

## **DISTRICT POLICIES AFFECTING THIS BUDGET**

It is the policy of St. Cloud Area School District 742 to establish its revenue and expenditure budgets in accordance with the applicable provision of law. Budget planning is an integral part of program planning so that the annual budget will effectively express and implement School Board goals and the priorities of the School District.

### **Budget Implementation:**

- A. The School Board places the responsibility for administering the adopted budget with the Superintendent. The Superintendent may delegate duties related thereto to other school officials, but maintains the ultimate responsibility for this function.
- B. The budgeting system will be supported by an accounting structure organized and operated on a fund basis as provided for in Minnesota Statutes through the Uniform Financial Accounting and Reporting Standards for Minnesota School Districts (UFARS).
- C. The Superintendent or the Superintendent's designee is authorized to make payments or claims or salaries authorized by the adopted or amended budget prior to School Board approval.
- D. Supplies and capital equipment can be ordered prior to budget adoption only by authority of the School Board. If additional personnel are provided in the proposed budget, actual hiring may not occur until the budget is adopted unless otherwise provided by the School Board. Other funds to be expended in a subsequent school year may not be encumbered prior to budget adoption unless specifically approved by the School Board.
- E. The School District shall make such reports to the Commissioner as required relating to initial allocations of revenue, reallocations of revenue and expenditures of funds.

## **Establishment and Adoption of School District Budget**

### **Requirement**

- A. The Superintendent or such other school official as designated by the Superintendent or the School Board shall each year prepare preliminary revenue and expenditure budgets for review by the School Board or its designated committee or committees. The preliminary budgets shall be accompanied by such written commentary as may be necessary for them to be clearly understood by the members of the School Board and the public. The School Board shall review the projected revenues and expenditures for the School District for the next fiscal year and make such adjustments in the expenditure budget as necessary to carry out the education program within the revenues projected.
- B. The School Board must initially allocate its general education and referendum revenue to each building in the School District where children who have generated the revenue are served. This initial allocation shall be made in accordance with procedures specified by the Minnesota Department of Education.
- C. The School Board may, by resolution, adjust the initial allocation so as to expend revenue for any purpose.
- D. The School District must retain separate accounts to identify revenues and expenditures for each building.
- E. Prior to July 1 of each year, the School Board shall approve and adopt its initial and reallocated revenue and expenditure budgets for the next school year. The adopted expenditure budget document shall be considered the School Board's expenditure authorization for that school year. No funds may be expended for any purpose in any school year prior to the adoption of the budget document which authorizes that expenditure for that year, or prior to the adoption of an amendment to that budget document by the School Board to authorize that expenditure for that year.
- F. The School District shall, within one week after the School Board approves the audit, publish its adopted revenue and expenditure budgets for the current year, the actual revenues, expenditures and fund balances for the prior year, and the projected fund balances for the current year in a qualified newspaper of general circulation for the School District. The publication shall be made in the form prescribed by the Commissioner. A statement shall be included in the publication that the complete budget in detail may be inspected by any resident of the School District upon request to the Superintendent. At the same time as this publication, the School District shall publish the other information required by Minn. Stat. §123B.10.
- G. At the public hearing on the adoption of the School District's proposed property tax levy, the School Board shall review its current budget and the proposed property taxes payable in the following calendar year.

### Implementation

- A. The School Board places the responsibility for administering the adopted budget with the Superintendent. The Superintendent may delegate duties related thereto to other school officials, but maintains the ultimate responsibility for this function.
- B. The budgeting system will be supported by an accounting structure organized and operated on a fund basis as provided for in Minnesota Statutes through the Uniform Financial Accounting and Reporting Standards for Minnesota School Districts (UFARS).
- C. The Superintendent or the Superintendent's designee is authorized to make payments of claims or salaries authorized by the adopted or amended budget prior to School Board approval.
- D. Supplies and capital equipment can be ordered prior to budget adoption only by authority of the School Board. If additional personnel are provided in the proposed budget, actual hiring may not occur until the budget is adopted unless otherwise approved by the School Board. Other funds to be expended in a subsequent school year may not be encumbered prior to budget adoption unless specifically approved by the School Board.
- E. The School District shall make such reports to the Commissioner as required relating to initial allocations of revenue, reallocations of revenue and expenditures of funds.

