Budget Planning, Preparation and Maintenance
# MANUAL OF PROCEDURES
## PSAB SUPPLEMENT 1
### BUDGET PLANNING, PREPARATION, AND MAINTENANCE

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PURPOSE

The purpose of a school district’s or charter school’s Operating Budget is to provide a statement, expressed in financial terms, that serves as the primary tool for planning and controlling operations. To achieve this basic purpose, a comprehensive budget must be integrated with the entity’s Financial Management System (FMS) to ensure that objectives of planning, coordinating, evaluating, and controlling are attained. The primary objectives of the budget system are to:

- Assist the formulation of an integrated plan of operations and the understanding of how each of the school district or charter school’s activities contributes to the overall mission.
- Provide a means of communication between the various levels of management by stating the objectives of each program or activity within a public school and the resources necessary to achieve them. It also provides a means of justifying the overall budget.
- Integrate with the accounting systems to reflect expenditures and commitments to date and the balance of resources available.
- Provide a means of measuring and guiding performance by comparing planned (budgeted) expenditures and staffing levels against actual expenditures and staffing levels.
- Support and reflect a school district or charter school’s Educational Plan for Student Success (EPSS).
- Provide historical data required for realistic budget preparation.
- Provide state and federal entities crucial data relative to the levels of legislative appropriations to address the educational needs of students.

SCHOOL DISTRICT/CHARTER SCHOOL FISCAL YEAR

The period covered by the official Operating Budget is a fiscal year. The fiscal year is defined as a twelve month period, beginning July 1 and ending June 30, to which the annual Operating Budget applies. Reference 6.20.2.7.C.NMAC.

Some projects, grants, or programs have a fiscal period that differs from this fiscal year, and it may be necessary to prepare program budgets that cover a different time period. The current official Operating Budget shall include only the estimated revenues and
expenditures occurring during the period covered. A school district or charter school's financial statements also reflect transactions in the fiscal year.

STATUTORY AUTHORITY

6.3A.2.NMAC. Findings and purpose.

B. The purpose of the Accountability in Government Act [6-3A-1 NMSA 1978] is to provide for more cost-effective and responsive government services by using the state budget process and defined outputs, outcomes and performance measures to annually evaluate the performance of state government programs.

6.3A.3.NMAC. Definitions.

H. "Performance-based program budget" means a budget that identifies a total allowed expenditure for a program and includes performance measures, performance standards and program evaluations.

6.20.2.11. D.NMAC Basis of accounting:
In accordance with GASB 34, school districts shall use a full accrual basis of accounting in preparation of annual financial statements and cash basis of accounting for budgeting and reporting.

OPERATING BUDGET – SUBMISSION GUIDELINES

The Operating Budget should be prepared by individuals with responsibility and the expertise to 1) technically construct and place budget appropriations, and, 2) perform necessary research to provide reliable estimates, and; 3) manage the activity, program, or location related to specific budget allocations. These functions should closely follow Public Education Department (PED) guidelines and all federal and state requirements. Once submitted the Operating Budget is reviewed, modified if necessary and approved by Department staff and the local school board or governing council to use as a blueprint for their educational activities and programs.

The Operating Budget should be thoroughly documented and the working papers or any related electronic data that aided in the preparation should be maintained for a period of three years after the fiscal year of creation, per Chapter 15. (1.15.5.101) NMAC. (Reference also Section 14-3-6 NMSA 1978), General Records Retention and Disposition Schedules (GRRDS). Reference PSAB Supplement 21 for specific guidelines on other related documents. Any basic assumptions, which were made in establishing the projected personnel requirements, costs or various expenditures, should be identified and fully explained for future reference. See illustration of a Basic Information Flow for Budget Preparation – January through June, page 9, of PSAB Supplement 1, Budget Planning, Preparation, and Maintenance.
Administrators of the budget should play an integral part in any revisions to their Operating Budget so that such changes are realistic and allowable. Facts cannot be exaggerated and budgetary estimates stretched to a point of unreasonableness. Administrators are responsible for disclosing all financial, budgetary and programmatic information needed to fully inform all stakeholders about the financial condition of the school district or charter school.

Modifications to budget appropriations can be made as revenue sources change. Modifications to budget allocations can be made if a district or charter school identifies that needs have changed throughout the fiscal year. Business office personnel shall utilize the Operating Budget Management System (OBMS), a system designated for district and charter schools to account for and manage data. (The use of this system is required by the New Mexico Public Education Department and is explained later in this supplement).

PUBLIC SCHOOL DISTRICTS - BUDGET SUBMISSION

Section 22-8-6.NMSA 1978. Budgets; submission; failure to submit.

- Prior to April 15 of each year, each local school board shall submit to the department an operating budget for the school district for the ensuing fiscal year. Upon written approval of the state superintendent [secretary], the date for the submission of the operating budget as required by this section may be extended to a later date fixed by the state superintendent (secretary).

- If a local school board fails to submit a budget pursuant to this section, the department shall prepare the operating budget for the school district for the ensuing fiscal year. A local school board shall be considered as failing to submit a budget pursuant to this section if the budget submitted exceeds the total projected resources of the school district or if the budget submitted does not comply with the law or with rules and procedures of the department.

All operating budget documents must be submitted to the Public Education Department no later than ten (10) working days prior to the school district or/charter school’s scheduled Program/Budget review date.

CHARTER SCHOOLS - BUDGET SUBMISSION

Section 22-8-6.1.NMSA 1978. Charter school budgets

A charter school budget submission is directed by the Charter Schools Division of the Public Education Department and is to be school based. The criteria to utilize in creating a charter school budget is described and set forth as well as the methods for the second and subsequent years for state chartered charter schools and for locally chartered charter schools.
State Chartered - Charter Schools

- For the first year, the budget submitted shall be based on the projected number of program units based on its membership and the indices for at risk and training and experience shall be those of the district in which the charter school is geographically located. The budget shall be submitted to the division for approval or amendment pursuant to the Public School Finance Act [22-8-1 NMSA 1978] and the Charter Schools Act [22-8B-1 NMSA 1978].

- For the second and subsequent years, the charter school shall submit a budget based on the projected program units using the average of the 80th and the 120th day prior year membership. The at-risk and training and experience indices used for the calculation shall be those of the district in which the charter school is geographically located.

Locally Chartered - Charter Schools

- For the first year, a school based budget shall be submitted based on the projected program units using the charter school membership. The At-risk and Training and Experience indices used for the calculation shall be those of the district in which the charter school is geographically located.

- For second and subsequent fiscal years of operation, the budgets of locally chartered charter schools shall be based on the number of program units generated using the average of the eightieth and one hundred twentieth day membership (MEM), of the prior year and its own instructional staff training and experience index and the at-risk index of the school district in which the locally chartered charter school is geographically located.

- The budget shall be submitted to the local school board for approval or amendment. The approval or amendment authority of the local school board relative to the charter school budget is limited to ensuring that sound fiscal practices are followed in the development of the budget and that the charter school budget is within the allotted resources.

- The local school board shall have no veto authority over individual line items within the charter school’s proposed budget, but shall approve or disapprove the budget in its entirety.

- Following the district’s approval of the charter school budget, it shall be submitted to the Public Education Department as a separate document.

Locally Chartered Charter Schools That Convert To A State Charter
• For the first year of operation after a locally chartered charter school converts to a state-chartered charter school or a state-chartered charter school converts to a locally chartered charter school, the charter school's budget shall be based on the number of program units generated using the average of the eighty and one hundred twentieth day MEM of the prior year, the instructional staff training and experience index, and the at-risk index of the school district in which it is geographically located.

• For second and subsequent fiscal years of operation, the charter school shall follow the provisions of Subsection A or B of this section, as applicable.

Hold Harmless Provision for Charter Schools

• Each charter school that was in existence in fiscal year 2009 shall be held harmless in the calculation of its instructional staff training and experience index for two fiscal years. For fiscal years 2010 and 2011, the department shall use the greater of the charter school's 2008-2009 funded instructional staff training and experience index or the charter school's own instructional staff training and experience index. Beginning in fiscal year 2012, each charter school shall use its own instructional staff training and experience index.

Section 22-8-9. NMSA 1978. Budgets; minimum requirements.

➢ A budget for a school district shall not be approved by the department that does not provide for:
  o a school year and school day as provided in Section 22-2-81 NMSA 1978; and
  o a pupil-teacher ratio or class or teaching load as provided in Section 22-10-20. NMSA 1978.
  o the department shall, by rule, establish the requirements for an instructional day, the standards for an instructional hour and the standards for a full-time teacher and for the equivalent thereof.

Section 22-8-10. NMSA 1978. Budgets; fixing the operating budget.

➢ Prior to June 20 of each year, each local school board shall, at a public hearing of which notice has been published by the local school board, fix the operating budget for the school district for the ensuing fiscal year. At the discretion of the state superintendent [secretary] or the local school board, the department may participate in the public hearing.

➢ Prior to the public hearing held to fix the Operating Budget for the school district, the local school board shall give notice to parents explaining the budget process and invite parental involvement and input in that process prior to the date for the public hearing.
Forms and Means of Communication

School districts and charter schools may employ various forms and means of communicating this important information to the public. The information system utilized must be reliable, thorough and effective. Consider the following list of communication methods or a combination of such to comply with the public notice requirement to fix the operating budget.

- Media or press releases,
- Mail-outs,
- Announcements at public hearings,
- Regular or special meetings of the Board of Education/Councils,
- Local or regional newspaper ads,
- District or Charter School web sites,
- Parent-teacher meetings,
- Parent Advisory Councils,
- Postal Offices or Bulletin Board notices.

Approval of the proposed budget by the local board shall be in a public hearing held prior to June 20. The notice of the hearing for the adoption of the budget shall be published in accordance with the Open Meetings Act, Section 10-15-1 et seq. NMSA 1978, Public School Code, and local board policy. Reference also 6.20.2.9.D. NMAC.

See sample Notice of Public Hearing exhibit in the Tips, Tools, and Resources section of this manual.

NEW MEXICO PUBLIC EDUCATION DEPARTMENT APPROVAL

Program and Budget Questionnaire

School Districts and Charter Schools shall receive final approval of their Operating Budget for the ensuing year by the NMPED-School Budget Planning and Analysis Bureau. Staff from the local districts and charter schools shall complete a Program and a Budget Questionnaire. The Questionnaires accompany the budget submission and reflect tentative allocations made to various programs that reflect and support an entities’ Educational Plan for Student Success (EPSS). Public Education Department personnel meet with local management to discuss the entities’ academic plan for the ensuing year as reflected on the Questionnaires. Questions pertaining to selective legislative enactments are included as well as selected questions pertaining to a district or charter school’s financial status.
Formal approval of the Operating Budget by the Boards’ of Education or Governance Councils shall take place at a special meeting or at a regularly scheduled meeting with proper public notice usually after the PED review.

Budgeting provides a vehicle for translating educational goals and programs in financial resource plans. Instruction planning should determine budgetary allocations. This link between instruction and financial planning is critical to effective budgeting and is reflected on the Program and Budget Questionnaires. This budgeting practice may enhance the evaluation of budgetary and educational performance since resource allocations are closely associated with the instructional plan.

Section 22-8-11. NMSA 1978. Budgets; approval of operating budget.

- On or before July 1 of each year, the NM Public Education Department shall approve and certify to each local school board and governing body of a state-chartered school an operating budget for use by the school district or state-chartered charter school; and

- The NM Public Education Department will make necessary corrections, revisions and amendments to the operating budget fixed by the local school boards or governing bodies of state-chartered schools and the secretary to conform the budgets to the requirements of law and to the department's rules and procedures.

- No school district or state-chartered charter school or officer or employee of a school district or state-chartered charter school shall make any expenditure or incur any obligation for the expenditure of public funds unless that expenditure or obligation is made in accordance with an operating budget approved by the department. This prohibition does not prohibit the transfer of funds pursuant to the department's rules and procedures.

- The NM Public Education Department shall not approve and certify an operating budget of any school district or state-chartered charter school that fails to demonstrate that parental involvement in the budget process was solicited.

Section 22-8-12.3. NMSA 1978. Local school board finance sub-committee; audit committee; membership; duties.

Each local school board shall appoint at least two members of the board as a finance subcommittee to assist the board in carrying out its budget and finance duties. This committee shall make recommendations to the local school board in the following areas:

- Financial planning including a review of school district revenue and expenditure projections,
- Review financial statements and periodic monitoring of revenue and expenses,
• Annual budget preparation and oversight,
• Procurement, and,
• Serve as an external monitoring committee on budget and other financial matters.

Included with this statutory language is guidance that instructs local school boards to appoint an audit committee as well and the duties of that committee. Reference PSAB Supplement 6, Financial and Compliance Audit.

Section 22-8-13 NMSA 1978. Reports.

Accurate records must be maintained related to membership and the requirements to produce data are required by law. Dates are set forth to report district and charter school membership in October, December and February for Basic, early childhood, special education, (Section 22-8-21.NMSA 1978), and, the full time equivalent for bilingual multicultural education programs. The following guidelines also apply:

- All reports must be furnished timely and on required forms as prescribed by the Department.
- Membership reports shall be consistent with the calendar of operations of the district or charter school and meet requirements set forth operating under the Variable School Calendar Act, Section 22-22-1 NMSA 1978.

