

**COMPETENCY 6. SCHOOL FINANCE**

School finance provides you with information related to the principles of financing, managing, budgeting, accounting and reporting in the Florida public school system. It identifies current methods and practices governing the fiscal operation of schools.

**SKILL A: Demonstrates knowledge of Florida's funding plan for public elementary and secondary schools**

- 1:** Identifies the requirements necessary for school district participation in the Florida Education Financial Program.
- 2:** Demonstrates knowledge of the Florida Education Finance Program regarding both child equity and taxpayer equity.

Early in the history of our nation, education became a local and state responsibility. The responsibility is granted to the legislature of each state through plenary power, which enables the enactment of laws it considers appropriate and desirable for education. Under this premise, the Florida legislature enacted the **FEFP (Florida Education Finance Program)** in 1973 to equalize the educational opportunities for every child in the state. Florida Statute section 236.012 defines its purpose as follows:

"To guarantee to each child in the state of Florida public educational system the availability of programs and services appropriate to his educational needs which are substantially equal to those available to any similar student notwithstanding geographic differences and varying local economic factors."

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Historically, until the early 1970s, previous formulas for public school funding were generally based on a school system's wealth, which took a ratio of school taxable property and allocated it equally to each child in the system. This resulted in either wealthy school systems or poor school systems. The higher the taxable property, the wealthier the school system became and conversely, the lower the taxable property, the poorer the school system became. To equalize the available resources to all children in Florida, the FEFP recognizes in its formula, the following components:

- varying local property tax bases
- varying program cost factors district cost differential
- differences in per student cost for equivalent educational programs due to sparsity and dispersion of student population

Each year the Florida Legislature determines the **minimum efforts of taxation** on district property tax rolls, as well as the program cost factors, to determine the base funding for each student. For participation in the state allocation of funds, each school board must levy the millage set for its required local efforts. Each district's share is determined by certification of the property tax valuations by the Department of Revenue and the Commissioner of Education. Assessment ratios are used to equalize the effects of the FEFP on differing levels of property appraisals in each county. **Millage rates** are also adjusted to ensure that the required local rates do not exceed 90% of the district total FEFP entitlement. Ultimately, the state's appropriation is used to fund the difference between the amount raised for each student through the required local millage, times the property tax roll, plus the established base student allocation.

Since a key feature of the FEFP is based upon student participation in a particular educational program, the varying program cost factors set by the legislature are key to the formula when determining base funding. To better understand the formula, here are definitions to key terms:

**FTE:** A full-time equivalent student

**Weighted FTE:** An FTE multiplied by a program cost factor

**Base student allocation:** a fixed amount determined each year by the legislature

**District cost differential:** The Commissioner of Education annually averages each district's Florida Price Level Index for the last three years and applies the prices of salary on district operating cost to reduce its impact on the district.

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The **base student funding** is calculated by multiplying the **full-time equivalent student** (FTE) by the **program cost factor**, which gives the weighted FTE. The weighted FTE is then multiplied by the base student allocation and the district cost differential to produce the base student funding as seen below.

$$\begin{array}{c} \text{FTE} \\ \times \\ \text{program cost factor} \\ \hline \text{weighted FTE} \\ \times \\ \text{base student allocation} \\ \hline \times \\ \text{district cost differential} \\ \hline \text{BASE STUDENT FUNDING} \end{array}$$

Other FEFP factors authorized by the Legislature are added to adjust and finalize the distribution of funds to each school district. These adjustments include declining enrollment supplement, sparsity supplement, safe school allocation, remediation reduction incentive, discretionary tax equalization, and hold harmless adjustment and disparity compression adjustment.

Outside of the FEFP formula, each district may levy discretionary millage, which is a level of additional discretionary taxes. This amount is authorized by the legislature with a proportion of it equalized with dollars from the state for **categorical funds** including instructional materials, student transportation, instructional technology and food services. Another categorical fund, outside of the FEFP formula, is preschool funding which comes from lottery proceeds. All of these considerations make the FEFP a model program for the equalization of educational opportunities for all children in the state of Florida.

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To participate in the FEFP, every district must provide annual evidence of its efforts to maintain an adequate school program throughout the district and must meet at least the following requirements:

1. Maintain adequate and accurate records including a system of internal accounts for individual schools, and file with the department of Education, correct and proper form, on or before the date due, each annual or periodic report which is required by state Board of Education Rules.
2. Operate all schools for a term of 180 actual teaching days or the equivalent on an hourly basis. Upon written application, the State Board may prescribe procedures for altering this requirement.
3. Provide written contracts for all instructional personnel and require not less than 196 days of service for all members of the instructional staff.
4. Expend funds for salaries in accordance with a salary schedule or schedules adopted by the School Board in accordance with the provisions of the law and rules of the State Board.
5. Observe all requirements of the State Board relating to the preparation, adoption, and execution of budgets for the district school system.
6. Levy the required local effort millage rate on the taxable value for school purposes of the district. In addition, collect fees for adult education courses.
7. Maintain an ongoing systematic evaluation of the educational program needs of the district and develop a comprehensive annual and long-term plan.