### **Modification of School District Budget**

#### Requirement

- A. The School District's adopted expenditure budget shall be considered the School Board's expenditure authorization for that school year.
- B. The School District's revenue budget shall be amended from time to time during a fiscal year to reflect updated or revised revenue estimates. The Superintendent shall make recommendations to the School Board for appropriate revisions. If necessary, the School Board shall also make necessary revisions in the expenditure budget if it appears that expenditures would otherwise exceed revenues and fund balances in a fund.

### **Fiscal Management Goals**

The Board will establish policy and provide direction regarding the School District budget and financial affairs which reflect the general philosophy and goals of the community and which provide a framework within which the school system's administrative team can operate.

The budget and finance processes will conform to all state and local requirements as set forth by the State Constitution, State Statutes, State Department of Education rules, and Board policies.

The purpose of the District budget and finance policies will be to provide direction for a systematized procedure such that continuity is maintained from year to year, and the public is kept informed regarding the educational and financial operations of the School District.

In the District's fiscal management, the Board will seek to achieve the following goals:

- A. To establish levels of funding which will provide quality education for the District's students.
- B. To develop budgets and to guide expenditures so that the greatest educational returns and the greatest contributions to the educational program in relation to dollars expended may be achieved.
- C. To use the best available techniques of long-range planning, budget development, and budget administration, and to establish efficient procedures for accounting, reporting, purchasing, contracting, payments, auditing, and all other areas of fiscal management.
- D. To maintain adequate fund reserves so that the District remains debt free and avoids the negative financial impact associated with borrowing for normal operational needs.

### **Finance - Fund Balance Policy**

A General Fund balance, as outlined in this policy, shall be maintained by St. Cloud Area School District 742 for the following reasons:

- A. Receipt of revenue from state and local sources is irregular when compared to expenditure of funds, thereby creating periodic cash flow deficits during the year.
- B. Without sufficient funds on hand, the District must borrow money on a short-term basis to cover cash flow deficits.
- C. Maintenance of an adequate, stable fund balance will decrease interest expense on bonded debt through an improved bond rating.
- D. Receipt of state revenue is subject to change by the legislature.
- E. Higher than usual tax delinquencies may occur during periods of economic downturn, thus reducing local district property tax receipts.
- F. Funds on hand provide the opportunity to generate additional income through investments when funds are not needed to meet operating expenses.
- G. Unexpected situations may occur during a fiscal year (which require a reserve to fund), such as:
  - 1. Recision of state aid.
  - 2. Mandated but not funded, state or federal programs.
  - 3. Increased utility costs due to abnormal price increases or unusually cold weather.
  - 4. Greater than expected inflation.
  - 5. Higher than expected wage and salary settlements.

6. Unexpected deficits in other operating funds (Food Service, Transportation, and Community Services).
7. Costs incurred due to natural disasters.
8. Cost of defending and/or settlement of a lawsuit.
9. Cost of funding deductible on insurance property loss incurrence claim.

The identified needs listed above would require maintenance of a General Fund balance at least equal to approximately 5% to 8% of the General Fund expenditure budget; therefore, such need must be tempered by the following:

- A. The additional resources needed to establish a minimum fund balance, other than changes in the state school funding formula, must be generated through either an increased referendum levy or budget cuts.
- B. The need for a minimum fund balance must be evaluated against the impact on district property taxpayers or an increase in the referendum to maintain the fund balance.
- C. The need for a minimum fund balance must be further weighed against the impact on the district's instructional programs of a budget cut to maintain the fund balance.

In recognition of the factors outlined above, the district shall endeavor to maintain an unreserved fund balance of not less than 5% to 8% of the district's General Fund annual unreserved expenditure operating budget. When the General Fund unreserved fund balance is projected to decrease below 5% of the General Fund unreserved expenditure budget, the district shall initiate measures to either generate additional revenue through an increase in the operations levy or to reduce expenditures through a budget cut, or a combination of both to insure that the year end General Fund unreserved fund balance for the budget year in question does not go below 5%.

## **Investment Policy**

### Scope

This procedure applies to all investments of the surplus funds of the school district, regardless of the fund accounts in which they are maintained, unless certain investments are specifically exempted by the school board through formal action.

