

FUND BALANCE POLICY

The Fund Balance Policy establishes the procedures for reporting the fund balance in the District's governmental fund financial statements. Certain commitments and assignments of the fund balance will help ensure that there will be adequate financial resources to protect the District against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the Chief Business Official to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Fund Balance is essentially the difference between the assets and liabilities reported in a governmental fund. There are five components of fund balance, each of which identifies the extent to which the District is bound to honor constraints on the specific purpose for which amounts can be spent.

- Nonspendable fund balance (*inherently nonspendable*)
- Restricted fund balance (*externally enforceable limitations on use*)
- Committed fund balance (*self-imposed limitations on use*)
- Assigned fund balance (*limitation resulting from intended use*)
- Unassigned fund balance (*residual net resources*)

The first two components listed above are not addressed in this policy due to the nature of their restrictions. An example of nonspendable fund balance is inventory. Restricted fund balance is either imposed by law or constrained by grantors, contributors, or laws or regulations of other governments.

COMMITTED FUND BALANCE

The Board of Trustees, as the District's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as a majority vote or adoption (or revisions) of the District's budget. The Board of Trustees hereby establishes the following committed fund balance:

A. *Adult Education*

The District has elected to continue the use of the Adult Education Fund 11 for the receipt and expenditure of Federal and Local funds for Adult Education programs.

B. *Deferred Maintenance*

The District has elected to continue the use of the Deferred Maintenance Fund 14 until the funds are depleted.

ASSIGNED FUND BALANCE

A. *Carryover Balances*

The carryover fund balance is identified by the Superintendent at the close of each fiscal year, subject to approval of the Board of Trustees, and is comprised of the district and departmental/site carryover amounts.

B. Basic Aid Reserve

As a basic aid district, fluctuations in property values as well as the potential for cuts or other legislative action can change the district's revenue outlook, affecting basic aid revenue. In order to offset any such reduction or fluctuations in revenue, the district will maintain a Basic Aid Reserve, within the General fund, in addition to any other reserve fund established by this Board. The Basic Aid Reserve shall be separate from all other funds and shall only be used as specified in this policy.

Basic Aid Reserve may be used only to fund expenses related to changes in enrollment, offsets to decreases in property tax revenue, non-recurring expenses, and ongoing expenses in deficit years. The Basic Aid Reserve shall not be a special reserve fund but rather shall be a component of the ending balance of the district's General fund.

Funding the Basic Aid Reserve

The target minimum funding for the Basic Aid Reserve shall be an amount at least equal to the difference between the property tax revenue received by the district and the base revenue limit allocated to the district by the State of California.

The Superintendent is authorized to develop regulations to implement this policy. This policy may be reviewed by the Board of Trustees at any time. It will be reviewed when the Basic Aid Reserve reaches its target.

As part of the approval of the annual budget, the Board shall consider any proposed use of Basic Aid Reserve Fund principal and income and shall take separate action to approve such uses.

AUTHORITY TO ASSIGN

The Fund Balance Policy delegates the authority to assign amounts to be used for specific purposes to the Superintendent for the purpose of reporting these amounts in the annual financial statements. Any funds set aside as Assigned Fund Balance must be reported to the Board of Trustees at their next regular meeting. The Board of Trustees has the authority to remove or change the assignment of the funds with a simple majority vote.

UNASSIGNED FUND BALANCE

These are residual positive net resources of the general fund in excess of what can properly be classified in one of the other four categories. There are some reserves that do not meet the requirements of the components of fund balance. For financial statement reporting purposes these reserves are included in unassigned fund balance. This includes:

- **Minimum Reserve** – The district shall maintain a reserve, within the General fund, in an amount of not less than four and one-half percent (4.5%) or the amount required by the State of California. The Minimum Reserve shall apply toward the 3% minimum Reserve for Economic Uncertainties required by the State of California. The primary purpose of this reserve is to avoid the need for service level reductions in the event of an economic downturn which causes revenues to come in lower than budget. This reserve may be increased from time to time in order to address specific anticipated revenue shortfalls (state actions, etc.).

REFERENCES / EDUCATION CODE

42120 et seq.; 42238(h), Basic Aid; Title 5 California Code of Regulations: 5450, Reserve