Charter School Summit

March 5-7, 2008

University of Memphis

Memphis, Tennessee

Workshop Objectives

- Understanding How LEAs and Charter Schools are funded
- Understanding the State's Standardized System of Accounting, Budgeting, & Reporting
- Understanding Basic Finance Statutory Law

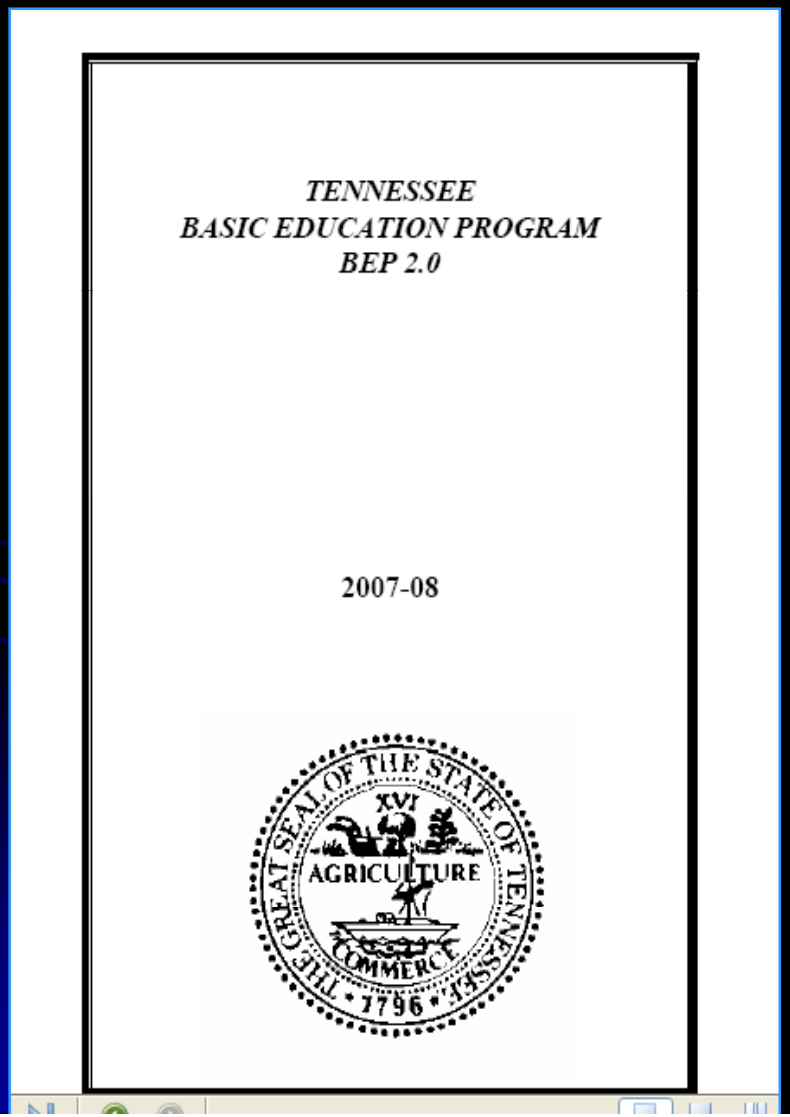
Agenda

- Funding Charter Schools
  - Briefly, How are LEAs Funded?
  - Basic Education Program (BEP) Blue Book
  - Local Sources of Funding
  - TCA §49-13-112 – Charter School Funding
  - Charter School Funding Methodologies
  - When do Charter Schools Receive LEA Funding?

Agenda

- Standardized System of Accounting, Budgeting, & Reporting
  - Uniform Chart of Accounts
  - Annual Financial Reports/Budget Documents
  - Hints on Preparing Governmental Fund Budget
- Basic Finance Statutory Law

How LEAs Are Funded


TENNESSEE
BASIC EDUCATION PROGRAM
BEP 2.0

2007-08

- Based on components of the BEP Blue Book
- Based on prior year's ADM funding months (2, 3, 6, and 7) as weighted (12.5%, 17.5%, 35%, and 35%), including Regular, Special Ed I&S, and Vocational WFTEADM

How LEAs Are Funded

INSTRUCTIONAL COMPONENTS (STATE SHARE = 70%)