**SKILL B: Demonstrates the ability to analyze the processes of planning, developing, implementing, and evaluating a budget.**

- 1: Identifies the major funds of a school district budget.
- 2: Identifies the major categories of financial resources available to a district beyond the state allocation.
- 3: Identifies the interrelationship between the school individual budget and the district budget.
- 4: Selects, interprets, use, and/or detects the factors that cause change in the school operating budget.

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- 5: Describes the purpose of a **budget**.
- 6: Demonstrates understanding of the purpose of internal funds and the need for proper accounting of those funds.

There are three major **sources of school funding** for the school districts in the State of Florida. Approximately 50% of the financial support comes from state sources, 42% from local sources and 7% from the federal government.

The **state support** for education comes from the state's general revenue funds (mainly from taxes), state school trust fund, Florida Lottery, and other funds that are appropriated to meet the needs of categorical programs and specific allocations. Other state funds come from proceeds from licensing of motor vehicles and gross utility taxes which support capital outlay, racing commission funds and other minor sources such as mobile home licensing.

**Local support** for education originates when the school boards levy the millage required for the local tax effort, which is determined by the state statutory process. Additionally, voters may approve other tax levies such as maintenance bonds and operation user fees. **Federal** funds to **support** education are administered by the Board of Education. These funds are provided to support federal mandates such as the National School Lunch Act, the Americans with Disabilities Act, and others.

Proceeds from the lottery are used to finance both district discretionary lottery funds and preschool projects. Education's share of the revenue is 38% which goes into the Educational Enhancement Trust Fund and is distributed at a rate of 70% for public schools, 15% for the community colleges, and 15% for universities.

Future resources for education are planned through student enrollment forecasts. This is a joint effort between the Florida Department of Education, the Governor's Office, the Legislature, and the school districts. The **forecast input** is essential for the FEFP appropriation, primarily because it is used to compute district allocation and make actual payments until the student membership can be finally determined through certified surveys. This process is defined by Florida Statute section 216.136(4).

From the appropriated funds, the district builds its budget. At this point, the **budget** becomes an important device for translating the educational plan into a financial plan. The budget is, in effect, the translation of prioritized educational needs into a financial plan, which is interpreted for the public in such a way that when it is formally adopted, it expresses the kind of educational program the community is willing to support financially and morally for a one-year period (Drake and Roe, 1994).

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The budget must be managed through a **financial system of accounting**. In the state of Florida this system is predetermined for the school districts. This system is managed through the **Financial and Program Cost Accounting and Reporting for Florida Schools**, also known as The Red Book. It deals only with revenues and expenditures. Revenues are categorized by sources. Sources of revenues can be either federal, state or local. Expenditures on the other hand, are categorized by dimensions which include funds or account groups, objects, functions, facility, project, and reporting.

**The funds or account groups** are accounting entities with a self-balancing set of accounts that supports specific school activities to attain specific objectives. Therefore, funds or accounts can only be used for specified purposes. There are eight major funds or account groups: General Fund, Debt Services Funds, Capital Project Funds, Special Revenues Funds, Enterprise Funds, Internal Services Funds, Trust and Agency Funds, General Fixed Assets, and General-Long-Term Debt. Of all the funds, the General Fund is perhaps the most important to schools and school districts because it deals with the day-to-day operation of the school.

The budget of the district is generally made up of all of the account groups or funds established by the Red Book. Since many the accounts held by the district are not appropriate to the school operation, the school differs from that of the district. For example, most districts are responsible for salaries and benefits, utilities and services therefore, these accounts will not be included in the school-based budget.

At the school level the district allots a certain number of dollars based on a predetermined local formula to allow expenditures from the General Fund related to the day-to-day operation of the school. Additionally, the school may have an Activity account and a School Internal account. The **Activity account** is derived from class fees, athletic contests and events, plays, yearly photos, and other special programs. While the proceeds belong to the school, they must be used for students' learning benefits such as award ribbons, trophies, and the like. These proceeds must be identified and accounted in the same manner as any other funds of the school.

The school **internal account** usually originates from vending machine sales in the teacher's lounge and from related faculty activities and must be used to benefit faculty and staff. Again, these proceeds must be identified and accounted for in the same manner as any other funds or accounts of the school.