### Authority; Objectives

The funds of the school district shall be deposited or invested in accordance with this procedure, Minn. Stat. Chapter 118A and any other applicable law or written administrative procedures.

The primary criteria for the investment of the funds of the school district, in priority order, are as follows:

1. **Safety and Security.** Safety of principle is the first priority. The investments of the school district shall be undertaken in a manner that seeks to ensure the preservation of the capital in the overall investment portfolio.
2. **Liquidity.** The funds shall be invested to assure that funds are available to meet immediate payment requirements, including payroll, accounts payable and debt service.

3. Return and Yield. The investments shall be managed in a manner to attain a market rate of return through various economic and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

#### Delegation of Authority

The Executive Director of Business Services of the school district is designated as the investment officer of the school district and is responsible for investment decisions and activities under the direction of the school board. The investment officer shall operate the school district's investment program consistent with this procedure. The investment officer may delegate certain duties to a designee or designees, but shall remain responsible for the operation of the program.

All officials and employees that are part of the investment process shall act professionally and responsibly as custodians of the public trust, and shall refrain from personal business activity that could conflict with the investment program or which could reasonably cause others to question the process and integrity of the investment program. The investment officer shall avoid any transaction that could impair public confidence in the school district.

#### Standard of Conduct

The standard of conduct regarding school district investments to be applied by the investment officer shall be the "prudent person standard." Under this standard, the investment officer shall exercise that degree of judgment and care, under the circumstances then prevailing, that persons of prudence, discretion and intelligence would exercise in the management of their own affairs, investing not for speculation and considering the probable safety of their capital as well as the probable investment return to be derived from their assets. The prudent person standard shall be applied in the context of managing the overall investment portfolio of the school district. The investment officer, acting in accordance with this procedure and exercising due diligence, judgment and care commensurate with the risk, shall not be held personally responsible for a specific security's performance or for market price changes. Deviations from expectations shall be reported in a timely manner and appropriate actions shall be taken to control adverse developments.

#### Monitoring and Adjusting Investments

The investment officer shall routinely monitor existing investments and the contents of the school district's investment portfolio, the available markets and the relative value of competing investment instruments.

#### Permissible Investment Instruments

The school district may invest its available funds in those instruments specified in Minn. Stat. 118A.04 and 118A.05, as these sections may be amended from time to time, or any other law governing the investment of school district funds.

#### Portfolio Diversifications; Maturities

Limitations on instruments, diversification and maturity scheduling shall depend on whether the funds being invested are considered short-term or long-term funds. All funds shall normally be considered short-term except those reserved for building construction projects or specific future projects and any unreserved funds used to provide financial-related managerial flexibility for future fiscal years.

The school district shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

#### Investment Maturities

Investment maturities shall be scheduled to coincide with projected school district cash flow needs, taking into account large routine or scheduled expenditures, as well as anticipated receipt dates of anticipated revenues. Maturities for short-term and long-term investments shall be timed according to anticipated need. Within these parameters, portfolio maturities shall be staggered to avoid undue concentration of assets and a specific maturity sector. The maturities selected shall provide for stability of income and reasonable liquidity.

#### Qualified Institutions and Broker-Dealers

The school district shall maintain a list of the financial institutions that are approved for investment purposes.

Prior to completing an initial transaction with a broker, the school district shall provide to the broker a written statement of investment restrictions, which shall include a provision that all future investments are to be made in accordance with Minnesota statutes governing the investment of public funds. The broker must annually acknowledge receipt of the statement of investment restrictions and agree to handle the school district's account in accordance with these restrictions. The school district may not enter into a transaction with a broker until the broker has provided this annual written agreement to the school district. The notification form to be used shall be that prepared by the State Auditor. A copy of this investment procedure, including any amendments thereto, shall be provided to each such broker.

#### Safekeeping and Collateralization

All investment securities purchased by the school district shall be held in third-party safekeeping by an institution designated as custodial agent. The custodial agent may be any federal reserve bank, any bank authorized under the laws of the United State or any state to exercise corporate trust powers, a primary reporting dealer in United States Government securities to the Federal Reserve Bank of New York, or a securities broker-dealer defined in Minn. Stat. 118A.06. The institution or dealer shall issue a safekeeping receipt to the school district listing the specific instrument, the name of the issuer, the name in which the security is held, the rate, the maturity, serial numbers and other distinguishing marks, and other pertinent information.

