic approach to technical aspects of the budgeting process.

No budgeting model or theory is a “magic bullet.” Budgeting often means making hard decisions among competing priorities. The following procedures can be useful tools in making these decisions.

Planning, Programming, Budgeting, Evaluation System (PPBES):

The PPBES budgeting model involves multi-year analyses of data from five major categories: pupils, programs, personnel, facilities, and finance. Using these data, the PPBES model seeks to sharpen intuition, judgment, and the link between the most efficient way of achieving school goals within the budget on the part of educational leaders through adherence to a systematic approach to analysis.

The PPBES budgeting model is comprised of five primary components:

1. A systematic analysis of the organization’s objectives and review of existing approaches to achieving those objectives;
2. A search for relevant alternatives—different ways of achieving the organization’s objectives;
3. An estimation of the total cost for each alternative—including direct and indirect costs, initial costs, costs requiring future organizational commitment, and those costs that cannot be measured in terms of dollar amounts;
4. An estimate of the anticipated effectiveness of each alternative, i.e., an estimate of how close each comes to meeting the objective;
5. A comparison and analysis of the alternatives, seeking the combination of alternatives that promises the greatest effectiveness, with given resources, in achieving the objectives.

Zero-Based Budgeting (ZBB):

The use of a ZBB model requires a rigorous evaluation of all programs and services. This model asks each program area to annually justify why it is a continuing priority—which means it theoretically starts from zero each year. It is viewed as effective in both stemming the tide of rising budgets and increasing management and program effectiveness.

The ZBB process can be described in terms of four basic steps:

1. Define the organization’s “decision units” (i.e., the lowest practical unit that is knowledgeable about the spending request and its impact);
2. Develop “decision packages” for all activities (a decision package defines a specific function or operation that can be evaluated and compared to other functions—e.g., goal/service, means of achieving goal/providing service, alternative means, cost/benefit of primary and alternative means, etc.);
3. Rank all decision packages in terms of priority with regard to fulfilling the mission of the organization;
4. Approve and fund each activity or decision package to the level of affordability.

* Adapted from Hack, Walter G., Candoli, I. Carl, and Ray, John R. *School Business Administration: A Planning Approach*. Boston: Allyn and Bacon, 1995. ISBN 0-205-16366-1

APPENDIX B: GLOSSARY*

Account

A descriptive heading under which similar financial transactions are recorded.

Accrual Accounting

Basis of accounting in which revenues are recorded as soon as they are anticipated (e.g., when taxes are assessed), and expenditures are recorded as soon as they are encumbered (e.g., when a purchase request is approved). Thus, the money is considered spent when the order is placed.

Adequacy Base

Dollar figure that represents what the state believes it costs to adequately educate one child with no special needs for one year.

Assessed Value

The total dollar value assigned to all real property and personal property subject to taxation.

Audit

An examination of financial records and accounts for the purpose of determining: 1) whether all transactions are recorded properly; 2) whether all transactions are legal and legitimate; and 3) whether financial statements drawn from accounts reflect an accurate picture of financial operations and financial status.

Average Daily Attendance (ADA)

The average daily attendance of students in a school district. This figure is often used to determine state aid.

Average Daily Membership (ADM)

The number of resident students in the school district who are enrolled and attending school in the school district. This figure is also used by states to determine state aid allocations.

Bonded Indebtedness

Obligations of a school district to make payments

on a loan, generally for capital construction projects. This is similar to the mortgage on your house and the money is guaranteed by a bonding agent.

Capital Outlay

An expenditure that results in the acquisition of fixed assets or additions to fixed assets that are presumed to have benefits for more than one year. It is generally an expenditure for land or buildings.

Capital Project Fund

A fund to account for all the resources used for the acquisition of capital facilities including real property. Usually, the building account is separate from the general or school operating fund.

Categorical Funds

State and federal funds that are designated for specific educational objectives or categories of children. Examples would be for special education, socially and economically deprived children, or bilingual children.

Compensatory Education

Educational services above and beyond what is normally due a student under a state's education law. Most frequently, these are state or federal Title I monies earmarked for social and economically deprived children.

Debt Service Fund

Used to budget and account for receipts and expenditures necessary to meet the annual debt obligations of the school district. You will most often find a budget line for this purpose. It is the equivalent of a home mortgage payment.

Fair Market Value (FMV)

The amount that a willing seller could reasonably expect to receive from a willing buyer in the sale of property, or what you can get for your house on today's market.

* Adapted from "Glossary of Budget and Finance Terms" <http://www.doe.state.in.us/finance/glossary.html>. See also <http://www.mvsd.k12.ca.us/images/finance%20glossary.pdf> and <http://home.wi.rr.com/jthanrahan/html/glossary.html>.

Foundation Program

A state aid program that provides a minimum level of funding per student (called a foundation amount) and requires a minimum basic property tax rate for schools. If the local tax base is not strong enough to generate the foundation amount for each student, then the state provides the rest. This is the most common type of state aid formula. The key is whether the state sets the number high or low.

Fund

A grouping of financial transactions, both receipts and expenditures, of money for a specific purpose.