The department may withhold funds if there is non-compliance with the requirements of this section.

BUDGET CYCLE AND INFORMATION FLOW
Basic Budget Information Flow

LEGISLATIVE SESSION BEGINS
STATE BUDGET IS DETERMINED
UNIT VALUE IS SET
MANAGEMENT ANALYZE OUTCOMES
DETERMINE FINANCIAL IMPACT

INFORMATION SHARING BEGINS
SUPERINTENDENT AND FINANCE PERSONNEL
DISCUSS LOCAL ISSUES AND POTENTIAL COSTS
BOARD/COUNCIL BUDGET STUDY SESSIONS
PARENT MEETINGS

JANUARY

FEBRUARY AND MARCH

MEM IS PROJECTED PROGRAM COST REVENUE
ESTIMATES

STATE AND LOCAL ECONOMICS ARE CONSIDERED
COSTS ARE ESTIMATED FOR:
UTILITIES - MAINTENANCE - OPERATIONS
STAFFING PATTERNS DETERMINED - PUPIL TEACHER RATIOS
CLASSROOM SUPPLIES - EQUIPMENT
CURRICULUM
SALARIES AND BENEFITS

APRIL

ADMINISTRATION - STAFF - COMMUNITY MEET & SET PRIORITIES

PROJECTED REVENUES AND EXPENDITURES ARE DEFINED
THE DRAFT OPERATING BUDGET IS FINALIZED

SCHOOL DISTRICTS AND CHARTER SCHOOLS MEET WITH THE PUBLIC EDUCATION DEPARTMENT TO REVIEW BUDGET DOCUMENTS

LOCAL BOARD OR GOVERNING COUNCIL APPROVE BUDGET
OPERATING BUDGET MUST BE APPROVED BY JUNE 20

MAY AND JUNE
At a minimum, the planning process should include:

- **Analysis by administration of legislative outcomes and the local impact on revenue projections**, 
  - Administration should analyze the impact of any financial legislation that will mandate or recommend specific applications to be applied in the preparation of a school district’s or charter school’s Operating Budget. Particular attention to the unit value and/or any salary requirements should be noted.

- **Calendar that schedules assignments, meetings, due dates and work sessions**, 
  - Administrators, the Board of Education or Councils, instructional staff, community and parents should be given opportunities for input and/or assignments in an effort to discuss local issues and assist in the budgeting process. Meetings should be public and advertised to attract all interested patrons.

- **Consideration of local conditions that may impact spending including**, 
  - Membership projections – view historical trends, local economy, influx of new industry, requirements for students requiring special programs.
  - Curricular cycles – meet with program coordinators to correlate decisions with a district or charter schools’ Educational Plan for Student Success.
  - Inflationary factors – a review of local, state and national economies.
  - Staffing levels – a review of class size and the number of staff required.
  - Salary projections – estimates that include legislative requirements if applicable and meet statutory requirements of the minimum salary requirements contained in Section 22-10A-1 et. seq. NMSA 1978.
  - Estimates of operation and maintenance costs by reviewing historical trends and research to arrive at projected costs.

### ANNUAL BUDGET RESPONSIBILITIES AND GUIDELINES

The development of site and district or charter school annual budgets should be a part of ongoing planning processes at each level. Considering the non-categorical nature of the state distribution of funds, it is understood that there is a considerable amount of autonomy at the local level in an Operating Budget’s planning and preparation. The organizational structure of a school district or charter school, the size and complexity of its administrative structure, the budgetary approach chosen, and the level of centralization in budget development all will affect the budget development process and the final Operating Budget.

Beyond the budgetary requirements for federal and state programs, a school district or charter school budget planning and preparation process and the related budget responsibilities largely will be determined by the School’s Board of Education, the Superintendent, and school administrators. The planning phase begins with the interaction established between Boards of Education or Governance Councils and the
superintendent. It is recommended that there is a delegation of budget responsibilities among administrators, et.al. in order to establish maximum input into the process and to assure that all stakeholders are involved. It must be noted that new individuals involved in budget development need clear direction to provide effective input. Examples of typical stakeholders and substantive assignments may be similar to the following:

- **Campus Staff** – determines funding needs at the site level by identifying instructional goals and planning objectives for campuses and programs; establishes priorities for resource allocations; prepares preliminary campus budget and funding requests.
- **Parent Advisory Council** – provides advisory review of preliminary budget requests and provides input into daily needs of students, supplies and equipment etc.
- **Director of Personnel** – compiles and reviews personnel staffing needs submitted by site budget managers (Principals).
- **Business Manager/Assistant Superintendent for Finance** – develops budget revenue estimates; compiles data necessary to address all functions of the budget; compiles all school budgets into proposed district/charter school draft Operating Budget; communicates necessary information to all stakeholders as appropriate.
- **Finance sub-committee** – assists in the preparation, financial planning and serves as an external monitoring committee on budget and other financial matters.
- **Superintendent** – develops and communicates budget process guidelines; presents/ submits proposed district budget to school board during workshops/working sessions.
- **School District Board of Education/Governance Councils** – reviews/prioritizes/revises proposed budget submitted by superintendent and staff in workshops and study sessions; formally adopts final Operating Budget.

**THE BUDGET CALENDAR**

The budget calendar listing critical dates for the preparation, submission and review of the district or charter school Operating Budget is prepared during the budget planning process at the district management level. Consider the previous year’s activities to establish the necessary timeframe needed for proper budget development in the current year. The following three steps should be used to prepare a budget activity calendar:

- **Determine the level of detail needed.** A general calendar may be presented to the Boards of Education or Governance Councils while a more detailed calendar may be used in the budget guidelines for use at the site level. All activities and dates should be consistent and compatible in order to meet required deadlines.
- **Identify all the activities which must be included** in the calendar and arrange them in chronological order.
**Assign completion dates to each activity on the calendar.** Completion dates should be assigned working backward through the activities from the legally mandated date for presentation of the preliminary Operating Budget to the Board of Education or Governance Council. Dates should also be assigned to ensure that sufficient time is allowed for the completion of each activity on the calendar.

### Sample Budget Calendar of Activities for the 2011-2012SY

<table>
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<tr>
<th>Target Date</th>
<th>Activity/Process</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>2/24/11</td>
<td>Budget Process Approved</td>
<td>Superintendent</td>
</tr>
<tr>
<td>2/25/11</td>
<td>Projected Enrollment Finalized</td>
<td>Stars Coordinator</td>
</tr>
<tr>
<td>3/6/11</td>
<td>Budget Process Outlined to Principals and Staff</td>
<td>Director of Finance</td>
</tr>
<tr>
<td>3/8/11</td>
<td>Campus Budget Prep Begins</td>
<td>Principals/staff</td>
</tr>
<tr>
<td>4/1/11</td>
<td>Completion of Site budgets</td>
<td>Principals/staff</td>
</tr>
<tr>
<td>4/6/11</td>
<td>Completion of SPED &amp; Support budgets</td>
<td>Ancillary Staff/SPED Coordinators</td>
</tr>
<tr>
<td>4/22/11</td>
<td>Complete review of site budget requests</td>
<td>Site Budget Team</td>
</tr>
<tr>
<td>5/18/11</td>
<td>Review Projected Revenues</td>
<td>Supt-Finance sub-committee</td>
</tr>
<tr>
<td>5/19/11</td>
<td>Review Projected Expenditures</td>
<td>Director of Finance</td>
</tr>
<tr>
<td>5/24/11</td>
<td>Initiate Supt Review of Preliminary Operating Budget</td>
<td>Superintendent/Union representatives/Director of Finance</td>
</tr>
<tr>
<td>6/1/11</td>
<td>Review Staffing/Proposed Salary schedules/personnel requirements facility req. &amp; increased costs</td>
<td>Superintendent/Finance sub-committee</td>
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<tr>
<td>6/1/11</td>
<td>Budget Study Session -review preliminary draft</td>
<td>Board of Education-Public Supt-Finance reports</td>
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<tr>
<td>6/10/11</td>
<td>Submit tentative Operating Budget on OBMS to PED-Reconciled</td>
<td>Director of Finance</td>
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<tr>
<td>6/15/11</td>
<td>Meet with PED -informal review Telephone Conference Discuss District EPSS and Allocations for programs</td>
<td>School Board Member Superintendent/Director of Fin/Curriculum Director</td>
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<tr>
<td>6/19/2011</td>
<td>Budget formally adopted at Local Board Hearing Public Hearing-Advertised</td>
<td>Board of Education or Governing Councils</td>
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</table>
BUDGETING APPROACHES

A variety of budget types and formats have been utilized by school districts and charter schools. The development of more advanced budget philosophies reflects growth in both the scope and complexity of public education operations and the need for systems that are capable of translating policy decisions by local school boards and governing councils into reliable financial plans. Entities utilize a variety of the versions or a combination to attain specific goals and objectives. Various methods are summarized below.

- **Account Code (line item) Budgeting**
  - This method is the most widely used because of its simplicity and control orientation. This is often referred to the historical approach since administrators and business officials often base their expenditure requests upon historical expenditure and revenue data. Using this method, budget may be used for only those account codes specified and up to the appropriated amounts. While budget adjustments or transfers between object codes may be allowed, the frequent use of budget adjustments may become burdensome to administration.

- **Site Based Budgeting**
  - This method emphasizes the decentralization of budgetary decision making. It is commonly used in combination with other approaches but generally seeks to enhance the ability of principals to serve as effective instructional leaders by shifting the responsibility of budget preparation and maintenance to the campus level. Campuses would receive allocations meant to cover those areas over which campus decision-makers have control. This may or may not include staffing costs as staffing decisions may continue to be made centrally. It is believed that this method may increase accountability as well as participation of staff, community and parents. See the “Units Generated Methodology” exhibit that illustrates this approach in this supplement and in the Tips, Tools and Resources section of this Manual.

- **Zero Based Budgeting**
  - This method was popularized in the 1970’s and basically requires that program activities and services must be justified annually during the budget development process. The school district operations are divided into decision units at relatively low levels of the organization. Individual decision units are then aggregated into decision packages based upon program activities or goals. The decision units are ranked in order of importance in reaching an organization’s goals or objectives.

- **Performance Based Budgeting**
Utilized since 1949, performance budgeting was promoted by the Hoover Commission. The focus of this approach is on efficiency (based on the measurement of the costs and standard process inputs) and the budget is considered a “performance contract” between the superintendent and the governing board. Expenditures are budgeted based upon standard costs inputs multiplied by the number of units of an activity to be provided in that period. The total budget for an organization is the sum of all the standard unit costs multiplied by the expected units to be provided. For example, the budget for a school food service operation might be developed based on the number of meals that are to be produced multiplied by the average cost of producing a meal. Although this strict approach may be useful for certain types of school operations, many operations may require a more liberal performance approach. For example, expenditures may be based simply on the activities/levels of service to be provided and a comparison of budgeted amounts and historical expenditure levels rather than average unit costs. Generally, with this approach useful information is provided to legislative bodies and it provides a clear basis or rationale for administrative evaluations. It focuses on outcomes and accomplishments and narratives are provided for each activity or program.

NEW MEXICO SCHOOL FUNDING


The public school fund shall be distributed to school districts and charter schools in the following parts:

- State equalization guarantee distribution;
- Transportation distribution;
- Supplemental distributions;
- Out-of-state tuition to school districts;
- Emergency; and
- Program enrichment.

The balance remaining in this fund at the end of the fiscal year shall revert to the general fund, unless otherwise provided by law.

Funds to operate public schools in New Mexico are distributed through the Public School Fund which contains revenues derived from three sources: the General Fund, the Current School Fund, and Federal Mineral Leases. One significant state appropriation is not distributed through the Public School Fund and that is the Free Textbook appropriation. (Reference the Free Textbook appropriation in PSAB Supplement 9, Instructional Materials).
**General Fund** revenues include gross receipts tax, income tax, interest earnings, rent and royalties, severance taxes and license fees. The **Current School Fund** includes earning on the investments of the Permanent School Fund and land income. **Federal Mineral Leases** make up the Free Textbooks appropriation, and the remainder goes to the Public School Fund.

**GENERAL FUND REVENUES**

Revenues are appropriated annually by the legislature to public schools in New Mexico. The Public School Fund is appropriated in three separate distributions:

- State Equalization Guarantee distribution or SEG,
- Transportation Distribution,
- Supplemental Distributions,
  - Out-of-State Tuition
  - Emergency
  - Emergency Capital Outlay.

1) **State Equalization Guarantee (SEG)** accounts for more than 90% of school districts operational revenue and is the largest state distribution. The SEG is distributed utilizing the **New Mexico Funding Formula**.

2) The **Transportation distribution** is allocated to each school district according to a statutory formula and makes payments to each school district to pay for regular to and from school transportation costs for students in grades K-12 attending schools within the district. (Reference PSAB Supplement 19, Transportation).

