

# LAUSD BUDGET AND FINANCE POLICY

(as approved by the Board, 11/12/2013)

## I. Purpose of the Budget and Finance Policy

The California School Accounting Manual, the State's financial guide for school districts, defines a budget as "a plan of financial operation consisting of an estimate of proposed income and expenditures for a given period and purpose". It is through the budget that the Board and Superintendent set priorities and allocate resources.

California school districts, including LAUSD, are bound by legal requirements, administrative regulations, and oversight protocols during the budget process. These include:

### Legal Requirements for Budget

- Budgets must show a plan for all proposed expenditures of the school district and of all estimated revenues for the fiscal year (Education Code 42122).
- School districts may not spend more than authorized in the adopted Final Budget, as adjusted during the fiscal year (Education Code 42600).

### Administrative Regulations for Budget

- The California School Accounting Manual provides detailed definitions of income and expenditure categories together with approved budget and accounting practices.
- The Superintendent of Public Instruction annually issues budget and expenditure documents that specify the income and expenditure categories to be reflected in each school district budget.

### Oversight Processes for Budget

- The Los Angeles County Office of Education (LACOE) monitors the financial health of the District with oversight and review from the Superintendent of Public Instruction (Education Code 33127, 33128, 42120 et seq., 42637).
- Should a district's financial condition deteriorate below the State's standards, LACOE is authorized to take corrective action. This could include assuming management of that District's financial affairs (Education Code 42127.3).

The District must also comply with the Governmental Accounting Standards Board's (GASB) accounting standards and rules. The budget process should also strive to meet the Government Finance Officers Association's (GFOA) best practices for finance, accounting, and budgeting by government agencies.

Consistent with State law and regulation, the LAUSD budget is developed, adopted, refined and reviewed on a timely basis, through an annual cycle, as highlighted by the table below.

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## Timetable of LAUSD Budget Process

Timing	Activity
December	<ul style="list-style-type: none"> <li>• First Interim Report released projecting current and future year's revenues, expenditures, and balances.</li> </ul>
January	<ul style="list-style-type: none"> <li>• Governor proposes the State Budget to the Legislature for the next fiscal year</li> <li>• District Staff analyzes Governor's Proposed State Budget for Board</li> <li>• District staff presents enrollment projections to Board</li> <li>• State Board of Education (SBE) issues initial draft of the Local Control Accountability Plan (LCAP) guidance for school district*</li> </ul>
March	<ul style="list-style-type: none"> <li>• Second Interim Report released projecting current year revenues, expenditures, &amp; balances</li> <li>• Budget Services &amp; Financial Planning Division presents District's 3-year financial forecast to Board</li> <li>• Board discusses recommendations for Budget Issues</li> <li>• General Fund - funding levels presented</li> </ul>
April	<ul style="list-style-type: none"> <li>• Board receives input from stakeholders regarding next year's budget</li> <li>• Board votes on adoption of Budget Issues for next year's budget</li> <li>• School Budget Development</li> </ul>
May	<ul style="list-style-type: none"> <li>• Governor releases May Revision of proposed State Budget</li> <li>• Categorical Funding levels presented</li> </ul>
June	<ul style="list-style-type: none"> <li>• Board adopts Final Budget for coming year</li> </ul>
June/July/August	<ul style="list-style-type: none"> <li>• State budget adopted</li> <li>• If necessary, Board holds special meetings to consider changes to Final Budget</li> </ul>

\*LCAP hearing and adoption timeline to be determined depending on the SBE guidelines (January 2014).

## II. Finance and Budget Policy

To assist the Board of Education in making sound policy, guide the development of the District's budget, enhance the management of the District's finances, minimize the risk of LACOE action, and reduce potential audit concerns, the Board has adopted this Finance and Budget Policy which is based on five core principles. The budget should:

1. Be based on the goals of the Board and Superintendent.
2. Be based on sound financial principles.
3. Be clear and easy to understand.
4. Be timely, and easy to manage at the school level.
5. Be based on a process that informs stakeholders.

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This policy was developed after reviewing the document “Recommended Budget Practices” developed by the GFOA. The policy is also consistent with the standards and criteria established by the State Board of Education (Education Code Sections 33127, 33128), as well as current GASB rules and standards. To the extent that LAUSD’s current budgeting and accounting practices are not in compliance with this policy, implementation of this policy is to be phased in.

The Finance and Budget Policy is a “living document.” LAUSD expects that it will evolve over time to best connect District policy, budgeting, and financing principles.