Guaranteed Tax Yield/Guaranteed Tax Base

A state aid program that guarantees school districts an equal amount of tax base per pupil regardless of the wealth of the district. The higher (or lower) the district chooses to spend, the higher (or lower) the state aid. Used by a few states, the system is quite equitable but the state matching fund is prone to manipulation based on state revenues and political factors.

General Fund

Used to budget and account for all receipts and expenditures for the basic operation and the programs of the school district. Expenditures from this fund may be made for items associated with the daily operation of a school district. This includes expenses for salaries of teachers, administrators, support staff, fringe benefits, supplies, heat, lights, maintenance, and other day-to-day operation expenses.

Millage

Factor applied to the assessed valuation of real or personal tangible property to produce tax revenue. It is a tax rate. A mill is defined as one-tenth of a percent or one-tenth of a cent (0.1¢) on the taxed value of the property. Some states use a 1.0 cent value per \$100 of property value to determine tax rates (see “property tax rate”).

Non-Revenue Receipt

Money received that is balanced by increases in the debt of the school district (borrowing money) or by

the loss of some other asset in the school district (selling of land or equipment).

Percentage Equalization

A state aid program where each district is assigned an index of district wealth (based on calculations of property wealth, income wealth, or a combination) which ranges from zero to one. Per pupil spending levels are then determined by the district, and the state’s contribution to that amount is determined by the index. For example, a low wealth district may have an index of .8; in this case, the state provides 80% of the per pupil amount.

Property Tax Levy

The dollar figure produced by multiplying the tax rate and the assessed value.

Property Tax Rate

A statement in dollars and cents, expressed per each \$100 of assessed value, which will yield a specific amount of money in property taxes. The yield is also referred to as the levy (see “millage”).

Revenue Receipt

Money received that adds to the monetary assets of the school district without a corresponding addition to the debt of the school district or a decrease in another asset(s) of the school district. The two most common revenue receipts are property tax revenue and money from state support.

School Budget

A financial plan considering both revenue and expenditures necessary to meet the educational program of the school district.

Weighting (or Additional Pupil Count)

This is a method of providing additional state assistance on the basis of certain educational programs costing more than a regular program. For example, a compensatory education student may get an additional student count in the formula of 0.25 or an extra 25% in aid (see “categorical programs”).

APPENDIX C: RESOURCES

I. Resources available from the National Center for Educational Statistics (NCES)

- Common Core of Data (CCD) – National school finance statistics in raw form. It is available for download and on CD-ROM. The Build-a-Table application (<http://nces.ed.gov/ccd/bat>) allows users to download state-, district- and school-specific data in Excel and other formats.
- Site map of NCES papers and reports by topic <http://nces.ed.gov/help/sitemap.asp>
- Finance-specific papers and reports <http://nces.ed.gov/edfin>
- Encyclopedia of Educational Statistics <http://nces.ed.gov/edstats/>
- Summary of Litigation involving state school finance systems <http://nces.ed.gov/edfin/Litigation/Contents.asp>
- Small and Rural School Districts Characteristics: NCES Statistical Analysis Report, May 1997 (NCES-97-529) <http://nces.ed.gov/pubs97/97529.html>
- State Statistical Profiles Provides state level summaries as well as access to district and school data (limited) and statistics. <http://nces.ed.gov/pubs2000/stateprofiles/>
- Public School Finance Programs of the United States and Canada Descriptions of state finance systems. http://nces.ed.gov/edfin/state_finance/StateFinancing.asp
- “Characteristics of Small and Rural Schools” Information on students, revenues, expenditures, class size, etc. <http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=97529>
- “Digest of Educational Statistics: 2001” The basic compendium of educational statistics across the nation. About 500 pages of statistical tables addressing a myriad number of issues. A core document with many comparisons across states. <http://nces.ed.gov/programs/digest/d01/>

2. Resources available from other sites

- State finance system descriptions and databases <http://www.wcer.wisc.edu/cpre/finance/state/>
- Summaries of newspaper articles from around the nation with hyperlinks <http://www.smartbrief.com/ascd>
- Education Week Weekly newspaper of education interests, with good searchable archives <http://www.edweek.org>
- National Center for Education Finance Newly established office by the National Conference of State Legislatures to track national school finance issues and trends. www.ncsl.org/programs/edu.html
- Center for Special Education Finance <http://csef.air.org>
- State Websites Find your state’s government website by visiting <http://www.piperinfo.com/state/>

3. School Finance Textbooks

There are many standard textbook treatments of educational finance and fiscal management issues. The following texts may prove useful in developing a quick background on a particular issue. The listing does not imply a recommendation by the Rural School and Community Trust.

- King, Richard A., Austin D. Swanson, and Scott R. Sweetland. *School Finance: Achieving High Standards with Equity and Efficiency*, Third Edition. 2003. Allyn and Bacon. ISBN 0-205-35498-X.
- Odden, Allan R. and Lawrence O. Picus. *School Finance: A Policy Perspective, Second Edition*. New York: McGraw-Hill. 2000. ISBN 0-07-047486-9