

Morgan Hill USD

Board Policy

Business and Noninstructional Operations

BP 3100(a)

BUDGET

The Governing Board recognizes its critical responsibility for adopting a sound budget ~~for~~ each fiscal year which is aligned with the district's vision, goals, ~~and priorities,~~ local control and accountability plan (LCAP), and other comprehensive plans. The district budget shall guide administrative decisions and actions throughout the year and shall serve as a tool for monitoring the fiscal health of the district.

(cf. 0000 - Vision)

(cf. 0200 - Goals for the School District)

(cf. 0400 - Comprehensive Plans)

(cf. 0460 - Local Control and Accountability Plan)

(cf. 3000 - Concepts and Roles)

(cf. 3300 - Expenditures and Purchases)

(cf. 3460 - Financial Reports and Accountability)

(cf. 9000 - Role of the Board)

The district budget shall show a complete plan and itemized statement of all proposed expenditures and all estimated revenues for the following fiscal year, together with a comparison of revenues and expenditures for the current fiscal year. The budget shall also include the appropriations limit and the total annual appropriations subject to limitation as determined pursuant to Government Code 7900-7914. (Education Code 42122)

Budget Development and Adoption Process

~~The Superintendent or designee shall establish an annual budget development process and calendar in accordance with the single budget adoption process described in Education Code 42127(i). He/she shall annually notify the County Superintendent of Schools of the district's decision to use the single budget adoption process in the subsequent year.~~

In order to provide guidance in the development of the budget, the Board shall annually establish budget priorities based on identified district needs and goals and on realistic projections of available funds.

The Superintendent or designee shall oversee the preparation of a proposed district budget for approval by the Board and shall involve appropriate staff in the development of budget projections.

The Board ~~encourages public input in the budget development process and~~ shall hold public hearings on the proposed budget and meetings in accordance with Education Code 42103 and 42127.

(cf. 9320 - Meetings and Notices)

(cf. 9322 - Agenda/Meeting Materials)

(cf. 9323 - Meeting Conduct)

The Board shall adopt the district budget on or before July 1 of each year. (Education Code 42127)

At a public meeting scheduled on a date after the public hearing on the budget, the Board shall, following its adoption of the LCAP or an annual update to the LCAP, adopt the budget at the same meeting. The budget shall include the expenditures necessary to implement the LCAP or the annual update to the LCAP. (Education Code 42127, 52062)

The budget that is formally adopted by the Board shall adhere to the the state's Standardized Account Code Structure as ~~be in the format~~ prescribed by the Superintendent of Public Instruction. (Education Code 42126, 42127)

The Superintendent or designee may supplement this format with additional information as necessary to effectively communicate the budget to the Board, staff, and public.

No later than five days after the Board adopts the district budget or by July 1, whichever occurs first, the Board shall file with the County Superintendent of Schools the adopted district budget and supporting data. The budget and supporting data shall be maintained and made available for public review. (Education Code 42127)

(cf. 1340 - Access to District Records)

If the County Superintendent disapproves or conditionally approves the district's budget, the Board shall review and respond to his/her recommendations at a public meeting on or before October 8. The response shall include any revisions to the adopted budget and any other proposed actions to be taken as a result of those recommendations. (Education Code 42127)

BUDGET (continued)**Budget Advisory Committee**

The Superintendent or designee may appoint a budget advisory committee composed of staff, Board representatives, and/or members of the community.

The committee shall develop recommendations during the budget development process and its duties shall be assigned each year based on district needs. All recommendations of the committee shall be advisory only and shall not be binding on the Board, ~~or the Superintendent or designee.~~

(cf. 1220 - Citizen Advisory Committees)

(cf. 2230 - Representative and Deliberative Groups)

(cf. 3350 - Travel Expenses)

(cf. 9130 - Board Committees)

(cf. 9140 - Board Representatives)

Budget Criteria and Standards

~~In developing the district budget, the~~ Superintendent or designee shall develop a district budget in accordance with state criteria and standards specific in 5 CCR 15440-15450 as they relate to projections analyze criteria and standards adopted by the State Board of Education which address estimation of funded average daily attendance (ADA), projected enrollment, ratio of ADA to enrollment, local control funding formula projected revenue limit, salaries and benefits, other revenues and expenditures, facilities maintenance, deficit spending, unrestricted general fund balance, and reserves. In addition, he/she The budget review shall provide the also identify supplemental information specified in 5 CCT 15451 which addresses the methodology and budget assumptions used , regarding contingent liabilities, use of one-time revenues for ongoing expenditures, use of ongoing revenues for one-time expenditures, contingent revenues, contributions, long-term commitments, unfunded liabilities, and the status of labor agreements, the LCAP, and LCAP expenditures. (Education Code ~~33127, 33128, 33128.3, 33129, 42127.01~~; 5 CCR 15440-15451)