COMPONENT	FUNDING LEVEL
REGULAR EDUCATION	1 per 20 ADM K-3 1 per 25 ADM 4-6 1 per 30 ADM 7-9 1 per 26.5 ADM 10-12
VOCATIONAL EDUCATION	1 per 20 vocational education FTEADM
SPECIAL EDUCATION (number of students identified and served = I & S)	(Caseload Allocations) Option 1 91 Option 6 2 Option 2 73 Option 7 10 Option 3 46 Option 8 6 Option 4 25 Option 9 0 Option 5 15 Option 10 10
ELEMENTARY GUIDANCE	1 per 500 ADM K-6*
SECONDARY GUIDANCE	1 per 350 ADM 7-12 (including voc ed)*
ELEMENTARY ART	1 per 525 ADM K-6
ELEMENTARY MUSIC	1 per 525 ADM K-6
ELEMENTARY PHYSICAL EDUCATION	1 per 350 ADM K-4 1 per 265 ADM 5-6
ELEMENTARY LIBRARIANS (K-8)	.5 per school < 265 1 per school 265-439 1 per school 440-659 (+.5 assistant) 1 per school > 660 (+1 assistant)
SECONDARY LIBRARIANS (9-12)	.5 per school < 300 1 per school 300-999 2 per school 1,000-1,499 2 per school > 1,500 (+1 per add'l 750)
ELL INSTRUCTORS	1 per 30 ELL Students I&S
ELL TRANSLATORS	1 per 300 ELL Students I&S

- Funds generated in the Instructional component must be spent on instructional salaries and benefits
- In total, state funds 70% of the instructional component and local funds 30%
- Example: LEAs earns 1 teacher for every 20 students in grades K-3

How LEAs Are Funded

CLASSROOM COMPONENTS (STATE SHARE = 75%)

COMPONENT	FUNDING LEVEL
K-12 AT-RISK CLASS SIZE REDUCTION	Based on 1:15 class size reduction for grades K-12, estimated at $509.46 per identified at-risk ADM. Funded at 100% at-risk.
DUTY-FREE LUNCH	$9.23 per total ADM
TEXTBOOKS	$69.44 per total ADM
CLASSROOM MATERIALS & SUPPLIES (includes fee waiver)	$ 69.00 per regular ADM $155.00 per vocational education FTEADM $ 31.00 per special education I & S $ 34.00 per Academic exit exam (12th grade) $ 11.00 per Technical exit exam (1/4 voc ed)
INSTRUCTIONAL EQUIPMENT	$62.00 per regular ADM $97.00 per vocational education FTEADM $12.00 per special education I & S
CLASSROOM RELATED TRAVEL	$ 8.00 per regular ADM $21.00 per vocational education FTEADM $ 14.00 per special education I & S
VOCATIONAL CENTER TRANSPORTATION	For participating systems to transport students to vocational center attended part of the day
TECHNOLOGY	$TBD per total ADM (Approx. $21.17) $20 M distributed on ADM basis
NURSES	1 per 3,000 total ADM (min. + 1 per system)
INSTRUCTIONAL ASSISTANTS	1 per 75 ADM K-6
SPECIAL EDUCATION ASSISTANTS	1 per 60 special education I & S in Options 5,7,8
SUBSTITUTE TEACHERS	$51.70 per total ADM
ALTERNATIVE SCHOOLS	$ 3.01 per total ADM K-12 plus $25.34 per ADM 7-12 (including voc ed)

- Funds generated in the classroom component must be spent on classroom components or instructional salaries and benefits
- In total, state funds 75% of the instructional component and local funds 25%
- Example: LEAs generates $69.44 per ADM for textbooks

How LEAs Are Funded

NON-CLASSROOM COMPONENTS (STATE SHARE = 50%)

COMPONENT	FUNDING LEVEL
SUPERINTENDENT	1 per county***
SYSTEM SECRETARIAL SUPPORT	1 per system < 500 2 per system 500-1,250 3 per system 1,251-1,999
TECHNOLOGY COORDINATORS	1 per system with one additional for each 6,400 ADM
SCHOOL SECRETARIES	.5 per school < 225 1 per school 225-374 1 per 375 per school > 375
MAINTENANCE & OPERATIONS	100 square feet per total K-4 ADM 110 square feet per total 5-8 ADM 130 square feet per total 9-12 ADM Total sq ft x $2.67/sq ft**** 1 custodian per 22,376 calculated sq ft
NON-INSTRUCTIONAL EQUIPMENT	$18.00 per total ADM
PUPIL TRANSPORTATION	Allocated to systems that provide transportation. Formula established by Commissioner of Education. Based on number of pupils transported, miles transported, and density of pupils per route mile
STAFF BENEFITS AND INSURANCE	$4,243.12 per BEP position for insurance; plus 7.65% of BEP salary for FICA. Add 6.24% of BEP salary per Superintendent and technology coordinator OR 7.13% of BEP salary per classified position for TCRS
CAPITAL OUTLAY	100 sq ft per total K-4 ADM x $87/sq ft 110 sq ft per total 5-8 ADM x $95/sq ft 130 sq ft per total 9-12 ADM x $94/sq ft Add equipment (10% of sq ft cost) Add architect's fee (5% of sq ft cost) Add debt service (20 yrs @ 6.00%) Divide total by 40 yrs = annual amount