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**SKILL C: Demonstrates knowledge of, comprehension about, and the ability to apply school finance concepts.**

- 1: Demonstrates knowledge of, and makes inferences concerning model school finance plans of other states.
- 2: Demonstrates knowledge of and discriminates among measures of school district fiscal capacity.
- 3: Identifies measures of educational resource need.
- 4: Identifies major sources of taxation used to support public education.
- 5: Demonstrates knowledge of equity concepts tested in major school finance litigation.
- 6: Identifies, interprets, classifies, and makes inferences concerning the contributions of education to the economy.

Every state has its own funding formula to allocate general distribution of funds to local districts to provide educational services to children. This formula can be complex because of the efforts of state legislatures to provide uniformity of support. While some public school programs are fully funded by the state, others may rely on flat grants, foundation programs or a variety of tax base equalization programs. The **Flat Grant Model** is a basic model that is very easy to compute. It is based on a fixed amount multiplied by the number of students enrolled in a school regardless of the **fiscal capacity** of the district and regardless of the needs of the students. This model has been the center of landmark court litigations because providing a per student allocation disregards the needs of students. It also assumes that the role of the state is to guarantee a minimum level of education to each student (Swanson and King 1997).

With **Foundation Grants**, on the other hand, the state defines the level of funding for basic education. The state and the school district in partnership provide the funds required for the educational programs. Unlike the Flat Grant Model, where the state alone provided per pupil funding, in the Foundation Program both the state and the districts act in partnership to determine the required level of local participation.

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As of 1994-95 (Swanson and King 1997), only Delaware and North Carolina are utilizing the Flat Grant Model. Eighteen (18) states are utilizing the Foundation Program in which local support is not required, and twenty-three (23) states including Florida, Alabama, Alaska, Colorado, Mississippi, South Carolina, Tennessee, and others are using the Foundation Program in which local efforts are required. Hawaii and Washington are the only states with programs that are fully funded at the state level. In general, the blend of state and local revenues is important to the extent that they provide adequate support, recognition of fiscal responsibility of state district, and local capacity as defined by property valuation or personal income tax.

Major sources to support public education come from revenues generated from taxes. Property tax at the local level, sales tax at the state level, and income tax at the federal level constitute primary sources of revenues for education. From these sources approximately 50% of the financial support comes from state sources, 42% from local sources, and 7% from the federal government.

Legal provisions for funding public education come from the constitution. The lack of clear language and specificity of public school funding results in school funding litigations, which historically have led to major school finance reforms. Legislative enactment, regulations, decrees, or rulings are outgrowths of school finance litigations. These reforms originated from the basic values and beliefs of the citizens and leaders at the national, state, and local levels.

Early litigations of school finance alleged that the methods of financing education at the state level violated the equal protection for certain classes of people under our constitution. Allegations were also made that the reliance on local revenues to support a large portion of the total public school budget was unfair because of the disparity in property tax wealth among the school systems. There are four landmark court cases that build on each other to produce significant school financing reform.

In **McInnis v. Shapiro** -1969, the plaintiffs contended that the Illinois method of financing public education was inequitable because it permitted a wide variation in expenditures per student. This method of financing did not apportion funds according to the educational need of students. The court rejected the plaintiff contention stating that the controversy was unjustifiable because it lacked judicially manageable standards. The court further stated that equal expenditures per students were inappropriate as a standard. The court was ill prepared to provide advice on an equitable finance plan to public school because it lacked specific understanding of cost-effective analysis of such measurement. **Serrano v. Priest** -1971 emerged with the precedence set by the previous case. In this situation, the plaintiffs contended that the California school system of financing allowed substantial disparities between the various districts in the amount of revenues available for education.

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They further contended that this method denied equal protection of the laws under the constitution of the United States and the constitution of California. They also contended that this system required parents to pay taxes at a higher rate than taxpayers in many other districts in order to provide the same or lesser educational opportunities for their children.

In this landmark decision, the court contended that education is a constitutionally protected fundamental interest and that wealth was a suspect classification. The court established the **Standard of Fiscal Neutrality** as a measurement to determine whether or not a school finance program was constitutional. Under this standard, the quality of the child's education could not be based on the wealth of the local school district, but on the wealth of the state as a whole.

In **Rose v. The Council of Better Education** -1989, the plaintiffs contended that the system of financing schools by the Kentucky General Assembly was inadequate because it placed too much emphasis on local school board resources which result in inadequacies and inequalities throughout the state. This resulted in an inefficient system of common school education, which violated the state constitution. The court ruled in favor of the plaintiffs. The court also appointed a committee to review relevant data, provide additional analysis, consult with financial experts, and propose remedies to correct the deficiencies in the present common school financing system.