3) **Supplemental Distributions** are authorized by the Secretary of Education and include the following:
   - **Out-of-State Tuition** provides for the payment of out-of-state tuition for NM students subject to the Compulsory School Attendance law who are attending school outside the state because of the unavailability of school facilities in the school district in which they live.
   - **Emergency Distributions** are made to districts that have a financial need and are distributed based on an application process.
   - **Emergency Capital Outlay** is a distribution to districts that addresses unexpected capital outlay emergencies that demand immediate attention.

**THE NEW MEXICO FUNDING FORMULA – A BRIEF HISTORY**

- Developed as a model by the National Education Finance Project in the late 1960’s and early 1970’s.
- In 1973, the Advisory Committee on School Finance established a basic philosophy and began to define educational need.
- Recognized the need to staff schools adequately and equalize opportunity for all students with different needs.
In 1974, the New Mexico Legislature enacted the Public School Finance Act. The NM Funding Formula is designed to distribute funds objectively in a non-categorical manner and provide for local district autonomy. Periodic data based refinements have taken place, however basic structure and philosophical concept has been maintained.

**PROGRAM COST**

Section 22-8-21 NMSA 1978. Definitions. As used in the Public School Finance Act

Program Cost is the product of the total number of program units to which a school district is entitled multiplied by the dollar value per program unit established by the legislature.

Membership (MEM) becomes the most important factor in determining the primary revenue source in a school district or charter school. Membership is converted into units and units then are converted into dollars within the New Mexico Funding Formula. The formula utilizes cost differentials or weightings for instructional programs to reflect the costs associated with providing various educational services to students.

Program Cost is determined by multiplying the student full time equivalency (FTE) by the respective cost differential which in turn generates units (The full time equivalency to be used in the calculation of program units is the prior year average of district membership on the 80th and 120th day). Program units are then added together and multiplied by the district training and experience index to produce the adjusted program units. The following are then added to the total of adjusted program units:

- Units generated by instructor certified by the National Board for Professional Teaching Standards;
- Units generated by size adjustment factors – addressing small and rural schools and districts;
- Units generated by at-risk factors;
- Units generated by growing districts;
- Units generated to any newly created districts; and
- Save harmless units generated to protect very small districts from a too precipitous decline in revenue;
- Units generated by Charter School Student Activities;
- Units generated by Home School Activities.
The grand total of all the units is then multiplied by the **unit value** for that school year resulting in the district’s program cost which is then adjusted by “credit items” to determine the district’s **state equalization guarantee**.

**Unit Value** is the dollar value set by the Public Education Department annually that correlates to the appropriation established by the New Mexico legislature. The unit value can be adjusted twice in a fiscal year as prescribed by law.

**STATE SUPPORTED PROGRAMS IN THE FORMULA**

The New Mexico Funding Formula includes several state supported programs and activities that are legislatively driven and generate program cost. Each program or category of student is weighted producing a program cost. Student membership and the respective participation in various programs remain the key factor to determining the number of units that will be generated and funded for a district or charter school. State supported programs and activities are listed below with statutory references as applicable.

**KINDERGARTEN**

**Section 22-8-19 NMSA 1978. Early childhood education program units.**

The number of early childhood education program units is determined by multiplying the early childhood education MEM by the cost differential factor 1.44. Early childhood education students’ enrollment in half day kindergarten program shall be counted for 0.5 early childhood MEM. Early childhood education students enrolled in full day kindergarten programs shall be counted for 1.0 early childhood education MEM. Kindergarten programs may be half day or full day as approved by the Public Education Department. Also, for the purpose of calculating early childhood education program units, developmentally disabled three and four year old students shall be counted in early childhood education membership.**  No developmentally disabled three or four year old student shall be counted for more than 0.5 early childhood education membership. See the example below.

<table>
<thead>
<tr>
<th>Membership X Cost Differential (1.44) Equals Units,</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units X Unit Value equals the dollars generated within the Funding Formula.</td>
</tr>
<tr>
<td>Kindergarten</td>
</tr>
<tr>
<td>ECE, FDK</td>
</tr>
</tbody>
</table>

*If the unit value was $3,500, the total program cost for kindergarten would be 28.800 X $3,500 or $100,800.*
**BASIC PROGRAM**


- Average Daily Membership (ADM) or MEM means membership, the total enrollment of qualified students on the current roll of a class or school on a specified day.
- “basic program ADM” or basic program MEM means the MEM of qualified students but excludes the full time equivalent MEM in early childhood education and three and four year old students receiving special education services. Like with other programs within the Funding Formula the number of eligible students is weighted to produce units and with a unit value, generate dollars. See the example below.

<table>
<thead>
<tr>
<th>Grade Level</th>
<th>Membership</th>
<th>Factor</th>
<th>Basic Program Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade 01 –</td>
<td>24.50</td>
<td>1.20</td>
<td>29.400</td>
</tr>
<tr>
<td>Grade 02 –</td>
<td>24.50</td>
<td>1.18</td>
<td>28.910</td>
</tr>
<tr>
<td>Grade 03 –</td>
<td>24.00</td>
<td>1.18</td>
<td>28.320</td>
</tr>
<tr>
<td>Grade 04 –</td>
<td>24.00</td>
<td>1.045</td>
<td>25.080</td>
</tr>
<tr>
<td>Grade 05 –</td>
<td>24.00</td>
<td>1.045</td>
<td>25.080</td>
</tr>
<tr>
<td>Grade 06 –</td>
<td>24.00</td>
<td>1.045</td>
<td>25.080</td>
</tr>
<tr>
<td>Grades 07-12</td>
<td>146.50</td>
<td>1.250</td>
<td>183.125</td>
</tr>
</tbody>
</table>

Total Membership/Units 291.50 344.995

*If the unit value was $3,500, the total program cost for Basic MEM would be 344.995 X $3,500 or $1,207,483.

**SPECIAL EDUCATION**

Section 22-13-5. NMSA 1978. Special education.

Public schools in New Mexico shall provide special education and related services appropriate to meet the needs of all children requiring special services... and shall be provided in age-appropriate, integrated settings, including home, daycare centers, Head Start programs, schools or community-based settings. The Public Education Department shall make, adopt and keep current a state plan for policy, programs and standards. (Reference Section 22-13-7 NMSA 1978). For funding and budgeting purposes, students identified with special needs are categorized as A, representing those students requiring a minimal amount of special education, B, representing those students requiring a moderate amount of special education, C, representing those students requiring an extensive amount of special education, and D, representing those students requiring a maximum amount of special education. Membership is also captured for developmentally disabled three and four year old students and for related services ancillary to providing special education, the number of full time equivalent certified or licensed ancillary service and diagnostic service personnel. Cost differentials or factors within the Funding Formula differ from class to class based on research that
some programs may be more costly than others. As students are identified for each class, the membership times the cost differential generates units. The example below illustrates how students in a particular class generate program cost.

<table>
<thead>
<tr>
<th>Class</th>
<th>Membership</th>
<th>Factor</th>
<th>Program Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>C&amp; C Gifted</td>
<td>16.00</td>
<td>1.00</td>
<td>16.000</td>
</tr>
<tr>
<td>D &amp; D Gifted</td>
<td>15.00</td>
<td>2.00</td>
<td>30.000</td>
</tr>
<tr>
<td>3 Yr. DD</td>
<td>5.00</td>
<td>2.00</td>
<td>10.000</td>
</tr>
<tr>
<td>4 Yr. DD</td>
<td>5.00</td>
<td>2.00</td>
<td>10.000</td>
</tr>
<tr>
<td>A/B MEM</td>
<td>21.00</td>
<td>.70</td>
<td>14.700</td>
</tr>
<tr>
<td>Ancillary FTE</td>
<td>4.00</td>
<td>25.00</td>
<td>100.000</td>
</tr>
<tr>
<td>Spec. Ed. Units</td>
<td></td>
<td></td>
<td>180.700</td>
</tr>
</tbody>
</table>

*If the unit value was $3,500, the total program cost for special education would be 180.700 X $3,500 or $632,450.

ELEMENTARY FINE ARTS PROGRAM


This program provides for the educational needs of students in the areas of visual arts, music, theater or dance and is integrated into the curriculum. Legislation in the 46th session (2003) provided for funding as a part of the State Equalization Guarantee. Distributions are provided to districts and charter schools with approved applications and renewals. Like other programs within the funding formula, the number of eligible students is weighted to produce units and with a unit value, generate dollars. Schools submit annual applications to the Public Education Department, Humanities Bureau. The example below illustrates how the membership in this program generate program cost.

<table>
<thead>
<tr>
<th>Membership</th>
<th>Factor</th>
<th>Fine Arts Program Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>166.00</td>
<td>0.0500</td>
<td>8.300</td>
</tr>
</tbody>
</table>

*If the unit value was $3,500, the total program cost for Fine Arts would be 8.300 X $3,500 or $29,050.

BILINGUAL PROGRAM

Section 22-23-6. NMSA 1978. Bilingual multicultural education program; eligibility for state financial support.

(Chapter 22, Article 23 NMSA may be cited as the Bilingual Multicultural Education Act”)

This program provides for the educational needs of linguistically and culturally different student, including Native American children and other students who may wish to
participate in grades kindergarten through twelfth grade with priority to be given to
programs in grades kindergarten through three. The calculation for full time equivalent is
based on the number of hours that students receive bilingual instruction. Qualifying
criteria is extensive and includes, but is not limited to, the following:

- An identifiable need to improve the language capabilities of both English and the
  home language;
- Use two languages as mediums of instruction for any part of the curriculum;
- Emphasize history and cultures associated with the students’ home or heritage
  language;
- Establish a parent advisory committee to assist and advise;
- Provide procedures to ensure proper student placement.

Like with other programs within the Funding Formula the number of eligible students is
weighted to produce units and with a unit value, generate dollars. The example below
illustrates how bilingual membership generates program cost.

<table>
<thead>
<tr>
<th>Hours</th>
<th>Mem</th>
<th>FTE</th>
<th>Factor</th>
<th>Bilingual Program Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>45.00</td>
<td>7.50</td>
<td></td>
<td>23.170</td>
</tr>
<tr>
<td>2</td>
<td>47.00</td>
<td>15.67</td>
<td></td>
<td>0.050</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>0.00</td>
<td></td>
<td>11.585</td>
</tr>
</tbody>
</table>

*If the unit value was $3,500, the total program cost for Bilingual Ed would be 11.585 X $3,500 or $40,548.

ELEMENARY P. E. PROGRAM

Section 22-8-23.7.NMSA 1978. Elementary physical education program units.

This program addresses students from kindergarten through sixth grade with a program
of education through which students participate in activities related to fitness education
and assessment. Active games, sports and development of physical capabilities such
as motor skills, strength and coordination are also program components. Certain criteria
exist for eligibility and schools and charter schools must submit program plans that meet
academic content and performance standards. Like other programs within the funding
formula, the number of eligible students is weighted to produce units and multiplied by a
unit value, generate dollars. See the example below.

<table>
<thead>
<tr>
<th>Membership</th>
<th>Factor</th>
<th>Elementary P. E. Program Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>166.00</td>
<td>.060</td>
<td>9.960</td>
</tr>
</tbody>
</table>

*If the unit value was $3,500, the total program cost for Elem PE would be 9.960 X $3,500 or $34,860.
TRAINING AND EXPERIENCE INDEX

Section 22-8-24, NMSA 1978. Instructional staff training and experience index; definitions; factors; calculations.

As a multiplier within the New Mexico Funding Formula the Training and Experience (T&E) index represents one of the most important factors that enable a school district or charter school to generate additional units. Thus, placement of personnel and accurate reporting are critical in this calculation. Also reference PSAB Supplement 14, Payroll. The following reflects the matrix that shall be utilized to report a district or charter school's T&E. Eligible personnel are placed according to their verifiable training and experience. See matrix below.

<table>
<thead>
<tr>
<th>Academic Classification</th>
<th>Years of Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0-2</td>
</tr>
<tr>
<td>Bachelor's Degree or Less</td>
<td>.75</td>
</tr>
<tr>
<td>Bachelor's Degree plus 15 credit hours</td>
<td>.80</td>
</tr>
<tr>
<td>Master's Degree or Bachelor's Degree plus 45 credit hours</td>
<td>.85</td>
</tr>
<tr>
<td>Master's Degree plus 15 credit hours</td>
<td>.90</td>
</tr>
<tr>
<td>Post Master's Degree or Master's Degree plus 45 credit hours</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Annual Reporting:

School district and charter school personnel shall annually calculate and report the training and experience index to the office of the School Budget Planning and Finance Analysis Bureau. The calculations shall be based on the FTE (full-time equivalent)
number of operational personnel in each designated job class from the selected October payroll.

Placement Requirements:

School district and charter school personnel shall list the FTE number of operational personnel in each designated job class from the October payroll using established FTE definitions. Only operational (11000 fund) personnel as defined in Section 22-8-24 (A) (1) NMSA 1978 shall be included in this report. Administrators or those personnel excluded under Section 22-8-24 (A) (1) NMSA 1978 are not included.

Contract days and contract hours funded from sources other than the State Equalization Guarantee are not included in this calculation. (However, instructional personnel paid from Indian Set-Aside funds where the federal Impact Aid program (25147 fund code) shall be included in this calculation).