- Funds generated in the non-classroom component must be spent on non-classroom components, classroom components or instructional salaries and benefits
- In total, state funds 50% of the instructional component and local funds 50%
- Example: Every county, not every LEA, is allocated funding for 1 superintendent

How LEAs Are Funded

- Local sources of funding required to be used in the allocation calculation to charter schools include:
  - 40100 – County Taxes (major sources: property taxes, sales taxes)
  - 40600 – City/Special School District Taxes (major sources: property taxes, sales taxes)
  - 41000 – Licenses & Permits
  - 44110 – Investment Income
  - 44120 – Lease/Rentals
  - 46851 – State Revenue Sharing – TVA (if used for maintenance of effort)
  - 49810 – City General Fund Transfers (if in lieu of property tax/sales tax allocation)

Charter School Compliance

- TCA §49-13-112 provides, “All funds shall be spent…subject to the requirements of state and federal law.” Therefore, the following laws apply to charter schools when expending state funds (BEP) and local funds (BEP required local match):
  - TCA §49-3-354(b), “BEP funds that are earned in the classroom components…must be spent in the classroom.”
  - TCA §49-3-351(c), “All funds generated for the BEP shall be spent on BEP components.” (covers non-classroom funds)

Funding Charter Schools

- TCA §49-13-112 – Funding
  - (a) State & local revenues that support the per pupil expenditures of the LEA are to be distributed.

Calculation of Per Pupil Expenditures for State Report Card

	Per Report Card	Adjusted for Transportation
Total Operating Expenditures	$ 515,681,503	$ 515,681,503
Add: 999 Accounts	-	-
Add: Non-Centralized Food Service	-	-
Less: Community Services	-	-
Less: Adult Education	(3,327,398)	(3,327,398)
Add: State Administration	5,338,461	5,338,461
Add: Federal Commodities	1,005,812	1,005,812
Adjusted Operating Expenditures	$ 518,698,378	$ 518,698,378
Less: Transportation	-	(20,542,184)
Adjusted Operating Expenditures	$ 518,698,378	$ 498,156,194
ADA	64,077	64,077
Per Pupil Expenditures	$ 8,095	$ 7,774
@ 100 Students	$ 809,500	$ 777,400

Does not include 73300 - Community Services, 76100 - Regular Capital Outlay, 81300 - Education Debt Service, 91300 - Education Capital Projects, or 99100 - Other Uses. Does include Federal funds and funds generated by the School Nutrition Program.

Expenditures from other agencies for school purposes, if any.

Not in Annual Financial Report!!

State Law referes to ADM, not ADA.

- Why can this calculation not be used for PPE? Because this calculation is based on ADA, could include non-operating expenditures that are supported with non-recurring revenue, and includes allocation of state administrative costs as well as allocation of Federal commodities.

Calculation of Per Pupil Expenditures @ 100% of Expenditures of the LEA

AFR Page 38;General Purpose - Column 2;Total - Column 1

	General Purpose	Total
Total Expenditures	$ 459,596,443	$ 604,235,332
Less: Transportation	(20,542,184)	(20,542,184)
Adjusted Total Expenditurs	$ 439,054,259	$ 583,693,148
ADM for Funding	68,414	68,414
Per Pupil Expenditures	$ 6,418	$ 8,532
@ 100 Students	$ 641,800	$ 853,200
Total ADM	68,231	68,231
Per Pupil Expenditures	$ 6,435	$ 8,555
@ 100 Students	$ 643,500	$ 855,500

- Why can this calculation not be used for PPE? Because this calculation could include non-operating expenditures supported with non-recurring revenues, i.e., insurance recovery funds. Also, there is a difference between an LEAs total ADM and funded ADM.

Calculation of Per Pupil Expenditures @ 100% of State & Local Funds

Revenue Code:	Total State/Local	State/Local - MOE
40000 - Local Taxes	$ 295,137,658	$ 295,137,658
41000 - Licenses & Permits	43,995	43,995
44100 - Investment Income	-	702,687
44120 - Lease/Rentals	-	154,596
44000 - Other Local Revenues	2,135,341	-
46000 - Total State Revenues	156,404,208	156,404,208
Less: Transportation	(20,542,184)	(20,542,184)
Total State/Local Funds	$ 433,179,018	$ 431,900,960
ADM for Funding	68,414	68,414
State/Local Funds Per Pupil	$ 6,332	$ 6,313
@ 100 Students	$ 633,200	$ 631,300
Total ADM	68,231	68,231
State/Local Funds Per Pupil	$ 6,349	$ 6,330
@ 100 Students	$ 634,900	$ 633,000

Local Revenue used for Maintenance of Effort Test.

