



What the Board Needs to Know About Line-Item Budgets

Background

In IASB’s May 29, 2020 Board Briefs, we included the link to [On the Board Agenda: Summer 2020](#). Under Standard 5: Fiscal Responsibility, the sample board governance calendar included the following suggested summer agenda item:

Complete Discussions to Establish a Line Item Budget: Many times, a board will approve a maximum budget in April, and then work on establishing a line item budget or a working budget, which is a subset of the maximum budget. The board’s involvement in this may be as little as review of the line item budget and as much as approving the major changes (example: additional staff or budget reductions) from one year to the next.

What is a line-item budget?

A line-item budget is a way to breakdown the overall budget into separately identified cost centers, programs or like expenditures in the district’s accounting and financial reporting systems. It is intended to demonstrate that the resources approved by the board are being used as intended by the board. For example, if the board approved more resources for a certain program, does the line-item budget show that movement of resources into that program? Conversely, if the board approved budget reductions, does the line-item budget demonstrate that reduction was taken out of the line item budget?

The federal government, as administered through the Iowa Department of Education, prescribes an accounting code structure that Iowa school districts must follow when developing line item budgets. This coding structure helps districts track resources and expenses throughout the year.

Here are some examples of how a line item budget may be organized:

Grouping Type	Budget Control Level Example	Specific Examples
Cost Center	Department School building	Board development budget School building supply budget
Program	Funds allocated for a specific purpose or priority	Gifted and Talented Program Homeschool
Like expenditure	Like expenditures	Salaries; Benefits; Purchased services

Why is a line item budget important?

A line item budget is intended to better help district administration and staff manage and monitor the overall budget by breaking down the budget into smaller subsets of the budget –line items– that are then easier to manage and monitor throughout the year. For example, if each school has its own supply budget, each school’s front office can see by reviewing periodic reports throughout the year, what they have spent so far and how much more they have to spend before year end. The same goes for those involved in say, the Gifted and Talented program – what was the program budget to begin with, how much has been spent already, and how much more is left to spend before there is a chance of exceeding the line item budget, and what, if any, mid-course corrections are needed?

Or more succinctly, a line item budget provides day-to-day guidance to answer the question – “can we afford to make this purchase?” That is, a line item budget also helps strengthen a district’s internal control, in that system alerts can be set to avoid overspending on a line-item basis.

What is the board’s role relative to the district’s line item budget?

Once the board has approved the overall certified budget, administration will put together the many groupings of the line item budget. It is administration’s job to put together the line-item budget, and then use it to manage and monitor the overall budget. It is the board’s job to gain some assurance that a line item budget has been developed, is in place and is being used as the basis to manage and monitor the overall budget throughout the year.

As a board member, what questions should board members be asking?

- **Has a line item been developed and put into place?**
 - At a board meeting early in the fiscal year, you may want to ask administration to discuss the line item budget development process.
- **Are the board’s educational and operational priorities (additions as well as reductions) reflected in the line item budget?**
 - At the board table, the board may want to review the budget priorities and how they have been reflected in the line item budget.
- **How will the board know if the district is staying within the parameters of the line-item budget throughout the year?**
 - By law, the board is to receive monthly financial reports. These monthly reports should include a year to date comparison of resources and expenses to the certified budget as well as the line-item budget. The board may want to spend time each month reviewing the financial report and have a discussion of major changes in resources and expenses from one month to the next. See also [Sample Questions to Ask When Reviewing Your District Monthly Financial Reports](#).