Deposit-type securities shall be collateralized as required by Minn. Stat. 118A.03 for any amount exceeding FDIC, SAIF, BIF, FCUA, or other federal deposit coverage.

Repurchase agreements shall be secured by the physical delivery or transfer against payment of the collateral securities to a third party or custodial agent for safekeeping. The school district may accept a safekeeping receipt instead of requiring physical delivery or third-party safekeeping of collateral on overnight repurchase agreements of less than \$1,000,000.

#### Reporting Requirements

The investment officer shall generate monthly transaction reports for management purposes. In addition, the school board shall be provided a monthly report that shall include data on investment instruments being held as well as any narrative necessary for clarification.

If necessary, the investment officer shall establish systems and procedures to comply with applicable federal laws and regulations governing the investment of bond proceeds and funds in

a debt service account for a bond issue. The record keeping system shall be reviewed annually by the independent auditor or by another party contracted or designated to review investments for arbitrage rebate or penalty calculation purposes.

#### Depositories

The school board shall annually designate one or more official depositories for school district funds. The Executive Director of Business Services of the school district may also exercise the power of the school board to designate a depository. The school board shall be provided notice of any such designation by its next regular meeting. The school district and the depository shall each comply with the provisions of Minn. Stat. 118A.03 and any other applicable law, including any provisions relating to designation of a depository, qualifying institutions, depository bonds, and approval, deposit, assignment, substitution, addition, and withdrawal of collateral.

#### Electronic Funds Transfer or Funds For Investments

The school district may make electronic fund transfers for investments of excess funds upon compliance with Minn. Stat. 471.38

## **STATE LAWS GOVERNING BUDGET ADMINISTRATION:**

**Chapter Title:** SCHOOL DISTRICT POWERS AND DUTIES

**Section:** 123B.77

Subd. 4. **Budget approval.** Prior to July 1 of each year, the board of each district must approve and adopt its revenue and expenditure budgets for the next school year. The budget document so adopted must be considered an expenditure-authorizing or appropriations document. No funds shall be expended by any board or district for any purpose in any school year prior to the adoption of the budget document which authorizes that expenditure, or prior to any amendment to the budget document by the board to authorize the expenditure. Expenditures of funds in violation of this subdivision shall be considered unlawful expenditures. Prior to the appropriation of revenue for the next school year in the initial budget, the board shall inform the principal or other responsible administrative authority of each site of the amount of general education and referendum revenue that the Department of Education estimates will be generated by the pupils in attendance at each site. For purposes of this subdivision, a district may adjust the department's estimates for school building openings, school building closings, changes in attendance area boundaries, or other changes in programs or student demographics not reflected in the department's calculations. A district must report to the department any adjustments it makes according to this subdivision in the department's estimates of compensatory revenue generated by the pupils in attendance at each site, and the department must use the adjusted compensatory revenue estimates in preparing the report required under section 123B.76, subdivision 3, paragraph (c).

## **BUDGET DEVELOPMENT AND ADMINISTRATION**

The following budget procedures of the District guide the preparation and administration of this budget.

### *Budget Development Procedures*

St. Cloud Area Public Schools employs a combination of site-based and district-based budget management strategies.

All instructional, clerical, administrative and technical staffing, which make up 80% of the budget, are determined by a ratio set by the Board of Education which is based upon a class by class evaluation of class size and a building by building evaluation of support staff needs. Based upon the staffing determined by this ratio and the salary and wage rates established by collective bargaining agreements, the Business Office will prepare the personnel budget.

Each instructional site receives a per pupil allocation for non-personnel expense. The principal at each site, in conjunction with staff and parents, develop an appropriate budget and submit that budget to the Executive Director of Business Services to review to make certain the budget amount is within the site allocation. In addition, several major program areas such as Buildings and Grounds, Human Resources, Technology and Transportation, receive an allocation for its specific purpose and are reviewed by the Executive Director of Business Services in a like manner.