Another landmark case in school finance is **San Antonio Independent School District v. Rodriguez** - 1973. The plaintiffs contended that the dual system of public school financing in Texas violated the equal protection clause of the Constitution of the United States and Texas. The initial ruling in 1971 held the state financing system of Texas unconstitutional under the equal Protection clause of the Fourteen Amendments. An appeal of this decision reversed the ruling because of unanswered questions concerning the constitution of Texas. But in the second ruling, the court found substantial **disparities among the districts' school expenditures**, which were largely attributed to the differences in the amounts of the dollars collected through property taxes. The court concluded that the dual system of public school finance in Texas indeed violated the equal protection clause.

Education is both a public and a private good because it enhances the individual as it brings important benefits to society (Swanson and King 1997). At an individual level, education provides the ability to enjoy a higher standard of living by earning more money and living a better quality of life, thus, making a contribution into the economy. Education supports the production of a skilled workforce for the efficient functioning of a society that is stimulated by economic growth and development.

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**SKILL D: Demonstrates knowledge of the process of financial accounting, auditing and reporting.**

- 1: Identifies methods or discriminates among the practices of cost reporting.
- 2: Identifies or discriminates among the practices, standards, and procedures of accounts used in school internal accounts audits.
- 3: Discriminates among components of the accounting classification structure used by school districts.
- 4: Identifies and differentiates among practices and procedures of fiscal control and accountability of school-based funds.

Methods for cost accounting and reporting are contained in the Florida Department of Education publication "**Financial and Program Cost Accounting for Florida Schools**" also known as The Red Book. The content of this publication also reflects the requirements of Rule 6A-1.001 of Florida Administrative Code and Sections 237.01 and 237.02 of Florida Statutes.

School administrators must be knowledgeable in basic **accounting principles** to provide appropriate **fiscal management** for the economic and efficient operation of the school. Accounting is the process used by administrators to **record, present, summarize, and interpret** accurate records of the financial data collected by the school through its daily operation. These basic accounting principles lead practicing administrators to the recognition of revenues and expenditures for the pre-established accounts of the school.

General principles of school cost accounting require the utilization of an **accrual basis for accounting** rather than a cash basis. This means that the financial transactions of the school must be recorded **as revenues or expenditures** at the time the transaction occurs and there should never be cash exchanged for goods or services. This generally accepted principle is called the accrual basis of accounting. In this process, revenues earned at the time of the transaction become **assets**, and **expenditures** become **liabilities**, regardless of when the cash receipt or reimbursement occurs. In this system of accounting assets are inventory, investments, accounts receivable, building and fixed equipment, furniture, motor vehicles, etc. while liabilities are salaries, benefits, accounts payable, construction contracts, etc. Unlike private enterprises for profit where there is owners' equity, schools are owned by the taxpayers. Therefore, balances are known as **fund equity**, which include reserves, retained earnings, contributed capital, and other fund equity.

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Schools must adhere to specific rules governing their internal funds as prescribed by State Board Rules. All school organizations must be accountable for receipts and expenditures of funds obtained from the public. Additionally, sound business practices are expected for all financial transactions of the school. For example, in an effort to raise money to benefit programs of the school, fund-raising activities should not conflict with the programs administered by the school board.

All purchases from **internal funds** must be authorized by the principal or designee and district's pre-approved, serially numbered receipt forms must be used to record any cash received and to record the accounting transaction. Each school must have a bank checking account and each monthly statement must be reconciled as soon as it is received. Each account should have two authorized check signers, one being the principal. The principal should be never pre-sign checks, under any circumstances. Monthly written financial reports must be made for the purpose of school decision-making, and annual reports must be made for the district's annual **financial statement**.

The sponsors of classes, clubs, or department student activities (such as athletic events, musical, and the like) are responsible for providing the **financial documents** and records to the principal or designee. The collection received must be deposited in the school internal fund in the respective classified account (athletics, music, art, Latin Club, and others). All disbursements by the club or organization must be made by check from internal funds. A financial report must be filed with the principal's office at the close of each fundraising activity.

Records and documents of school financial transactions used for its internal fund and accounts must be examined periodically through the **auditing process**. This auditing process, whether internal or external, provides an adequate safeguard to preserve the property of the public school system. This process secures evidence of propriety of completed transactions; it determines whether all transactions have been recorded, whether these transactions have been accurately recorded in the appropriate accounts, and whether the statements have been drawn from the accounts.

Good auditing reviews are the result of excellent accounting practices. Drake and Roe (1994) define the accounting cycle as continuous and inclusive of the processes of **documenting, analyzing, recording, and summarizing** financial information. **Documenting** includes recording all financial transactions including the authority or initiator of the transaction, ensuring that the debt incurred is within the limit of allotment, that every financial transaction is identified with a unit or fund, and that each fund is restrictive and limited in use. The process of **analyzing** requires that each transaction is analyzed and classified into debits and credits, and that each debit and credit is referenced to a specific account under the affected fund.