Includes Nonrecurring items such as Sale of Equipment, Damages Recovered from Individuals, Contributions & Gifts, and Other Local Revenue. Includes recurring revenue items of Investment Income, Lease/Rentals, and Sale of Materials & Supplies. Amount used is from General Purpose School Fund and Capital Projects Fund. Federal Projects and Cafeteria Other Local Revenues not included due to Federal Funds and USDA requirements.

- Why is this calculation used for PPE? Because this calculation complies with statutory law by allocating 100% of the State & local education funds used to support the education programs of the LEA.

Funding Charter Schools

- TCA §49-13-112 – Funding
  - (a) In addition, this section stipulates that all funds must be spent in accordance with the approved budget, as submitted and/or as amended.
  - Provides for the LEA to act as the fiscal agent for the charter school, if requested by charter school governing body, or provides for the LEA to distribute funds to the charter school in compliance with the charter agreement.

Funding Charter Schools

- TCA §49-13-112 – Funding
  - (b) During the first academic year, funds are distributed based on anticipated enrollment, and shall be subsequently adjusted to reflect the actual number of students served.
  - (d) Public charter schools may be funded by other sources of funds as described in this subsection.

When Do Charter Schools Receive Funding from the LEA?

- LEAs may not have the resources to pay funds to charter schools until those resources are received, therefore, charter schools should anticipate receiving funds throughout the year and not in a lump sum at the beginning of the year.

When Do Charter Schools Receive Funding from the LEA?

- LEAs receive state BEP funds in accordance with TCA §49-3-314, which provides for one-tenth (1/10) of BEP funds to be paid to LEAs on or before August 15 and continuing through April 15, with the balance due (after adjustments) in June.

When Do Charter Schools Receive Funding from the LEA?

- LEAs receive local funds at varying times throughout the fiscal year. For example, sales taxes are fairly constant, however, a greater amount is received in January and February due to the Christmas holidays.
- Property taxes are due between October and February with the greatest amounts received in December (because of Federal Incomes Taxes) and February (latest date in which property taxes can be paid without penalty).

Standardized System of Accounting, Budgeting & Reporting

- Uniformity in accounting systems and reporting has long been a goal of government officials. A uniform chart of accounts and financial reporting provides valuable information that can be used by both the state and counties to make their service delivery more efficient and effective as well as provide state government with the data it needs to address local needs.

Standardized System of Accounting, Budgeting & Reporting

- The Uniform Chart of Accounts, published by the Comptroller's Office is a listing of all the accounts in the general ledger, each account accompanied by a reference number.
- The chart is divided into five categories: assets, liabilities, fund balance, revenues, and expenditures.

Chart can be downloaded from www.comptroller.state.tn.us/ca/chart.htm

Standardized System of Accounting, Budgeting & Reporting

- An account number is composed of at least 8 digits (xxxxx-xxx). The first 5 digits indicate the major category (i.e., regular instruction, special education, etc.), while the last 3 digits indicate the expenditure object code (i.e., salaries, benefits, textbooks, etc.).
- Provides uniform account numbers to governmental agencies to simplify the process of accounting, budgeting, & reporting.
- Designed specifically to improve the comparability of financial reporting among school systems within the State, and across the nation.

Annual Financial Report

- The Department of Education's *Annual Public School Financial Report* (AFR) is intended to comply with Section 49-3-316, TCA, which requires LEAs to submit to the Commissioner of Education, on prescribed forms, on or before August 1 of each year, a correct and accurate financial report of the receipts and expenditures for the school year ending June 30.
- The Department of Education's AFR is prepared on another comprehensive basis of accounting other than Generally Accepted Accounting Principles (GAAP), and is not intended to comply with the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34.

Annual Financial Report

- The Department of Education's AFR is prepared on the modified accrual basis of accounting and all capital purchases are expensed when the obligation occurs.
- All schedules/tables are an integral part of the Department of Education's AFR, and data must be submitted for the report to be complete.
- Data for funding the BEP is generated directly from the AFRs received from LEAs.

Annual Financial Report

- AFR must balance.
- Use AFR Check Sheet.
- Common check figures that do not balance:

--Total Assets (pg 1, line 15) must equal sum of Liabilities, Reserves, and Fund Balances (pg 1, line 41).