Operating Capital purchases are included with the General Fund Budget. Total revenue provided by state and local funding is estimated and broken down by major category that includes equipment, facilities, lease projects, and health and safety. Each building, to address highest priority needs, is provided an allocation for equipment, based upon enrollment.

The Technology Budget is based upon an allocation based upon a per pupil allocation. Included will be funds for equipment and software.

The lease levy budget and health and safety budget are based on specific projects identified by the District and approved by the Minnesota Department of Education twelve months prior to the start of the fiscal year. The lease levy budget and health and safety budget are funded by the levy certified by the School Board six months prior to the beginning of the fiscal year.

The Community Education and Food Service Funds are essentially self-supporting. Program supervisors and directors establish fees for services that cover the costs of providing those services. Both can be considered enterprise operations with managers responsible for maintaining a positive operating balance.

The Director of Community Education prepares a balanced budget in conjunction with Community Ed. staff. The budget is then presented to the Board of Education for approval.

The Supervisor of Food Service, with assistance from the Business Office, estimates future costs and state and federal revenue. An estimated cost per lunch is then estimated. Based on these estimates, the lunch price is established in order to maintain a break-even policy in the food service fund.

### **Revenue Estimation Policies**

- A. The district's Executive Director of Business Services will estimate annual revenues by an objective, analytical process based on legislative policy and a projection model purchased from [schoolfinances.com](http://schoolfinances.com)
- B. The district will set fees and user charges in its other funds at a level that fully supports the total direct and indirect costs of the activity.

### **Expenditure Estimation Policies**

- A. The district will cover current expenditures with current revenues while maintaining fund balance according to district policy and levy promises.
- B. The budget will provide for adequate maintenance of capital, plant, and equipment, and for orderly replacement of equipment when possible.
- C. The district will maintain on-line, financial software that will assist in the monitoring of budgetary controls. Each budgetary manager will have access to the financial system in order to monitor his or her budget area.
- D. The Business Services department will prepare monthly reports comparing actual results to budgeted amounts and to prior period year-to-date totals. It will present the results to the Board of Education each month.

- E. At the end of each year, encumbered appropriations lapse.
- F. The district will include in its budget process a contingency for prior year carryovers in the case of building budgets, instructional technology, co-curricular and staff development.

### **Fund Balance and Reserve Policy**

In order to maintain and protect the long term financial capacity of the District and to maintain a favorable Moody bond rating of Aaa, a goal of total unreserved fund balance will be pursued at a level of not less than 5% of total General Fund expenditures.

### **Accounting, Auditing and Financial Reporting Policies**

- A. The accounting system will report financial information, on a basis consistent with General Accepted Accounting Principals, as established by the Governmental Accounting Standards Board.
- B. Regular monthly and annual financial reports will present a summary of financial activity by fund.
- C. An independent certified public accounting firm will be selected by the Board of Education and will perform an annual audit, and will publicly issue their opinion on the District's financial statements.

### **Budget Management Process**

#### **1. Preparation - begins twelve months prior to start of fiscal year:**

- A. July:
  - Analyze changes in funding established by the legislature.
  - Incorporate changes in budget projection.
- B. August:
  - Prepare estimate of property tax levy.
- C. September:
  - Certify proposed tax levy.
- D. October - December:
  - Update enrollment projections.
  - Present budget projection to School Board and Finance Advisory Committee.
  - Determine, based upon Fund Balance Policy, what if any cost containment is needed to maintain a 5% balance. If needed, set in place cost containment process.
  - Conduct public hearing on proposed tax levy and certify levy prior to December 31.
  - Distribute Supply and Capital Budget allocation and forms to budget managers.

- E. January - April
  - If cost containment process is needed, determine budget options, obtain input from public and administration, and select cost containment options for implementation.
  - Update personnel staffing guidelines for Board review by Human Resources.
  - HR (Human Resources) establishes personnel needs based upon staffing guidelines.
  - Business Office prepares personnel budget based upon personnel needs and allocated ratios.
  - Building and department budgets reviewed to make certain budget is within allocation by Business Office.
  
- F. May
  - Budget finalized and final adjustments incorporated.
  - Annual budget report prepared.

## **2. Approval - occurs in May**

- A. First Board meeting in June:
  - Review of budget document.
  - Incorporate any revisions necessitated following initial presentation.
  