***Principle One: The budget should be based on the goals of the Board of Education and Superintendent.***

The Board of Education and Superintendent have the primary responsibility for developing and articulating the District’s goals; these goals will be the framework for the budget.

***Principle Two: The budget should be based on sound financial principles.***

LAUSD’s budget should be based on financial principles that will keep the District viable and able to sustain its key programs over time. The following specific financial principles, based on law, expert advice and experience, are offered to this end:

- a) Structurally Balanced Operating Budget
- b) Appropriate Use of One-Time Revenues
- c) Alignment of Budget with Expected Expenditures
- d) Maintenance of Appropriate and Adequate Fund Balance and Reserves
- e) Revenue Maximization
- f) Revenue and Expenditure Estimation
- g) Cost Recovery Through Fees and Charges
- h) Capital Plan
- i) Asset Management
- j) Prudent Debt Management
- k) Program Sustainability
- l) GASB Compliance

## **A) STRUCTURALLY BALANCED OPERATING BUDGET**

The Superintendent must annually prepare and recommend a structurally balanced budget where operating revenues are equal to, or exceed, operating expenditures (Education Code Sections 42100, 42127.5).

The Office of the Chief Financial Officer shall prepare the First and Second Period Interim Financial Reports in accordance with the law and make appropriate recommendations to the Board if financial adjustments are necessary. Annual

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appropriations shall be made to responsibly address all identified liabilities, including pension, vacation accrual, workers' compensation, and retiree health needs.

## SECTION B IS DELETED PER BOARD OF EDUCATION AMENDMENT

### ~~B) APPROPRIATE USE OF ONE TIME REVENUES~~

~~Ongoing District expenditures should not exceed ongoing revenues. One time revenues should be applied first toward restoration of Operating Reserves (as described under Section D below). This will assist meeting the minimum three year reserve target amount in accordance with AB1200 (the "Three Year Sustainability Plan"). By definition, one-time revenues cannot be relied on in future budget periods. This policy on one-time revenues minimizes the disruptive effects on services.~~

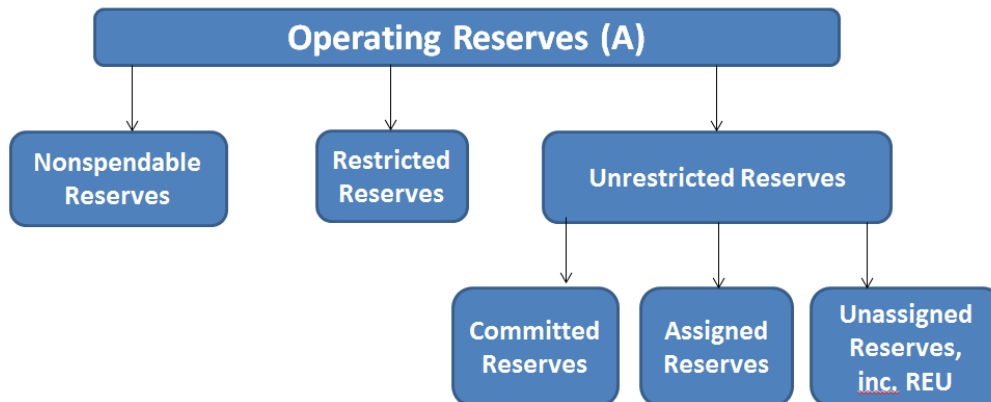
~~Any new or unanticipated unrestricted revenues recognized during the current fiscal year should also be applied to reduce any operating deficit or unplanned one-time mandatory cost before being used for other purposes.~~

### C) ALIGNMENT OF BUDGET WITH EXPECTED EXPENDITURES

Actual expenditures should closely approximate the estimated appropriation. To the extent that funding is required for expenditures spanning fiscal years, appropriate financial techniques should be identified and employed.

### D) MAINTENANCE OF APPROPRIATE AND ADEQUATE FUND BALANCES AND RESERVES

LAUSD shall strive to maintain certain reserve funds to provide financial stability. The reserves describe in these policies supersedes all prior District reserve policies. These reserve funds shall be for operations or for liabilities, and includes, but not limited to, the following described categories:



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## A. Operating Reserves:

The purpose of operating reserves is to set aside monies and to meet the minimum reserves policy target in the Three-Year Sustainability Plan.