Calculating Training and Experience:

- Multiply the number of full time equivalent instructional staff in each academic classification by the numerical factor in the appropriate “years of experience” column in the matrix;
- Add the products calculated;
- Divide the total obtained by the total number of full time equivalent instructional staff;
- If the result of the calculation of the training and experience is 1.0 or less, the district’s factor shall be no less than 1.0;
- For a new school district the factor will be 1.12.

Other Calculation Criteria:

- Designated job classes are set forth by the Department and only instructional personnel paid from the Operational Fund (11000 fund code) and the Indian Set Aside (25147 fund code) are to be used in the calculation.
- Administrators and/or those personnel placed on Administrator Salary schedules are to be excluded in the calculation.
- The state matrix shall be used to calculate the training and experience index.
- The computation of the full time equivalent is the same whether it is computed on time or on salary.
- In calculating FTE only one person per position is to be included.
- Reported experience must be related to instruction and meet Board of Education policies for verification purposes.

The job classes following are to be used in the calculation. This element is specifically defined in PSAB Supplement 3, Uniform Chart of Accounts.
The Procedures Manual for the Calculation of the Training and Experience Index published by the Public Education Department can be referenced on the PED website at www.ped.state.nm.us. For those personnel preparing this report, note instructions on additional PED requirements, details and examples that will assist in the calculation of the index. Reference PSAB Supplement 14, Payroll. Also reference the phase for budgeting expenditures that relates to minimum salary treatments that are statutory.

NATIONAL BOARD CERTIFIED TEACHERS

Section 22-8-23.4 NMSA 1978. National board for professional teaching standards; certified teachers program units

This area of the Funding Formula addresses those teachers that have been certified by the National Board for Professional Teaching Standards and who have been employed by the school district or charter school on or before the fortieth day of the school year and verified by the Public Education Department. This calculation ultimately adds to the base salary of a teacher that qualifies. The calculation (upon Public Education Department approval) is that teachers receive a one-time salary differential equal to or greater than the amount generated by the units multiplied by the program unit value during the fiscal year in which the school district or charter school will receive these units. See the example below.

<table>
<thead>
<tr>
<th>NBCT Factor</th>
<th>NBCT Program Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.00</td>
<td>1.50</td>
</tr>
<tr>
<td>1.50</td>
<td>1.50</td>
</tr>
<tr>
<td>1.50</td>
<td>1.50</td>
</tr>
</tbody>
</table>

*If the unit value was $3,500, the total program cost for NBCT would be 1.50 X $3,500 or $5,250. (Example: Base for NBCT Teacher Salary – $52,000 Minimum New Base Salary - $57,250)
SIZE ADJUSTMENT UNITS

Section 22-8-23. NMSA 1978. Size adjustment program units.

This area of the funding formula addresses public schools with a membership of less than 400, less than 4,000, and over 10,000 (with a ratio of MEM to senior high schools less than 4,000:1), and includes early childhood education fulltime-equivalent membership. Excluded are the following: class C and class D programs, 3 & 4 year old developmentally disabled programs, and separate schools established to provide special programs such as vocational and alternative education.

The number of additional program units to which a school district is entitled is the sum of elementary – junior high units and senior high units computed in the following manner:

**Elementary – Junior High Units**

200 - Membership X 1.0 X Membership = Units

Where Membership is equal to the membership of an approved elementary or junior high school, including early childhood education full time equivalent membership (note the exclusions above)

**Senior High Units**

200 – Membership X 2.0 X Membership = Units

or,

Senior High Units

400 – Membership X 1.6 X Membership = Units

Whichever calculation for senior high units is higher is the program units used.

School districts with a membership of less than 4,000 are also eligible for additional program units computed in the following manner:

**District Units**

4000 – Membership X 0.15 X Membership = Units

School districts with over 10,000 Membership with a ratio of Membership to senior high schools less than 4,000 is eligible for additional program units computed in the following manner:

4000 – Membership X 0.50 X Membership = Units

A school district with over 10,000 MEM with a ratio of MEM to senior high schools less than 4000:1 is eligible for additional program units based on the number of approved regular senior high schools that are not eligible for senior high units. The number of
additional program units to which an eligible school district is entitled is the number of units computed in the following manner:

**Rural Isolation Units**

\[
4000 - \text{MEM/Senior High Schools} \times 0.50 = \text{Units}
\]

Where the MEM is equal to the total district membership, including early childhood education full time equivalent membership, and where senior high schools are equal to the number of approved regular senior high schools in the district.

The organizational structure of schools within districts is determined by Boards of Education and shall have the approval of the Public Education Department.

**AT RISK UNITS**

**Section 22-8-23.3. NMSA 1978. At-risk program units.**

Additional units to assist students in reaching their full academic potential are generated by the at-risk factor. Districts must report specified services (determined by the PED) annually. The factor is determined by establishing a three year average of the following:

1) a three year average of the percentage of membership used for Title I allocation;
2) a three year average of the percentage of membership classified as English language learners (using the Office of Civil Rights (OCR)), and;
3) a three year average of the percentage of student mobility. See the example below

<table>
<thead>
<tr>
<th>Year 2011-2012</th>
<th>At-Risk Index</th>
<th>Membership</th>
<th>Program Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.065</td>
<td>311.50</td>
<td>20.248</td>
<td></td>
</tr>
</tbody>
</table>

*If the unit value was $3,500, the total program cost for At-risk students would be 20.248 X $3,500 or $70,868

**GROWTH DATA**

**Section 22-8-23.1. NMSA 1978 Enrollment growth program units.**

As membership is the most important factor in determining the extent of a district or charter school’s funding, it becomes extremely critical to anticipate increases or decreases of students.

The Funding Formula allows for a district or charter school to receive additional units if an increase in membership is equal to or greater than one percent when compared with the prior year’s membership. The increase in membership shall be calculated as follows:
(Current year MEM – Previous Year MEM) 
Previous Year MEM X 100 = Percent Increase

Additional Units shall be calculated as follows:

\[ \frac{(\text{Current Year MEM} - \text{Previous Year MEM})}{(\text{Current Year MEM} \times 0.01)} \times 1.50 = \text{Units} \]

Additionally, more units are generated by the following calculation of increased MEM:

\[ \frac{(\text{Current Year MEM} - \text{Previous Year MEM})}{\text{Previous Year MEM} \times 100} = \text{Percent Increase}. \]

Units are calculated as follows:

\[ (\text{Current Year MEM} - \text{Previous Year MEM}) \times 0.50 = \text{Units} \]

**CHARTER SCHOOL AND HOME SCHOOL UNITS (FOR DISTRICTS ONLY)**

**Section 22-8C-8, NMSA 1978. Charter school student participation in public school extracurricular activities.**

The New Mexico Activities Association (NMAA) and the local school board in the district in which a charter school is located shall allow charter school students in grades seven through twelve to participate in school district extracurricular activities. The membership is then reported in the calculation of the for the purposes of calculating program cost for those activities. Charter schools are then responsible to pay the district what is generated in dollars.

**Section 22-8-23.6, NMSA 1978. Charter school student activities program unit.**

The charter school (CS) is responsible for paying the district the amount of dollars generated by the participation of its students in district activities. The units are calculated as follows:

<table>
<thead>
<tr>
<th>Membership</th>
<th>Factor</th>
<th>CS Program Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>0.100</td>
<td>10.00</td>
</tr>
</tbody>
</table>

*If the unit value was $3,500, the total program cost for charter school activities would be $35,000 (This amount would be paid to the school district).*

**STATE EQUALIZATION GUARANTEE**

The intent of the 1974 Public School Finance Act (Section 22-8-17 through 25, NMSA 1978) is to equalize financial opportunity at the highest possible revenue level and to guarantee each New Mexico public school student equal access to programs and services appropriate to their needs regardless of geographical or economic conditions. With the absence of categorical funding and/or tracking, school districts and charter
schools are encouraged to seek even more ways to be efficient and effective in an effort to achieve local goals and objectives.

THE CALCULATION OF THE STATE EQUALIZATION GUARANTEE (SEG)

Section 22-8-25.NMSA 1978 State Equalization guarantee distribution: definitions; determination of amount.

While Program Cost is the amount of money assumed under the formula to be necessary (for a given district or charter school with a particular configuration of students and educational programs) to provide educational services, the State Equalization Guarantee (SEG) is the amount of money the State of New Mexico “guarantees” to provide to the district or charter school to defray most of the program cost. The exact amount is determined by adding together revenue due to the entity as the result of the following three (credit item) categories:

1) **Required half mill property tax levy (local revenue source)** – This tax represents receipts derived from that amount produced by a school district property tax applied at the rate of fifty cents ($0.50) to each one thousand ($1,000) of net taxable value of property allocated to the school district and to the assessed value of products severed and sold in the school district as determined under the Oil and Gas Ad Valorem Production Tax Act (7-32-1 NMSA 1978), and upon the assessed value of equipment in the school district as determined under the Oil and Gas Production Equipment Ad Valorem Tax Act. 7-34-1. NMSA 1978. *The state subtracts 75% credit for the revenue described above received from July through May by the district in this category. June tax receipts are estimated and the adjustment is to be made on actual receipts the following year.*

2) **Title VIII (Impact Aid (federal revenue source)** – The federal government provides certain funds to school districts in lieu of local property taxes for children who reside on federal lands or children who have parents working on federal property. A school district is eligible to receive these funds if at least three percent of its average daily attendance (ADA), with a minimum of 400 ADA, are federal connected. Formerly called P. L. 874 funds, these Impact Aid funds are now produced through a provision of Title 20, Section 7703 (b), USC. School districts receive substantial Impact Aid payments because of the large number of federal military installations, Indian lands, federal public domain, and national forest lands within their boundaries. Applications for this disbursement of federal dollars are completed each October by the local education agencies (LEAs). Federal audits of the numbers of students reported are conducted every three years. Because the State of New Mexico adjusts these revenues or takes credit for the amounts received in the calculation of the State Equalization Guarantee, the receipt of these monies statewide is critical in determining the amount of educational funds appropriated by the state legislature. **The federal**
government allocates these Impact Aid funds directly to school districts on the basis of an average per capita cost of education, calculated on either a state or national basis, whichever is larger. The state takes credit for 75% of all Impact Aid revenues flowing to local district (except for special education and Indian set-aside funds) when calculating the State Equalization Guarantee.

3) **Forest Reserve Fund** – Over twenty New Mexico counties receive Forest Reserve funds. These counties receive 25% of the net receipts from operations (primarily timber sales) within their respective reserve areas. Distributions are divided equally between the County Road Fund and the school district. The state takes credit for 75% of the Forest Reserve funds in calculating the State Equalization Guarantee (multiplying the result by 75% to determine the revenue for which the state takes credit). Reference Section 22-8-33. NMSA 1978. Distribution of certain revenue. Also reference Section 6-11-3 NMSA 1978. Application of money to forest reserve school purposes fund and county road fund).

**ENERGY EFFICIENCY**


The Energy Efficiency program is self-funded and allows a school district to perform energy efficiency capital improvements. Through these improvements, energy and operational costs are reduced. The district pays for the program with these savings. The amount of money required to pay the provider is taken from a school district’s state equalization guarantee and transferred to the public school utility conservation fund, which the school district uses to make these payments. These contracts may not exceed ten years. Reference PSAB Supplement 16, Bonds/Capital Projects/Debt Service.

**FINAL STATE EQUALIZATION GUARANTEE**

\[
\text{Total Program Cost} \times \text{Unit Value} = \text{Program Cost} \\
\text{Program Cost} \text{ Less 75\% of the Credit Items (listed above) } \\
\text{and Other Credits as Applicable} \rightarrow \text{Equals the State Equalization(SEG) Guarantee Distribution}
\]

See exhibits in Tips, Tools, and Resources for the New Mexico Funding Formula, Form 910B-5 and a sample illustration showing the generation of units into dollars.
BUDGET PREPARATION

6.20.2.9 NMAC. Budget Preparation Standards

- Every school district and charter school shall follow requirements in Section 22-8-5 through 22-8-12.2 NMSA 1978 for preparing, planning, submitting, maintaining and reporting.
- Budgetary control is at the function level and an over expenditure at this level is not allowed.
- The Public Education Department shall review the school district’s projected revenues, including estimated tax production based on the most current assessed valuation from the local taxing authority and estimated cash carry over from all funds.
- The Public Education Department shall confer with the school district or charter school before determining where additions or deductions to the budget will be incorporated.
- Approvals of the proposed budget by the local Board of Education or Governing Council shall be in a public hearing and certification by the Public Education Department shall be on or before July 1.
- Authorized adjustments shall be integrated into the school district’s accounting system.
- On or before July 31, school districts and charter schools shall determine cash balances in all funds and report them to the Public Education Department. The Operational sub fund cash balance shall be adjusted by June credits for revenues received in three categories, local tax levy, Impact Aid, and Forest Reserve Income. (A detailed discussion on the credit item adjustments follows in the Budget Preparation phase in this supplement).
- Cash balance carried forward from the previous year cannot be utilized for salaries pursuant Section 22-8-41. (C) NMSA 1978. Restriction on operational funds; emergency account; cash balances.