- B. Second Board meeting in June:
  - Board action on budget.

## **3. Review**

- A. Once adopted, minor adjustments can be made via budget transfer within program area as long as total expenditures remains the same. Request to amend the budget resulting in an overall increase or decrease by program area must be presented to the Board for approval.
  
- B. Each fall, after the district has compiled the fall student head count and all staff are in place, and other new information is known (negotiation settlements, state revenues, etc.) the budget is revised to reflect this new information. Budget carryovers from the prior year are also incorporated for those program areas that qualify for carryover.
  
- C. The revised budget is presented to the Board of Education for approval after above revisions are made.

### *Budget Administration and Management Process*

Every building and program area of the budget is assigned to a budget manager. These budget managers can be administrators, department chairs, building administrators, teachers or other staff members. Each budget manager is responsible to manage his or her own budget area and is evaluated based on results. The online financial software tracks and reports budget expenditures compared to actual expenditures on a real-time basis. Purchase orders are processed and encumbrances established when items are ordered. The system will warn of over expenditure of a budget area at the time the purchase order is requested. All budget managers can print reports of their responsible areas at any time. The district office, on an ongoing basis monitors grants

and other State and Federal programs to ensure adherence to state and federal expenditure law. Budget managers are authorized to make re-allocations within their budget area as long as the total budget does not change. New program budgets or expansion of program budgets require Board approval.

## EXPLANATION OF FUNCTIONAL CLASSIFICATIONS OF EXPENDITURES

### *District & School Administration*

This function includes all costs for general administration, instructional administration and school site administration for the school district. Administrative services are defined as those provided by head administrators who are in charge of instructional or instruction-related units. This includes the School Board, superintendent, principals, and directors of instructional areas. Included are the costs of their immediate offices, including those individuals in direct support of the administrator. This function does not include administrators of non-instructional activities such as the executive director of business services, executive director of human resources, supervisor of food service, or supervisor of buildings and grounds.

### *District Support Services*

This function consists of activities related to general administrative support not included in the offices of the superintendent, principals or instructional administrators. These functions include: Human Resources, Communications, Census, Business Office, Purchasing, Elections, Legal Services, and Copy Center.

### *Regular Instruction*

This function includes all activities dealing directly with the teaching of pupils, the interaction between teachers and pupils in the classroom and co-curricular activities at the kindergarten, elementary and secondary levels including Title Programs. It does not include special education or community education. This function also includes paraprofessionals who assist in the educational process, except special education paraprofessionals.

### *Vocational Education Instruction*

This function includes courses and activities which develop knowledge, skills, attitudes and behavioral characteristics for students seeking career exploration and employability. These functions include areas of health, food, business, trade and industry, and technology.

### *Special Education Instruction*

This function includes those activities providing learning experiences for pupils of any age that, because of certain typical characteristics or conditions have been identified as requiring, or who would benefit by, educational programs differentiated from those provided pupils in regular instruction. These programs include speech, mentally impaired, physically impaired, deaf or hearing impaired, visually impaired, learning disabilities, emotional/behavior disorders, autistic and early childhood special education.

### *Community Education*

This function includes programs, activities and events beyond the scope of regular K-12 schooling that enable people of all ages to develop skills and abilities, to find and use local resources and services, and to work toward improvements in their lives and their communities. These activities include: early childhood family education, adult basic education, preschool screening, school readiness, and after school enrichment programs.

*Instructional Support Services*

This function encompasses activities that assist the instructional staff with the content and process of providing learning experiences for pupils in the kindergarten through twelfth grade. These activities include: curriculum development, media center, staff development, and time limited grants.

*Pupil Support Services*

This function includes all services provided to pupils, which do not qualify to be classified as instructional services. These programs include: counseling and guidance services, health services, transportation, and food services.

*Sites Buildings and Equipment*

This function encompasses activities related to the acquisition, leasing, operation, maintenance, repair and remodeling of all physical plant, facilities, and grounds of the school district. This includes telecommunications infrastructure and monthly costs.

*Fiscal and Other Fixed Cost Programs*

This function includes all other activities not recorded elsewhere and encompasses short-term borrowing interest, insurance and transfers.