The Board shall establish and maintain a general fund reserve for economic uncertainty that meets or exceeds the requirements of law. (Education Code 33128.3; 5 CCR 15450)

The district budget shall provide for increasing or improving services for unduplicated students at least in proportion to the increase in funds apportioned on the basis of the number and concentration of unduplicated students in accordance with 5 CCR 15496. Unduplicated students are students who are eligible for free or reduced-price meals, English learners, and/or foster youth. (Education Code 42238.07; 5 CCR 15496)

(cf. 3553 - Free and Reduced Price Meals)

(cf. 6173.1 - Education for Foster Youth)

(cf. 6174 - Education for English Learners)

BUDGET (continued)

The Board may establish other budget assumptions or parameters which may take into consideration the stability of funding sources, legal requirements and constraints on the use of funds, anticipated increases and/or decreases in the cost of services and supplies, ~~category~~ program requirements, and any other factors necessary to ensure that the budget is a realistic plan for district revenues and expenditures.

(cf. 2210 - Administrative Discretion Regarding Board Policy)
(cf. 3110 - Transfer of Funds)

BUDGET (continued)**Long-Term Financial Obligations**

~~The district's current year budget and multi-year projections shall include adequate provisions for addressing the district's long-term financial obligations, including, but not limited to, long-term obligations resulting from collective bargaining agreements, financing of facilities projects, unfunded or future liability for retiree benefits, and accrued workers' compensation claims.~~

~~(cf. 4141/4241 - Collective Bargaining Agreement)
(cf. 4143/4243 - Negotiations/Consultation)
(cf. 4154/4254/4354 - Health and Welfare Benefits)
(cf. 7210 - Facilities Financing)
(cf. 9250 - Remuneration, Reimbursement and Other Benefits)~~

Fund Balance

~~Fund balance measures the net financial resources available to finance expenditures of future periods. The district's Fund Balance will be maintained to provide the district with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing.~~

~~Fund Balance of the district may be committed for a specific source by formal action of the Board. Amendments or modification to the committed fund balance must also be approved by formal action of the Board. Committed fund balance does not lapse at year-end. The formal action required to commit fund balance shall be by board resolution or majority vote.~~

~~The Board delegates authority to assign fund balance for a specific purpose to the Chief Business Official of the district.~~

Fund balance is essentially the difference between the assets and liabilities reported in a governmental fund. There are five separate 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.

The district shall classify fund balances in compliance with Governmental Accounting Standards Board (GASB) Statement 54, as follows:

- 1. **Nonspendable Fund Balance** includes amounts that are not expected to be converted to cash, such as resources that are not in a spendable form ~~consists of funds that cannot be spent due to their form~~ (e.g. inventories and prepaids) ~~or funds that legally or contractually must be maintained intact~~ that are legally or contractually required to be maintained intact.
- 2. **Restricted Fund Balance** includes amounts constrained to specific purposes by their providers or by law. ~~consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.~~

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BUDGET (continued)

- 3. **Committed Fund Balance** includes amounts constrained to specific purposes by the Board.

For this purpose, all commitments of funds shall be approved by a majority vote of the Board. The constraints shall be imposed no later than the end of the reporting period (June 30), although the actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements.

- 4. ~~consists of funds that are set aside for a specific purpose by the district's highest level of decision making authority (governing board). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitation placed on the funds.~~

- 5. **Assigned Fund Balance** includes amounts which are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed.

The Board delegates authority to assign funds to the assigned fund balance to the Superintendent and authorizes the assignment of such funds to be made any time prior to the issuance of the financial statements. The Superintendent may further delegate the authority to assign funds at his/her discretion.

- 6. ~~consists of funds that are set aside with the intent to be used for a specific purpose by the district's highest level of decision making authority or a body of official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in unassigned fund balance.~~

- 7. **Unassigned Fund Balance** includes amounts that are available for any purpose.

When multiple types of funds are available for an expenditure, the district shall first utilize funds from the restricted fund balance as appropriate, then from the committed fund balance, then from the assigned fund balance, and lastly from the unassigned fund balance.

The Board intends to maintain a minimum assigned and unassigned fund balance in an amount equal to two months of operating expenses (approximately 17% of total General Fund expenditures) as recommended by the Government Finance Officers Association [1]the Board deems sufficient to maintain fiscal solvency and stability and to protect the district against unforeseen circumstances.

If the assigned and unassigned fund balance falls below the level set by the Board due to an emergency situation, unexpected expenditures, or revenue shortfalls, the Board shall develop a plan to recover the fund balance which may include dedicating new unrestricted revenues, reducing expenditures, and/or increasing revenues or pursuing other funding sources.