DETERMINATION OF CASH BALANCE – OPERATIONAL SUB FUND

To properly estimate the cash balance within the budget preparation process staff must recognize that certain procedures must take place prior to arriving at a realistic cash balance. Care should be taken that estimates reflect the most realistic amounts possible. The following steps are recommended to begin this phase of budget preparation:

- Estimate current year revenues in all applicable categories that will be entered into the district/charter school FMS general ledger through June 30 – Arrive at a year to date figure for revenue in the 41000 objects or revenue from Local Sources. (Reference PSAB Supplement 3, Uniform Chart of Accounts).
• **Estimate current year revenues** in all applicable categories that will be entered into the district/charter school FMS general ledger through June 30 – Arrive at a year to date figure for revenue in the **43000** objects or revenue from **State Sources**.
  
  o Utilize the Public Education Form labeled “Estimated SEG” to calculate the final distribution for State Equalization Guarantee. Note any year to date receipts that qualify as credit items - July through May – include Energy Efficiency if applicable – arrive at an amount that will be distributed year to date for SEG (object code 43101). Reference PSAB Supplement 16, Bonds, Capital Projects, and Debt Service.
  
  o Utilize the Public Education Form labeled 930F (Computation of Operational June 75% Credit) to calculate the previous June receipts that qualify as credit items used in determining the final SEG payment for the current year. The form calculates only 75% of actual receipts as eligible for “restricted cash”. (Reference Section 22-8-25.F. NMSA 1978)

• **Estimate current year revenues** in all applicable categories that will be entered into the district/charter school FMS general ledger through June 30 – Arrive at a year to date figure for revenue in the **44000** objects or revenue from **Federal Sources**.

• **Estimate current year expenditures** in all applicable account codes, including encumbrances that will be entered into the district/charter school’s financial management system (FMS) general ledger through June 30 – arrive at a year to date figure for all applicable account codes.
  
  o Consider all expenditures including salaries, benefits, purchased services, operation and maintenance, contractual obligations et.al.

• Complete the Public Education Form 910B-7, Proposed Operational Cash Balance Worksheet that will reflect the previous years audited cash balance, current year estimated revenues, and current year estimated expenditures. Any permanent cash transfers or outstanding loans as of June 30 should be reflected. Note that 75% of any credit items received the previous June (reflected on Public Education Department Form 930F, (Computation of Operational June 75% Credit) will be entered as “restricted”. This amount is reflected in the proposed Operating Budget as restricted (Object code 11112) and it cannot be expended. The result is the **Proposed Unrestricted Operational Cash Balance**. (Object code 11111).

• After estimates for current year are determined, all entries shall be entered into the Public Education Department’s Operating Budget Management System (OBMS) in the estimated column for the tentative Operational fund budget.

**BUDGETING PROJECTED REVENUES**

As other planning and preparation guidelines are being addressed, school district and charter school administrators should be developing *revenue projections* for the next fiscal year. Revenues reflect an increase in a district’s or charter schools’ financial
resources or net assets as a result of providing goods or services. When budgeting revenues, staff must be familiar with the types of revenue and limitations for use. Revenue can be categorical or non-categorical and is based on a variety of local demographics including membership and tax information. The revenue estimate for the State Equalization Guarantee will comprise the major source of revenue for the Operational Fund, however, other Local, State and Federal sources are also important for budget development.

**OPERATIONAL SUB FUND – 11000**

**REVENUES FROM LOCAL SOURCES – 41000 (ROLL UP ACCOUNT)**

Various revenue sources within the 41000 roll up account object are specifically defined in PSAB Supplement 3 and should be budgeted accordingly. The major accounts within this roll up account are listed below.

**41100 – Taxes Levied/Assessed by the School District include Ad valorem Taxes, Oil and Gas Taxes, Copper Production and other special revenues/taxes.**

- **Ad Valorem Taxes** - Reference Section 7-37-7.NMSA 1978. Tax rates authorized; limitations; for the use of each school district for general operating purposes a rate of fifty cents ($0.50) for each one thousand ($1,000) of net taxable value of both residential and non-residential property allocated to the school district.
- **Oil and Gas Taxes** - Reference Section 7-32-1, and 7-34-1 NMSA 1978, upon the assessed value of equipment in the school district as determined under the Oil and Gas Production Equipment Ad Valorem Tax Act,
- **Copper Production** – Reference Section 7-39-1 through 7-39-10, statutory provisions that apply to the valuation of all productive copper mineral property.

- The Tax Levy Receipts Report that provides a breakdown of the tax receipts by sub fund should be completed prior to budgeting or reconciling revenues. (The PED provides this report format in annual budget instruction workbooks).
- The amount of tax receipts shall be reconciled with the County Treasurer and the actual receipts budgeted at 100% from July through March.
- Receipts from April through June are estimated and added to actual receipts for the current year entry.

The budgeting of ad valorem tax revenues is not applicable for charter schools.

**41300 – Tuition** - This entry refers to revenue anticipated by a school district or charter school for educating individuals who reside outside the State of New Mexico or are the children of foreign nationals. Students are not included in the STARS (Student
Teacher Accountability Reporting System) reports and are not included in a district's membership when calculating the State Equalization Guarantee.

**41500 – Investment Income** - This entry refers to revenue anticipated from short term and long term investments, interest, dividends, rent from property held for investments. Reference PSAB Supplement 3, Uniform Chart of Accounts, and PSAB Supplement 8, Public Fund Deposits and Investments, for specific guidelines.

The budgeting of investment income revenues is not applicable for charter schools.

**41700 – District Activities (Roll up Account)** – This entry refers to revenue anticipated from co-curricular and extra-curricular activities controlled and administered by the school district or charter school. The following shall be budgeted:
- Revenue from activity fees from memberships in school clubs or organizations;
- Revenue from educational fees that represents charges to students, lab fees or tutoring fees, and;
- Revenue from patrons of a school sponsored activity;
- Summer school fees.

**41900 – Other Revenue from Local Sources (Roll up Account)** – This entry refers to revenue anticipated from other sources not previously listed. The following list applies to this category:
- Rentals,
- Royalties,
- Donations,
- Proceeds from the Sale of Property,
- Insurance Recoveries,
- Special Assessments,
- Refunds of Prior Year Expenditures.

**REVENUE FROM STATE SOURCES – 43000 (ROLL UP ACCOUNT)**

Various revenue sources within the 43000 roll up account object are specifically defined in PSAB Supplement 3 and should be budgeted accordingly. The major accounts within this roll up account are listed below.

**43100 – Unrestricted Grants – State Sources (Roll up Account)** - This entry refers to anticipated revenue from:
- The State Equalization Guarantee (SEG),
- Emergency – Supplemental, - a non-categorical distribution from the Public Education Department based on an application process,
• Charter School Administrative revenue reflects 2% of the charter school program cost retained by the district.

43200 – Restricted Grants – State Sources (Roll up Account) – This entry refers to anticipated revenue from:

- Indirect Costs for State Flow through Grants – entry reflects anticipated revenue from the costs charged to a grant for administering the program – rate is determined by the Public Education Department,
- Indirect Costs for State Direct Grants – entry reflects anticipated revenue from the costs charged to a grant for administering the program – rate is determined by the Public Education Department,
- Inter-Governmental Contract Revenue/REC – entry reflects revenue from other school districts and Rural Education Cooperatives (REC’s) and governmental entities through a contract or a joint powers agreement. Reference PSAB Supplement 13, Purchasing,
- Inter-Governmental Contract Revenue – entry reflects revenue from other school districts and charter schools through a contract or joint powers agreement. Reference PSAB Supplement 13, Purchasing,
- Fees – Governmental Agencies - entry reflects revenue from other agencies.

REVENUE FROM FEDERAL SOURCES – 44000 (ROLL UP ACCOUNT)

Various revenue sources within the 44000 roll up account object are specifically defined in PSAB Supplement 3 and should be budgeted accordingly.

The major accounts within this roll up account include the following:

44100 – Unrestricted Grants – Federal Direct (Roll up Account) – This entry refers to anticipated revenue from the federal government and includes the following:

- Impact Aid – entry reflects anticipated revenue received by a school district or charter school from Title VIII. The Public Education Department provides the amounts for budgeting purposes.
- Indirect Costs for Federal Direct Grants – entry reflects anticipated revenue derived from costs charged to a grant for administering the program – rate is determined by the Public Education Department
- Department of Energy (DOE) Los Alamos/Department of Defense (DOD) – entry reflects revenues received by the Los Alamos School District from the U. S. Department of Energy or by school districts from the U. S. Department of Defense in lieu of property taxes for federal property located within the district.

44200 – Unrestricted Grants – Federal Flow through (Roll up Account) – This entry reflects revenues from the federal government through the state as grants that can be used for any legal purpose and include the following:
• Forest Reserve Income – entry reflect revenue anticipated for school districts’ share of forest reserve funds distributed by the Department of Finance and Administration. Reference Section 22-8-33 NMSA. 1978.
• Indirect Costs (Federal Flow through Grants) – entry reflects anticipated revenue derived from costs charged to a federal flow through program.

The budgeting of Federal Source Revenues is not applicable for charter schools.

REVENUE FROM OTHER FINANCING SOURCES – 45000 (ROLL UP ACCOUNT)

Various revenue sources within the 45000 roll up account object are specifically defined in PSAB Supplement 3 and should be budgeted accordingly. The major accounts within this roll up account are listed below.

45300 – Proceeds from the Disposal of Real or Personal Property (Roll up Account) – These entries reflect proceeds from the disposal of school property or compensation for the loss or real or personal property and include the following:

• Sale of Real or Personal Property – entry reflects anticipated revenues from the sale of real property of $25,000 or more or property/equipment of $5,000 or more. Public Education Department approval is needed.
• Sale of Personal Property – entry reflects anticipated revenues from the sale of real property that is less than $25,000 or equipment that is less than $5,000.

Administration should monitor the receipt of all revenues periodically. The illustration below notes that the revenue transactions have accumulated through December 31. Staff may want to draw a comparison from previous fiscal years’ level (at the same period of time) for a couple of reasons, 1) to validate any receipting patterns that are unique to the district or charter school, and 2) to verify that the anticipated revenue has or has not been received as anticipated.
Monitor All Categories of Revenue Periodically
(For the Period Ending December 30)

<table>
<thead>
<tr>
<th></th>
<th>Budgeted</th>
<th>Actually Received</th>
<th>% Received</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State</strong></td>
<td>$77,942,936</td>
<td>$38,955,378</td>
<td>49%</td>
</tr>
<tr>
<td><strong>Local</strong></td>
<td>$1,642,008</td>
<td>$671,755</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Federal</strong></td>
<td>$70,400</td>
<td>$89,102</td>
<td>127%</td>
</tr>
</tbody>
</table>

**Monitor Projected Revenue**

Those anticipated revenues for local state and federal categories should be consistently reviewed for accuracy and if conditions change, budget authority shall be adjusted in a timely manner. Program coordinators and/or directors shall be notified immediately should increases or decreases be realized. Adjustments in spending patterns could be affected. The following illustration emphasizes the need to follow percentages of revenue and note the date that the monitoring is made. Typically December reflects the receipt of approximately 50% of anticipated revenues for the Operational Fund, (11000).
EXPENDITURES

APPROPRIATENESS OF EXPENDITURES

Section 6-5-6.NMSA 1978, as amended – requires the New Mexico Department of Finance and Administration’s Financial Control Division (FCD) to determine that all expenditures are for a purpose authorized by law.

AUTHORITY AND THE PROPRIETY OF EXPENDITURES

Referencing a White Paper issued July 2002, the Financial Control Division (FCD) of the Department of Finance and Administration (DFA) delineated four criteria used to make a determination whereby expenditures are considered appropriate or “proper”. The White Paper uses the term “agency” to refer to state agencies, departments, institutions, boards, bureaus, commissions and committees of the government of New Mexico.

The following represents the criteria cited by the FCD:

1) Constitutional, Statutory, and Contractual Mission – This criterion mandates that an agency’s expenditures be consistent with the agency’s mission. The State of New Mexico’s constitution and statutes, together with legally authorized contractual commitments, define an agency’s mission. This is accomplished by delineating the agency’s functions, responsibilities, and duties. For example, Section 6-5-2 NMSA 1978, the DFA’s mission includes financial control and creates a division to carry out that mission and describes the division’s function, responsibilities and duties as maintaining a central system of state accounts, and shall devise, formulate, approve and control the accounting methods and procedures of all state agencies. Likewise, with reference to Section 6-20-2.8 NMSA 1978, procedural requirements are set forth to “account for financial transactions, develop and maintain budgets in accordance with the Public School Code, GAAP, and the department procedures for public school accounting and budgeting”. Other factors may contribute to the direction of an agency’s mission such as legislation which directs how appropriations are spent or contractual agreements that may contribute to the definition of an agency’s mission.

2) Public Benefit and Purpose – This criterion requires expenditures to contribute to an agency achieving its constitutional, statutory or contractual mission. Expenditures can contribute in two ways; 1) by serving a “public purpose,” and 2) by providing a “public benefit”.

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PSAB Supplement 1 - Budget Planning, Preparation, & Maintenance
Rev. 7/11
Expenditures must aid or promote progress towards an agency achieving its constitutional statutory or contractual mission. Expenditures must always be for a public purpose. The FCD may require an agency to provide written clarification if the public purpose or public benefit are not clear.