--Reserves (Page 1, state, federal, local and undesignated fund balance should be the same as reported on page 5)

--Adjusted BOY Reserves on Page 3 should equal EOY Reserves from last year's report Page 5. If you need to adjust—use schedule on Page 2. A copy of each schools Pages 1-5 are included. Please use page 5 as a guide for page 3 for 2007-08. Some systems were adjusted from original AFR that was submitted to DOE.

--BOY Reserves plus Revenues minus Expenditures must equal EOY Reserves. (Page 5 Lines 31 and 33 should equal).

--All data should be reported in Funds 141 or Fund 142.

Annual Financial Report/Budget Submission

- Do not send copies of your AFR or budget to the Department of Education, Office of Local Finance.
- All AFR and Budgets shall be submitted to its LEA, e.g., Memphis City or Davidson County.
- Each LEA is responsible for consolidating the Charter Schools' Financials and Budgets and reporting these to the state via E-reporting.
- LEA's have requested and Dept of Ed highly recommends that Charter School AFR's and Budgets be submitted to the LEA by July 15.

Budget Document

- ***Budgeting is the process of planning.***
- The budget is one of the most important documents a state or local government prepares since it identifies the services to be provided and how the services are to be financed.
- By law, all governmental budgets in the State of Tennessee must be balanced, i.e., revenues and beginning fund balance must equal or exceed appropriations (anticipated expenditures).

Budget Document

- The public considers budgets in the public arena the ultimate policy document because they are the financial plans a school district uses to achieve its goals and objectives. The budget reflects:
  - the goods and services the district will and will not produce;
  - the district's priorities;
  - the relative weight given to the influence of various participants and interest groups in the budget development process;
  - how the district has acquired and used its resources; and
  - the district administrators' accountability and fiduciary responsibility to citizens.

Hints on Preparing Governmental Fund Budgets

- Follow the chart of accounts
- Funds must be budgeted by major categories, i.e., regular instruction, special education, support services, maintenance of plant, etc.
- Amounts reflected for employer matching taxes must be accurate, i.e., 6.2% for social security, 1.45% for Medicare, 6.42% for State retirement (FY09 rate).
- The budget should target those priorities expressed by the policymakers (legislature, sponsor, chartering authority).
- The budget should explain how the priorities will be implemented in a practical way.

Hints on Preparing Governmental Fund Budgets

- The budget is made up of estimates and predictions about the future. It is of utmost importance to have data you can rely on.
- Always be prepared to update your budget estimates as better data becomes available. Your final product should be your best prediction about the future.
- The tendency or temptation to inflate estimated revenues to accommodate a larger appropriation should be avoided.
- It is never too early to begin planning for the next round of budget efforts.

Basic Finance Statutory Law

- TCA § 49-13-111(e), All contracts for goods and services in excess of five thousand dollars ($5,000) shall be bid and must be approved by the governing body of each public charter school.
- TCA § 49-13-111(j), A public charter school is subject to state audit procedures and audit requirements.
- TCA § 49-13-111(*l*), A public charter school shall be operated on a July 1 to June 30 fiscal year and the governing body shall adopt and operate under an annual budget for such fiscal year. The budget shall be prepared in the same format as that required by the state department of education for LEAs.

Basic Finance Statutory Law

- TCA § 49-13-111(m), A public charter school shall maintain its accounts and records in accordance with generally accepted accounting principles and in conformance with the uniform chart of accounts and accounting requirements prescribed by the comptroller of the treasury. The charter school shall prepare and publish an annual financial report that encompasses all funds. The annual financial report shall include the audited financial statements of the charter school.

Basic Finance Statutory Law

- TCA § 49-13-111(n), A public charter school shall require any member of the governing body, employee, officer or other authorized person who receives funds, has access to funds, or has authority to make expenditures from funds, to give a surety bond in the form prescribed by TCA § 8-19-101. The cost of such surety bond shall be paid by the charter school and shall be in such amount as determined by the governing body.

Basic Finance Statutory Law

- TCA § 49-13-120, The governing body of the public charter school shall make at least an annual progress report to the sponsor of the school, the chartering authority, and the commissioner of education. The report shall contain at least the following information:
  - (2) The same information required in the reports prepared by local boards of education pursuant to state laws, rules and regulations; and
  - (3) Financial records of the school, including revenues and expenditures.

Local Finance Website

http://state.tn.us/education/support/leasupp.shtml

- What you will find:
  - Internal School Uniform Accounting Policy Manual
  - BEP
  - System Manual
  - QZAB Information
  - Minimum Salary Schedule
  - Contact Information including Fiscal Consultants