- ◆8. ~~consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.~~

~~The first two components listed above are not addressed in this policy due to the nature of their restrictions. It is the responsibility of the CBO to report all Nonspendable Funds and Restricted Funds appropriately in the district's financial statements. This policy is focused on the financial reporting of unrestricted fund balance, or the last three components listed above and are further defined below:~~

~~For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first and then unrestricted. Expenditures incurred in the unrestricted fund balances shall be reduced first from the committed fund balance, then from the assigned fund balance and lastly, the unassigned fund balance.~~

~~The Board recognizes that good fiscal management comprises the foundational support of the entire district. To make that support as effective as possible, the Board intends to maintain a minimum fund balance of three percent of the district's general fund annual operating expenditures. If a fund balance drops below three percent, the Board will develop a plan to replenish the fund balance to the established minimum level within two years.~~

Reserve Balance

The district budget shall include a minimum reserve balance for economic uncertainties that is consistent with the percentage or amount specified in 5 CCR 15450.

In any year that the district is notified by the Superintendent of Public Instruction that the amount of monies in the state Public School System Stabilization Account equals or exceeds three percent of the combined total of general fund revenues appropriated for

school districts and allocated local proceeds of taxes, the district budget shall not contain a combined assigned or unassigned ending general fund balance that is in excess of 10 percent of these funds. (Education Code 41202, 42127.01)

Long-Term Financial Obligations

The district's current-year budget and multiyear projections shall include adequate provisions for addressing the district's long-term financial obligations, including, but not limited to, long-term obligations resulting from collective bargaining agreements, financing of facilities projects, unfunded or future liability for retiree benefits, and accrued workers' compensation claims.

(cf. 4141/4241 - Collective Bargaining Agreement)

(cf. 4154/4254/4354 - Health and Welfare Benefits)

(cf. 7210 - Facilities Financing)

(cf. 9250 - Remuneration, Reimbursement and Other Benefits)

The Board shall approve a plan for meeting the district's long-term obligations to fund nonpension, other postemployment benefits (OPEBs). This plan shall include a specific funding strategy and the method that will be used to finance the district's annual fiscal obligations for such benefits in a manner that continually reduces the deficit to the district to the extent possible. The Board reserves the authority to review and amend the funding strategy as necessary to ensure that it continues to serve the best interests of the district and maintains flexibility to adjust for changing budgetary considerations.

When the Superintendent or designee presents a report to the Board on the estimated accrued but unfunded cost of OPEBs, the Board shall disclose, as a separate agenda item at the same meeting, whether or not it will reserve a sufficient amount of money in its budget to fund the present value of the benefits of existing retirees and/or the future cost of employees who are eligible for benefits in the current fiscal year. (Education Code 42140)

When the Superintendent or designee presents a report to the Board on the estimated accrued but unfunded cost of workers' compensation claims, the Board shall disclose, as a separate agenda item at the same meeting, whether or not it will reserve in the budget sufficient amounts to fund the present value of accrued but unfunded workers' compensation claims or if it is otherwise decreasing the amount in its workers' compensation reserve fund. The Board shall annually certify to the County Superintendent the amount, if any, that it has decided to reserve in the budget for these costs. The Board shall submit to the County Superintendent any budget revisions that may be necessary to account for this budget reserve. (Education Code 42141)

Budget Amendments

No later than 45 days after the Governor signs the annual Budget Act, the Superintendent or designee shall make available for public review any revisions in budgeted revenues and expenditures which occur as a result of the funding made available by that Budget Act. (Education Code 42127)

Whenever revenues and expenditures change significantly throughout the year, the

Superintendent or designee shall recommend budget amendments to ensure accurate projections of the district's net ending balance. When final figures for the prior-year budget are available, this information shall be used as soon as possible to update the current-year budget's beginning balance and projected revenues and expenditures.

In addition, budget amendments shall be submitted for Board approval as necessary when collective bargaining agreements are accepted, district income declines, increased revenues or unanticipated savings are made available to the district, program proposals are significantly different from those approved during budget adoption, interfund transfers are needed to meet actual program expenditures, and/or other significant changes occur that impact budget projections..