3) **Necessity** – This criterion focuses on making the best choice between options. When different means of achieving a mission exist, this criterion requires an agency to choose the means that will still provide, or contribute to providing the public benefit desired, but will do so for the least amount of expenditures possible.

4) **Appropriation, Budget, and Available Resources** – This criterion requires that the purpose of expenditures be consistent with their related appropriation, that total expenditures be within the budget established by law, and that the budget established be law and supported by actual resources, including cash.

**Appropriation:**

An appropriation from the Legislature is the authority for an agency to make expenditures for a given purpose. Depending on an agency's statutory mission, this purpose usually falls within one of the following broad categories:

- Legislative,
- Judicial,
- General control,
- Regulation, licensing and economic development,
- Culture, recreation and natural resources,
- Health and human resources,
- Public safety,
- Transportation and highways,
- Education,
- Higher Education,
- Public School Support.

In addition to the above categories the legislature usually divides the purpose of appropriations into the following appropriation units:

- Personal Services and Employee Benefits,
- Contractual Services,
- Other.
If the legislature restricts the appropriation to the units listed above, the purpose of the appropriation is also defined by the amount the legislature allocates to the units.

**Budget Development:**

Budget is the bridge between appropriations and resources. The existence of a budget helps ensure that appropriations are supported by resources. Section 6-3-7 NMSA 1978 prohibits an agency from making expenditures that are not authorized by an approved budget. This criterion requires an agency to stay within its budget when making expenditures and to request a Budget Adjustment Request and reduce its budget if the agency’s projected revenues are not meeting projections.

**Unless a proposed expenditure meets all of the four criteria above, it should not be incurred.**

*Reference [www.dfafcd.state.nm.us](http://www.dfafcd.state.nm.us) for the entire White Paper issued by the Financial Controls Division of the Department of Finance and Administration.*

**BUDGETING PROJECTED EXPENDITURES**

**FUND TYPES**

**Governmental Fund Types** are explained in detail in PSAB Supplement 3, Uniform Chart of Accounts. The following shall be used in the Operating Budget preparation:

10000 – General Fund – used to account for the chief operating fund for school districts and charter schools.
20000 – Special Revenue Funds – used to represent specific revenue sources and legally restricted to expenditure for specified purposes.
30000 – Capital Projects Funds – used to account for financial resources for acquisition or construction of major capital facilities.
40000 – Debt Service Funds - used to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.
50000 – Permanent Funds – used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the school district or charter schools’ programs.

**Proprietary Fund Types** may be used to account for any activity for which a fee is charged to external users for goods of services. Reference PSAB Supplement 3, Uniform Chart of Accounts.
60000 – Enterprise Funds - used to account for any activity whose principal revenue source includes debt that is backed solely by revenues from fees and charges; and, there is a legal requirement to recover costs through fees and charges; and, there has been a policy decision by the governing board to recover the costs of providing services through fees or charges.

70000 – Internal Service Funds – used to account for any activity that provides goods or services to other funds, departments, component units or other governments on a cost reimbursement basis.

**Fiduciary Fund Types** include trust funds and agency funds.

80000 – Trust Funds – used to account for assets held by a school district or charter school in a trustee capacity for others and therefore cannot be sued to support the school district’s or charter school’s programs. Trust funds are generally accounted for on the economic resources measurement focus and the accrual basis of accounting.

90000 – Agency Funds – used to account for assets that are held in a custodial capacity by a school district or charter school for individuals, private organization, or other governments. Agency funds may include those used to account for student activities or taxes collected for another government.

**OPERATIONAL SUB FUND – 11000**

**BUDGETING EXPENDITURES - GUIDELINES**

*Budgeting expenditures will differ from district to district due to often various and significant factors.*

- Organizational Structure
- Educational Plan for Student Success
- Size and Membership of the School District or Charter School
  - Budgetary Approach Chosen
  - Level of Centralization in Budgeting
- School Board and Superintendent Philosophies
  - Financial Circumstances

- Determination of *realistic* estimates for the current year and projected amounts for the ensuing year is critical in this phase of Operating Budget development.
- Goals and objectives related to the district EPSS of the district or charter school should drive budget requests from the school sites.
School sites shall prioritize needs and submit requests according to the budget calendar. Requests should be realistic and may include the following:

- Number of FTE, instructional personnel, maintenance, assistants, substitutes, stipends for special services, etc.,
- Costs associated with classroom supplies and materials,
- Professional development and training costs,
- Other purchased services including curriculum or program needs.

Finance personnel generally review historical data and provide estimated and projected amounts for utilities, insurances, legal costs, auditing services, testing, and personnel costs. Salaries and benefits are routinely 85 per cent or more of the total Operational Fund expenditures, so it is extremely important to address the following areas including the staff required for instruction as minimum salary levels for particular classes of personnel that are driven by law:

- **Class size requirements**, number of FTE needed to comply with Section 22-10A-20. NMSA 1978. Staffing patterns; class load; teaching loads. This requirement establishes averages that must be maintained when examining the total membership per grade level.

- **Minimum salary requirements** for:
  - **Certified personnel.** Section 22-10A-1 et. seq. NMSA 1978. School Personnel Act directs that salary minimum for a nine month contract shall be:
    - *Section 22-10A -7.G. NMSA 1978* - Level one licensure minimum salary - $30,000,
    - *Section 22-10A-10.D. NMSA 1978* - Level two licensure, minimum salary - $40,000,
    - *Section 22-10A-11.C. NMSA 1978* - Level three licensure, minimum salary- for a 9 and one half month contract shall be $50,000.

- **Minimum salary requirements** for:
  - **Educational assistants.** Section 22-10A-17.1 NMSA 1978. Minimum annual salary for licensed education assistants shall be twelve thousand dollars ($12,000) effective in the 2004-2005 school year.

- **Minimum salary requirements** for:
  - **A level three –B school principal or assistant school principal** shall be fifty thousand dollars ($50,000) multiplied by the applicable responsibility factor.
  - Section 22-210A-2. B. NMSA 1978 defines “responsibility factor” meaning a value of 1.20 for an elementary school principal, 1.40 for a middle school or junior high school principal, 1.60 for a high
school principal, 1.10 for an assistant elementary school principal, and 1.15 for an assistant high school principal.

The statutory requirements listed above shall be incorporated into a district or charter school's salary schedule system and be approved annually by the Board of Education or Governing Council. The schedules may be approved separately or as a part of the Operating Budget. The applications above apply to personnel regardless of the fund that is charged for that salary. It is not uncommon for the salary levels of selected categories to be addressed by the state legislature as evidenced above.

Matrices that contain general instructions on budgeting both estimated and projected expenditures by function are provided in the Tips, Tools and Resources section of this Manual. After reconciling the expenditures with available revenues, amounts must be entered into the OBMS.

Note that reference must be made to PSAB Supplement 3, Uniform Chart of Accounts for detail on function and object code definitions and appropriate use. Entries will be dependent/applicable to the various programs and activities at the school district or charter school. Notations in the matrix identify those expenditures considered appropriate for entries in specific functions. The matrix is for the expressed purpose of assisting personnel in the preparation process.

Operating Budget preparation instructions are provided by the Public Education Department, School Budget Planning and Analysis Bureau annually. The references are technical in nature and include required forms and dates for submission. Below is a sample of budgetary allocations by function for the Operational Fund. A similar illustration could be utilized for presentation purposes.
OTHER SUB FUNDS IN THE OPERATING BUDGET

BUDGETING AND ACCOUNTING

Teacherage Sub Fund – 12000 Fund Code
For the estimated and projected columns, enter revenue and expenditures anticipated by a school district or charter school for Teacherage, an account established to receipt revenue from rental of school owned facilities. Enter only Teacherage related expenses, such as payment of utilities and maintenance on the rental units into the OBMS. It is advisable for staff to review historical data and budget accordingly.

Transportation Sub Fund – 13000 Fund Code
For the estimated and projected columns, enter revenue and expenditures anticipated by a school district or charter school for “regular to and from transportation” of eligible students and shall be entered into the OBMS. Budget information is based on the distribution formula for transportation that incorporates miles driven, eligible riders and other route information for calculating the annual distribution for districts. This is a categorical distribution and may only be used for transporting students. Staff shall consult with the Transportation Bureau for specific budgeting instructions. (Reference PSAB Supplement 3, Uniform Chart of Accounts, and PSAB Supplement 19, Transportation).

Instructional Materials Sub Fund – 14000 Fund Code
For the estimated and projected columns, enter revenue and expenditures anticipated by a school district or charter school for state flow through funds. The Public Education Department’s Instructional Materials Bureau provides these distributions that will be made to districts on an annual basis. These distributions are based on legislative appropriations and are categorical in nature. A sample budget is depicted in the Tips, Tools and Resources section of this manual. (Reference PSAB Supplement 3, Uniform Chart of Accounts and PSAB Supplement 9, Instructional Materials).

SPECIAL REVENUE FUNDS – 20000

Food Service –Special Revenue Fund – 21000 Fund Code
For the estimated and projected columns, enter revenue and expenditures anticipated by a school district or charter school for Food Service operations. These entries refer to the revenues and costs of dispensing food to students and adults. It is recommended that staff review historical data when budgeting. A sample budget is depicted in the Tips, Tools and Resources section of this manual. (Reference PSAB Supplement 3, Uniform Chart of Accounts and PSAB Supplement 17, Student Nutrition).
Athletics – Special Revenue Fund - 22000 Fund Code
For the estimated and projected columns, enter revenue and expenditures anticipated by a school district or charter school for athletic related activities. Activities vary from district to district and basically reflect anticipated gate receipts as revenue and the cost of sports’ programs as expenditures. It is recommended that staff review historical data when budgeting. Staff should pay particular attention to the level of revenue generated from the various sports’ activities and budget accordingly. Athletic costs may also be budgeted in the 1000 function in the Operational fund. A sample budget is depicted in the Tips, Tools and Resources section of this manual. (Reference PSAB 3, Uniform Chart of Accounts and PSAB Supplement 18, Student Activity and Athletics).

Non-Instructional Support – Special Revenue Fund - 23000 Fund Code
This fund may or may not be formally submitted to the Public Education Department and budgeted in the formal process. This fund code is considered an agency fund and accounts for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Districts and charter schools should use this fund code to account for various activities that are by nature, non-instructional, but support the instructional process. Generally, this fund code reflects activities of “club accounts” (fund raising activities) that are managed by the school principals and/or staff that account for the revenues and expenditures in accordance with administrative procedures that are approved by the Board of Education or Governing Councils. While it is not required that this fund be budgeted formally, it is recommended that for accounting and internal control purposes a district or charter school utilize their financial management system to track revenues and expenditures for these accounts and be able to provide statistical data to club sponsors and auditors periodically in an acceptable format. (Reference PSAB Supplement 3- Uniform Chart of Accounts and PSAB Supplement 18, Student Activity and Athletics).

FEDERAL AND STATE GRANTS
For the purposes of budgeting and accounting for Federal and State Grants Supplement 4, Federal and State Grants shall be referenced for the following Special Revenue Fund types:

- Federal Flow through Grants – 24000,
- Federal Direct Grants – 25000,
- Local Grants – 26000,
- State Flow through Grants – 27000,
- State Direct Grants – 28000,
- Combined Local/State Grants – 29000.
Federal and State Grant Funding-Processes and Procedures Manual issued by the Public Education Department’s Flow through Bureau and is available on the PED website. Annually, this publication should be inserted into the Manual of Procedures for Accounting and Budgeting as PSAB Supplement 4. This is a comprehensive manual that basically comprises Supplement 4 and, although some parts are redundant to other PSAB supplements, this publication has pertinent rules, regulations, forms and definitions that may not be covered elsewhere relative to the budgeting and accounting for federal and state grants.

CAPITAL PROJECTS FUNDS

The following funds are used to account for financial resources relating to the acquisition or construction of major capital facilities. The most common source of capital projects funding is the sale of bonds or other capital financing instruments. Staff is encouraged to contact their bond advisor, if applicable, and/or the Public Education Department’s Capital Outlay Bureau for specific guidelines when budgeting. Various capital projects at the district level are often on-going and require special attention to budgeting based on what shall be received and/or disbursed for the ensuing year. The Public School Facilities Authority (PSFA) publishes statutory guidance, including the amounts of legislative appropriations, on budgeting and compliance. A sample budget is provided in the Tips, Tools, and Resources section of this manual. Reference PSAB Supplement 3, Uniform Chart of Accounts, and PSAB Supplement 16, Bonds/Capital Projects/Debt Service.

- 31100 - Bond Building
- 31200 - Public School Capital Outlay
- 31300 - Special Capital Outlay – Local
- 31400 - Special Capital Outlay – State
- 31500 - Special Capital Outlay – Federal
- 31600 - Capital Improvements HB – 33
- 31700 - Capital Improvements SB-9
- 31800 - Energy Efficiency Act

BUDGET ALLOCATIONS

SITE ALLOCATIONS

Financial allocations should be based upon data or evidence relating to the academic performance of students and the effectiveness of academic programs. In addition, data explaining relative operating efficiencies and deficiencies of all instructional support and administrative functions must be analyzed when allocating resources.
While the responsibility for developing revenue estimates lies primarily with administrators, expenditure estimates are the shared responsibility of district administrators, support personnel and individual schools. Budget guidelines may provide substantial guidance for the estimation of site expenditures through the use of standard cost allocations per-pupil estimates or other guidelines. Regardless of whether expenditures are estimated at the site or district level, these estimates are an important part of overall budget development.

Site level budgets become the basis for the expenditure side of the district or charter school budget as that information filters up through the various levels of review. Sites may receive an allocation of district resources based upon standard allocation formulas and the budgeting of these resources, exclusive of legal mandates, is at the discretion of the site under the site-based decision making model previously explained. The development of site budgets should evolve from the planning process and as such should reflect the goals and objectives of that site driven by the educational needs at the site. This focus will in turn reflect the goals and objectives set forth in the school district or charter school’s Educational Plan for Student Success (EPSS).

Current operations at the site should be evaluated as to their effectiveness and all programs should be prioritized as to their effectiveness in attaining the developed goals and objectives. It is recommended that budgets be flexible. Flexibility will diminish the need for subsequent budget changes and amendments. In addition, this approach serves to insulate the budget from potential inaccuracies relative to membership, staffing, revenue and expenditure estimates.

**METHODOLOGY TO DISTRIBUTE ALLOCATIONS**

**Units Generated Method**

A popular methodology to distribute allocations in New Mexico public schools is the *Units Generated Method*. Using the concept of the New Mexico Funding Formula, allocations are made to sites based on the number of units generated by the membership at a particular site.

First, a total amount is determined to allocate to sites by administration in the planning/preparation phase of budget development. This amount is discretionary and follows the site-based concept of distribution. Principals determine the needs and are allowed the flexibility to address the needs at their respective sites. Administrative or central office monitoring continues to take place and reports are carefully reviewed periodically. Selected account codes are issued to principals for use and may be limited or expanded as necessary. Following this *site based concept* district or charter school administration may elect to include salaries, maintenance costs and/or utilities for site
principals to manage. Administration may elect to limit the allocation to management for only classroom supplies and purchased services or travel, for example.

Some advantages to this method for site based allocations are listed below:

- **Non-categorical** – site administrators basically decide how to expend the allocation based on needs at their school site,
- **Equitable** – as the units generated by first graders at one site equals the number of units generated by other first graders at another site in the same district. Additionally, each school site receives what they “generate” rather than an allocation that may be interpreted as subjective,
- **Makes sense from an educational perspective** – addresses every student with a predetermined program cost,
- **Research based** – utilizes same cost differentials as the NM Funding Formula that mirror the established program cost of educating each category of student (ex. KG, SPED, third grade, or high school level) that have various program weight factors,
- Ideally, an increase in students/units equates to an increase in allocations – dollars follow the student,
- **Easy to understand and communicate to users**,  
- **Principals manage the budget** and are held accountable for effective results by the superintendent.

Disadvantages to this method must also be considered when allocating a discretionary budget to the site level.

- Some programs may not be addressed adequately using the units generated method. Staff must carefully consider all focus areas.
- Any problematic areas/alternative schools/special services may need additional allocations that exceed the level that this method will address.
- In the planning phase for budgeting, input from site level budget representatives, the principal and program coordinators should be considered before this method is implemented. An illustration is provided.

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**Decision making processes in school districts are complex and administrative and governance decisions are not effective, if the “problem(s)” is (are) not adequately identified before making decisions about resource allocations”. Herbert Simon, Administrative Behavior: A Study of Decision-Making Processes in Administrative Organizations.**
BUDGET MAINTENANCE

As budgeted funds are expended, periodic monitoring of the budget should be conducted in accordance with regulatory guidelines and local administrative procedures. Each level of the district’s organization should be responsible for monitoring those budget items for which it is responsible. Ideally as the budget is prepared, spending plans are developed for use in budget monitoring. For example, as principals and site budget representatives develop a site budget, the timing of planned expenditures should be noted and documented. Thus, the principal has a tool to monitor expenditures during the fiscal year.

The district or charter school’s Financial Management System (FMS) normally generates expenditures and encumbrances information at least on a monthly basis. To review budget performance, this information is compared with site spending plans by principals. The Principals may in fact monitor budgetary performance on a transaction-by-transaction basis if they have access to the accounting system. This access will vary

EXHIBIT FOR DISTRIBUTION OF BUDGET DOLLARS BY SITE

<table>
<thead>
<tr>
<th>School Site</th>
<th>Grade level</th>
<th>Enrollment</th>
<th>Cost Factor</th>
<th>Units</th>
<th>% Total Units</th>
<th>$ $ Allocated</th>
<th>$ $ Per Mem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Springs Preschool &amp; Elementary</td>
<td>KG</td>
<td>183</td>
<td>1.440</td>
<td>263,520</td>
<td>14%</td>
<td>$21,000</td>
<td>$74</td>
</tr>
<tr>
<td></td>
<td>Grade 1</td>
<td>100</td>
<td>1.200</td>
<td>120,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mountain Top Elementary</td>
<td>KG</td>
<td>167</td>
<td>1.440</td>
<td>240,480</td>
<td>11%</td>
<td>$16,500</td>
<td>$76</td>
</tr>
<tr>
<td></td>
<td>Grade 1</td>
<td>50</td>
<td>1.200</td>
<td>60,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sands Elementary</td>
<td>Grade 2</td>
<td>75</td>
<td>1.180</td>
<td>88,500</td>
<td>8%</td>
<td>$12,000</td>
<td>$63</td>
</tr>
<tr>
<td></td>
<td>Grade 1</td>
<td>115</td>
<td>1.200</td>
<td>138,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Desert Elementary</td>
<td>Grade 4</td>
<td>42</td>
<td>1.045</td>
<td>64,790</td>
<td>7%</td>
<td>$10,500</td>
<td>$59</td>
</tr>
<tr>
<td></td>
<td>Grade 5</td>
<td>62</td>
<td>1.045</td>
<td>64,790</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valley Elementary</td>
<td>Grade 4</td>
<td>117</td>
<td>1.180</td>
<td>138,060</td>
<td>7%</td>
<td>$10,500</td>
<td>$59</td>
</tr>
<tr>
<td></td>
<td>Grade 5</td>
<td>75</td>
<td>1.045</td>
<td>78,375</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pines Middle School</td>
<td>Grade 6</td>
<td>47</td>
<td>1.045</td>
<td>49,115</td>
<td>7%</td>
<td>$10,500</td>
<td>$65</td>
</tr>
<tr>
<td></td>
<td>Grade 7</td>
<td>115</td>
<td>1.250</td>
<td>143,750</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East Hills Middle School</td>
<td>Grade 7</td>
<td>288</td>
<td>1.250</td>
<td>360,000</td>
<td>26%</td>
<td>$39,000</td>
<td>$68</td>
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<tr>
<td></td>
<td>Grade 8</td>
<td>285</td>
<td>1.250</td>
<td>356,250</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ABC High School</td>
<td>Grades 9-12</td>
<td>477</td>
<td>1.250</td>
<td>596,250</td>
<td>21%</td>
<td>$31,500</td>
<td>$66</td>
</tr>
</tbody>
</table>

TOTAL DISTRICT MEMBERSHIP  $2,259  2,804.725  100%  $151,500

Each site principal will manage the actual distribution of budget dollars.
Indices by grade level reflected in NM Funding Formula
Amounts allocated do not include personnel costs.
Amount allocated will not include any infrastructure costs (ex. utilities, equipment maintenance, etc.)
These costs will be tracked per site by the Business Office.
Specific Account codes (budget) will be managed by the individual sites and departments.
*Units Generated Method for budget allocations for 2010-2011SY.
District has allocated approx. 150,000 for supplies, purchased services, travel and other non-recurring expenditures

PSAB Supplement 1 - Budget Planning, Preparation, & Maintenance
Rev. 7/11
from school to school based various factors. The various levels of review and analysis which are necessary will depend on size and complexity of the district or charter school.

Budget monitoring for the entire district should be done similarly by district administrators. Revenue, cash, and expenditure reports should be utilized to monitor fiscal and program compliance on an ongoing basis. Generally, the financial management system will provide various reports (including trial balances, cash balances and detail for all account code elements) in useful formats to aid the user in determining the status of a fund in relationship to the initial budget. The level and frequency of management’s review of the budget will vary by district or charter school. In most schools, the superintendent or designee review budget to actual comparisons at least monthly.

<table>
<thead>
<tr>
<th>ABC Public Schools</th>
<th>Comparison of Budgeted to Actual Operating Spending (detail)</th>
<th>(Emergency Reserve not included in Budgeted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budgeted Operating Expenses</td>
<td>71,570,839</td>
<td>72,182,917</td>
</tr>
<tr>
<td>Less: Emergency Reserve</td>
<td>-950,126</td>
<td>-950,126</td>
</tr>
<tr>
<td>Budget Operating Expenses Adj.</td>
<td>70,620,713</td>
<td>71,232,791</td>
</tr>
<tr>
<td>Actual Salaries and Wages</td>
<td>44,099,719</td>
<td>45,231,386</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>11,289,080</td>
<td>12,415,727</td>
</tr>
<tr>
<td>Non-Payroll</td>
<td>10,131,187</td>
<td>9,290,582</td>
</tr>
<tr>
<td>Actual Operating Expenses</td>
<td>65,519,986</td>
<td>66,937,695</td>
</tr>
<tr>
<td>Variance</td>
<td>5,100,727</td>
<td>4,295,096</td>
</tr>
<tr>
<td>Percentages</td>
<td>7.22%</td>
<td>6.03%</td>
</tr>
<tr>
<td>Variance to Budget Exp. A</td>
<td>0.87%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Budgeted Expenses Increase</td>
<td>2.16%</td>
<td>5.09%</td>
</tr>
</tbody>
</table>
ENCUMBRANCES TO AID IN BUDGETARY MAINTENANCE

The use of an encumbrance accounting system as an element of control in formal budgetary integration is widespread in governments. Such a system acts as an early warning device by controlling expenditure commitments; the government thereby significantly reduces the opportunity to over-expend an appropriation. Encumbrances are defined in the 1987 GASB Cod. Sec. 1700.129 as “commitments related to unperformed (executory) contracts for goods or services.” They are not GAAP expenditures or liabilities, but represent the estimated amount of expenditures ultimately to result if unperformed contracts in process are completed. When these commitments are realized, a liability is recognized for the goods and services received. Notwithstanding its control advantages, encumbrances are not recorded for all expenditures.

MAINTENANCE CONTROL PROCEDURES AND COMMON PRACTICES

In order to properly maintain budgetary information the following procedures are recommended:
Staff Training

- Management should seek educational opportunities to educate staff on applicable New Mexico laws as they pertain to district/charter school finances including accounting and budgeting. (It should be noted that the New Mexico Association of School Business Officials (NMSBO) provides regulatory training for school business officials and others on various aspects of finance related areas including accounting and budgeting).
- Management should require that staff possess or actively seek to build a comprehensive knowledge of the Manual of Procedures for Accounting and Budgeting.
- Trainings should be scheduled to continually inform finance staff on how to read and understand and prepare financial reports, (ex. basic knowledge of the Uniform Chart of Accounts’ definitions and elements, financial statements, expenditure and revenue reports).
- It is recommended that budgetary allocations be set aside annually to cover the costs of trainings and professional development in the areas of accounting and budgeting.

Communication of Budget Information

- Schedule meetings to inform staff on the budgetary status and identify any focus areas.
- Be certain local Administrative Procedures related to accounting, budgeting and reporting are clearly 1) established, 2) communicated, and 3) followed.
- Require that all component units report to district administration routinely as applicable. Review in depth all district or charter school budgets at least monthly.
- Secure necessary approvals for any budget adjustments from the Board of Education or Governing Council as required.
- Upon review and approval of financial reports, make necessary adjustments as required and report to the Public Education Department.

REPORTING

Public schools must take special care to demonstrate that they are exhibiting accountability in their financial accounting and transparency in their financial reporting. Reports to the board of education or governing councils and to the public should have understandable and useful formats that reflect district financial activities (and provide other important information). This financial information is valuable in order to make prudent and wise decisions, such as allocating budget resources. Meaningful reports can assist Boards of Education and Governing Councils to formulate policies that serve the needs of students both effectively and economically.
Financial Reporting to Boards of Education and Governing Councils

- Periodic reporting to the Board of Education or Governing Council is not only customary, but a required and necessary part of budgetary maintenance.
- Local policies and administrative procedures should designate the format and/or frequency of information that should be submitted for review.
- Assurance that the operations of a school district or charter school are meeting local and state policies and exhibiting transparency is critical.
- The reporting relationship should not be interpreted to mean that the Boards of Education and Governing Councils manage budget implementation. That responsibility is ultimately the superintendent’s, however; school board members and council members should be given periodic updates on the status of the Operating Budget, including revenues, expenditures and cash for all funds.
- Boards of Education and Governing Councils should be thoroughly informed of any significant issues related to changes or items of concern. This flow of information should make certain that Boards of Education and Governing Councils are thoroughly informed of issues which may affect the district/charter schools’ performance and financial position.
- Reports should “lay the groundwork” for the next budget cycle, and more importantly supply information needed for Boards and Councils to make critical policy decisions.