~~Committed Fund Balance~~

~~The Board, 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 a majority vote or resolution. These committed amounts cannot be used for any other purpose unless the Government Board removes or changes the specific use through the same type of formal action taken to establish the commitment. Board action to commit fund balance needs to occur within the fiscal reporting period, no later than June 30th; however, the amount can be determined subsequent to the release of the financial statements. At the time of adoption of this policy, the district does not have any reserves that meet this component of fund balance.~~

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~~BUDGET (continued)~~

~~Assigned Fund Balance~~

~~Amounts that are constrained by the district's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the CBO for the purpose of reporting these amounts in the annual financial statements.~~

~~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 fore mentioned components of fund balance. For financial statement reporting purposes these reserves are included in unassigned fund balance. This includes:~~

- ~~**Reserve for Economic Uncertainty Reserve** The district will maintain an economic uncertainty reserve of at least three percent of total General Fund operating expenditures (including other financing). The primary purpose of this reserve is to avoid the need for service level reductions in the event an economic downturn causes revenues to come in lower than budget. This reserve may be increased from time to time in order to address specific anticipated revenue short falls (state actions, etc). In the event that the balance drops below the established minimum level, the district's Board will develop a plan to replenish the fund balance to the established minimum level within two years.~~

~~Any budget revision that will result in the Unassigned Fund Balance dropping below the minimum level will require the approval of the district's Board.~~

Fund Balance Classification

~~The district considers restricted fund balances to have been spent first when expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the district considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.~~

~~This policy is in place to provide a measure of protection for the district against unforeseen circumstances and to comply with GASB Statement No.54. No other policy or procedure supersedes the authority and provisions of this policy.~~

~~This policy should be revisited each year for review.~~

BUDGET (continued)

Legal Reference:

EDUCATION CODE

1240 Duties of county superintendent of schools

33127-33131 Standards and criteria for local budgets and expenditures

~~35035 Powers and duties of superintendent~~

~~35161 Powers and duties, generally, of governing boards~~

~~41202 Determination of minimum level of education funding~~

42103 Public hearing on proposed budget; requirements for content of proposed budget

42122-42129 Budget requirements

42130-42134 Financial certifications

42140-42141 Disclosure of fiscal obligations

~~42238-42251 Apportionments to districts, especially:~~

~~42238.01-42238.07 Local control funding formula~~

42602 Use of unbudgeted funds

~~42605 Tier 3 categorical flexibility~~

42610 Appropriation of excess funds and limitation thereon

~~44518-44519.2 Chief business officer training program~~

45253 Annual budget of personnel commission

45254 First year budget of personnel commission

~~52060-52077 Local control and accountability plan~~

GOVERNMENT CODE

7900-7914 Appropriations limit

CODE OF REGULATIONS, TITLE 5

15060 Standardized account code structure

15440-15451 Criteria and standards for school district budgets

~~15494-15496 Local control funding formula, expenditures~~

Management Resources:

CSBA PUBLICATIONS

~~Maximizing School Board Governance: Budget Planning and Adoption, 2006~~

~~Maximizing School Board Governance: Understanding District Budgets, 2006~~

~~School Finance CD-ROM, 2005~~

CALIFORNIA DEPARTMENT OF EDUCATION PUBLICATIONS

~~California School Accounting Manual~~

~~New Requirements for Reporting Fund Balance in Governmental Funds, January 7, 2011~~

FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM PUBLICATIONS

~~Fiscal Oversight Guide for AB 1200, AB 2756 and Subsequent Related Legislation, September 2006~~

GOVERNMENT FINANCE OFFICERS ASSOCIATION

~~Best Practice: Appropriate Level of Unrestricted Fund Balance in the General Fund, 2009~~

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

~~Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, March 2009~~

~~Statement 45, Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions, June 2004~~

~~Statement 34, Basic Financial Statements and Management's Discussion and Analysis—For State and Local Governments, June 1999~~

Management Resources continued: (see next page)

BUDGET (continued)

Management Resources: (continued)

CALIFORNIA DEPARTMENT OF EDUCATION PUBLICATIONS

California School Accounting Manual

New Requirements for Reporting Fund Balance in Governmental Funds, January 7, 2011

FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM PUBLICATIONS

Fiscal Oversight Guide for AB 1200, AB 2756 and Subsequent Related Legislation, September 2006

GOVERNMENT FINANCE OFFICERS ASSOCIATION

Best Practice: Appropriate Level of Unrestricted Fund Balance in the General Fund, 2009

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

Statement 75, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, June 2015

Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, March 2009

WEB SITES

CSBA: <http://www.csba.org>

Association of California School Administrators: <http://www.acsa.org>

California Department of Education, Finance and Grants: <http://www.cde.ca.gov/fg>

California Department of Finance: <http://www.dof.ca.gov>

Fiscal Crisis and Management Assistance Team: <http://www.fcmat.org>

Government Finance Officers Association: <http://www.gfoa.org>

Governmental Accounting Standards Board: <http://www.gasb.org>

Legislative Analyst's Office: <http://www.lao.ca.gov>

School Services of California, Inc.: <http://www.sscal.com>