Some reports shall have formal BOE/Council approval such as the District and Charter School Financial Statements. Reference Audit Act 2.2.2 NMAC .This report can provide valuable information that will assist users with:

- Accounting for district owned (assets) and the amounts the district owes to others, (liabilities); and, what is left (net assets) after liabilities have been satisfied;
- Determination of whether the fiscal status is improving or declining;
- Ability to cover costs and continue daily operations;
- Sufficiency of various programs and verification that costs are covered by user fees, charges, and grants;
- Costs that support student achievement;
- Types of revenue, sources of district/charter school revenues and how that revenue can be used to support student achievement;
- Major financial commitments of the district or charter school;
- District/charter schools’ efforts to manage and limit risk;
- Significant finance related legal or contractual provisions and their compliance;
- Cost of using capital assets to provide services, etc.

Reference PSAB Supplement 5, Financial Statements.
Monthly and/or Periodic Reporting

Selected revenue, expenditure and cash reports can be generated from the district’s or charter school’s Financial Management System in formats that are easy to read and understand. The Public Education Department requires numerous financially related reports; however, district or charter school’s local administrative procedures should define the format and timeframes for reporting other than those submitted to the Department. Finance report formats could include reports such as a Budget to Actual Comparisons, Transaction Journal, or a Quarterly Cash Report. Required information such as Budget approvals, a Disposition of Assets report, Budget Adjustment Requests (BAR’s), or grant approvals shall also be presented/approved as part of the reporting process. The intent should be to supply the Board of Education or Governing Council with relevant and meaningful information that expresses entities’ finance operations in an understandable and transparent way.

Reference PSAB Supplement 5, Financial Statements, and PSAB 7, Cash Controls.

| Administration should prepare/create reports necessary to keep all stakeholders informed including Boards of Education, Governing Councils, site administrators, staff and community. Information such as meeting notices, financial sub-committee meeting times, Final Operating Budget and annual audits, etc., should also be made available at public meetings and on web sites, etc. on a regular basis. Sample reports are included in the Tips, Tools and Resources section of this Manual. |

OPERATING BUDGET MANAGEMENT SYSTEM (OBMS)

The Public Education Department conducts training annually on the use of the OBMS system as a means of building the Operating Budget, printing necessary reports and managing budget information for districts, charter schools and Regional Education Cooperatives (REC’s). This is a web based application designed to import and export budget information with a defined approval process required in order for the information to be finally entered into the district or charter school or REC’s FMS. Users are approved from the district or charter school or RECs and that access is secured with an authorized log-in and password. This versatile system continues to be streamlined periodically dependent on the needs of entities to create and manage budgetary data. Reference www.ped.state.us for specific instructions and guidelines

Upon finalizing the planning and preparation phase of budget development, school districts and charter schools make entries into the OBMS as required by the Public Education Department. The entries made should have been based on extensive research by school personnel, meet all applicable budgeting requirements, and reflect the instructional goals and objectives set forth by the Boards of Education or Governing Councils.
The OBMS consists of four major functions, 1) budget entry, 2) budget adjustments/maintenance, 3) financial data (actuals) reporting, and 4) requests for reimbursement (RFR). This system generates e-mails, allows the user to create, enter, submit, and view entries.

1) Import/Export Data For the Initial Operating Budget

- Budget analysts create a template and send to the district, charter school or REC,
- User makes revenue and expenditure entries for appropriate fund –import and export features allow user to transfer data from local FMS if desired.
- Amounts entered are reconciled by fund (a fund summary) and fund amounts are routed to various departments at the Public Education Department for approval. (Example: Transportation, Title I, IDEA).
- Entire Operating Budget is submitted - Projected revenue must match projected expenditures in each fund.
- A menu of reports is available on the OBMS for users to review and submit documents for final approval to Boards of Education, Governing Councils or Regional Education Cooperatives.

2) Budget Adjustments Requests or BAR’s

Budget amendments or adjustments are mandated by the Public Education Department for budgeted funds where the reallocation may be necessary to address unanticipated needs or new programs, etc.

The following types of adjustments are made utilizing the OMBS.

- **Initial Budget** - Establishes budget authority for the first time.
- **Increase** - Budget authority is established, a BAR increases that authority. Aligns the available budget authority with the revenue source and amount.
- **Decrease** - Decreases the amount of budget authority to align with source and amount of revenue available.
- **Transfer BAR** - Inter-function transfer of budget authority. This adjustment requires the approval of the local Board of Education, or Governance Council and the Public Education Department pursuant to 6.20.2.10 B. NMAC.
- **Maintenance BAR** - Intra-function transfer of budget authority. Transfers within a function do not currently require Public Education Department approval and are
not necessarily required to be entered into the OBMS; however, this maintenance activity is encouraged.

The following is an Approval Process Flowchart for the creation of Budget Adjustment Requests per the Public Education Department utilizing OBMS.

THE OBMS APPROVAL CYCLE

District or charter schools receive e-mails electronically notifying school personnel in each stage of the cycle. Disapproved requests generally need supporting documentation or additional justification in order to gain final approval.

3) Actuals Reporting

- Involves the submission of actual revenues and expenditures (a summary report) on the district or charter schools’ general ledger on a monthly or quarterly basis. Account codes used must be in accordance with the Uniform Chart of Accounts in PSAB Supplement 3. Specific instructions are updated annually and are available on the Public Education Department website. Districts and Charter Schools also complete a Cash Report on the Public Education Department format that is also due at a specified time.

4) Request for Reimbursement (RFR)

- Involves the request of reimbursement for federal flow though funds 24000 through 27000. The expenditures related to federal programs must be initiated by
the district or charter school followed by a reimbursement request reflecting the actual expenditures by the district or charter school. Following program guidelines and instructions by the Public Education Department, districts and charter school are reimbursed for all eligible expenditures. Reference PSAB 4, Federal and State Grants.

BUDGET FORECASTING

Financial forecasting is the practice of projecting the quantitative impact of trends and changes in a school district or charter school’s operating environment on its future operations. It is, therefore an integral part of a school district’s ongoing planning efforts. Financial forecasting is important for several reasons.

- First, forecasting facilitates planning efforts by quantifying the future costs/benefits of strategic decisions. These budgetary priorities may be evaluated based upon their long-term impacts.

- Secondly, forecasting identifies clear trends, needs, and issues that must be addressed and evaluated in the preparation of budgets. For example, in a school district or charter school where enrollment forecasts reveal growing student populations, administrators recognize the need for increased resource allocations for additional staff and/or facilities.

- Finally, forecasting enhances decision making at all levels of district and school administration. Forecasts provide valuable insight into the future issues that may affect the school district allowing administrators to deal with them proactively, rather than reactively. It creates the framework for anticipatory management of the school district or charter school.

FORECASTING FOR BUDGET DEVELOPMENT

One of the most important components of budget development is financial forecasting. There are two reasons for this importance. First, forecasting for both financial and related items (e.g. membership projections), creates a basis for assumptions made in the preparation of budgets. Projected enrollments, revenues, costs of salary treatments, increased costs of supplies, etc. are important elements in setting baseline budgetary guidelines for the district or charter school. Salary and benefits, for example, generally constitute approximately 85% of the Operational sub fund expenditures. Thus, predictions for future salary treatments become an extremely important forecast in budget development. Forecasting also provides a fiscal impact analysis that may be integrated into the budget development process and those decisions can and should be evaluated for their long term results. Since the funding for New Mexico schools is basically determined annually by the State Legislature, staff must continually update
and review any basic assumptions made when forecasting need and the revenue that supports projected costs.

Before forecasts are prepared, several tools for increasing their reliability should be considered.

- **Clarify the intended purpose of the forecast.** The purpose and prospective audience of the forecast may require a certain data set and assumptions.

- **Match the future time frame with the purpose of the forecast.** Time frames for forecasts will vary according to the purpose (type) of forecast being prepared.

- **Ensure the accuracy of basic data.** Original source data should be used (if applicable) rather than extrapolated or summarized versions. These sources should be documented and verified if questions concerning data validity arise.

- **Specify the assumptions.** Assumptions should be based upon real world data rather than theory. These assumptions should be documented and made explicit when forecasts are presented/reviewed.

- **Be consistent in calculations.** Spreadsheet programs are recommended in preparing forecasts to ensure the accuracy and consistency of calculations.

- **Examine data critically.** A scan of the data may reveal anomalies or errors in the data that may adversely affect forecasts. Further, a comparison of initial values and forecasted values should be completed to ensure the reasonableness of forecasted values.

- **Recognize that forecasting requires insight and intuition.** Some variables or forecasting assumptions will always be a best guess. Forecasting experience provides a basis for these estimates.

The tools listed above were outlined in an article by Dr. Linda Miller and Dr. Maureen McClure in *School Business Affairs*. “Reliable School Budget Forecasts: Seven Tools that Work,”

A variety of financial and related forecasts is prepared during the budget development process and may include:

- Student membership projections,
- Dropout rates,
- Birth rates,
- Revenue and expenditure projections,
- Assessed property valuations,
- Significant trends or shifts in the local economic base,
• All operating costs, minimum salaries, other services and supplies,
• Utilities and facility maintenance,
• State mandates such as the number of instructional days, pupil teacher ratios, etc.,
• Changes on retirement match amounts or increases of district/charter school insurance costs (property/liability, workmen’s, compensation, etc.).

Methods of Estimation

Several methods may be used to estimate expenditures when forecasting; however, it must be noted that no single best method for estimating all expenditures exists. Certain methods are preferable for estimating certain expenditure categories. For example, although extrapolation from historical data is a very useful method for estimating utility costs, the requirements technique listed below may be more useful for estimating staff costs for regular and special education programs.

Requirements – Estimates are based upon unit prices times the quantity needed.

Extrapolations – Estimates are based upon historical and current expenditure trends

Correlations – Estimates are based upon relationships between variables.

Fixed Limits/Standard Allocations – Estimates are pre-established on a unit/maximum or other basis.

<table>
<thead>
<tr>
<th>METHODS/APPROACHES</th>
<th>USED TO DETERMINE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requirements</td>
<td>Staff for new programs</td>
</tr>
<tr>
<td>Extrapolation</td>
<td>Overtime costs</td>
</tr>
<tr>
<td>Standard Allocation</td>
<td>Salary schedule changes</td>
</tr>
<tr>
<td>Correlation</td>
<td>Staffing based upon membership</td>
</tr>
<tr>
<td>Requirements</td>
<td>Additional supplies needed for new programs</td>
</tr>
<tr>
<td>Extrapolation</td>
<td>Added costs due to increased program usage</td>
</tr>
<tr>
<td>Standard Allocation</td>
<td>Per student or unit allocations</td>
</tr>
<tr>
<td>Correlation</td>
<td>Supply-repair costs/equipment purchases</td>
</tr>
</tbody>
</table>

Other Areas to Consider When Forecasting

(Also consider these questions in the Budget Planning/Preparation Phase)
Is new staff required?

Are facilities meeting current needs; future needs?

Are there changes in the number or scope of programs/users?

What is the cost of movement on the salary schedules for experience over time?

What is the cost for tier movement of instructional personnel?

What is the cost of site requests for classroom supplies and materials?

Has the cost of liability or property insurance increased or decreased?

Are there additional costs for maintenance and operations of plant? Utilities costs?

Has the district assessed valuation Increased or decreased?

Should the district continue contractual obligations, and/or renew purchased service agreements?

Has management considered the costs of accumulated sick leave for all personnel?

If applicable, have union negotiations presented significant or costly requests for management to consider related to wages or working conditions?

Has administration considered a shorter instructional or work week for students or staff?

Has administration investigated alternatives or methods available to instruct students?

**Cash Forecasts**

The cash forecast is critical to ensuring that the school district or charter school will not experience a fiscal crisis from a cash shortage.

Because cash shortages may make a school district or charter school unable to meet its payment obligations, shortages can also affect its bond rating. Accurate cash forecasts enable a school district to anticipate potential cash shortages and take preemptive corrective actions.
Ideally, cash forecasts should be developed for the fiscal year on a monthly (or biweekly depending upon payroll periods) basis. These forecasts should at a minimum, consider the timing of federal and state reimbursements, other receipts, disbursements and outstanding loans to other funds.

_The Public Education Department School Budget Finance and Analysis Bureau should be contacted immediately if a district or charter school anticipates a cash shortfall._

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**FORECASTING - ANNUALLY AND MULTI-YEAR**

Consider the following as basic steps in the planning process to predict future estimates that are meaningful and productive for your district or charter school.

- Conduct formal and or informal needs assessments.

- Design programs to attain the school district goals and objectives based upon the results of the needs assessments. (Facilities Master Plans (required) are an excellent example of forecasting certain district needs as they include financial data and information related to facilities, projections on membership and economic data, etc. (Reference PSAB Supplement 12, Capital Assets).

- Review the state goals and objectives of the school district or charter school.

- Prepare program budgets to support the program implementation plans. These plans will mirror the entities’ Educational Plan for Student Success that has been approved by the Board of Education or Governing Council and implemented by school administration.
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