The current classifications of fund balances<sup>1</sup> are as follows:

- Non-spendable fund balance (*inherently non-spendable*) This category includes reserves for Revolving Cash, Stores, and Prepaid Expenditures
- Restricted fund balance (*externally enforceable limitations on use*) This category includes balances related federal and state programs.
- Committed fund balance (*self-imposed limitations on use*)
- Assigned fund balance (*limitation resulting from intended use*)
- Unassigned fund balance (*residual resources for unrestricted use*)

### General Fund Balance Policy:

The District shall maintain Total General Fund balances at a level which is 5 % or more of Total General Fund expenditures and net transfers out (the “5% Minimum Reserve Threshold”). This level is the minimum necessary to sustain the District’s strong credit ratings.

Reserve funding levels shall be reviewed annually and adjusted as appropriate. The reserve policy is as follows:

1. The District shall maintain at least the 5% Minimum Reserve Threshold in the Three-Year Sustainability Plan.
2. Whenever the District projects a failure to meet the 5% Minimum Reserve Threshold, all one-time monies received shall be set-aside until the Threshold is met in each of the years.
3. In addition, other recommendations will be developed to restore reserve balances. These recommendations will be completed within the next fiscal year.

### Reserve for Economic Uncertainties:

This is a legally required reserve which is currently at 1% of General Fund appropriations.

### Reserves for Revolving Cash, Stores, and Prepaid Expenditures:

The District’s accounting practice establishes a reserve for revolving cash, stores, and prepaid expenditures.

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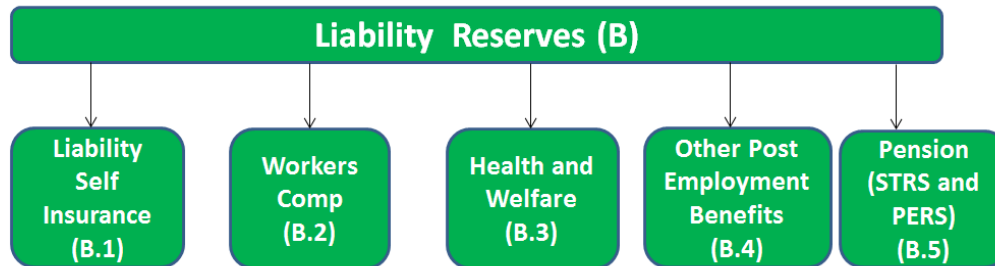
<sup>1</sup> Under GASB Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions

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## **B. Liability Reserves:**

The purpose of the Liability Reserves is to set aside monies for legal liabilities. Funding these liability reserves provides resources to help prevent disruptive reductions to LAUSD operating programs.



### B.1 Liability Self-Insurance Fund:

Liability Self Insurance funding will be based on the current year claims and the amount to fully fund the estimated liability as determined by a third party actuarial report.

### B.2 Worker's Compensation Fund:

Worker's Compensation funding will be based on the current year claims and the amount to fully fund the estimated liability as determined by a third party actuarial report.

### B.3 Health and Welfare Fund:

Health & Welfare funding will be based on the Health and Welfare Memorandum of Agreement in place.

### B.4 Other Post-Employment Benefits (OPEB) Fund:

The District will establish an irrevocable trust for its OPEB liability (OPEB Trust) to:

1. Minimize encroachment on the District's operating budget;
2. Provide funding to protect retiree benefits;
3. Improve the return on investment on the Trust assets;
4. Align contributions to more adequately recover costs from federal, capital and grant programs;
5. Provide a proactive response to address the impacts of GASB 45 on the District's finances; and
6. Preserve the District's net assets.

Contributions to the Trust will be annually calculated and distributed as follows:

1. An annual per employee set aside, at rates consistent with the District's current budget assumptions and policies, will be contributed to the OPEB Trust on or before June 30th. Such contributions will be subject to maintaining an

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Unrestricted General Fund balance of 5% of the unrestricted revenue. These Trust contributions will be made from all appropriate funding sources. The annual OPEB per employee growth rates will continue until such time that the District will be able to reasonably meet its unfunded liability in accordance with GASB standards.

2. In the event that the Unrestricted General Fund is above 5% of the unrestricted revenues (after the annual OPEB contribution has been determined), an additional contribution from the assigned OPEB reserve will be placed in the Trust.

## B.5 Supplemental Pension Set-aside/Reserve Fund:

Subject to the requirements of Principle Two Section B, fifty percent of any new one-time funds identified after the final budget adoption will be put into a Supplemental Pension Set-aside/Reserve Fund. This fund is established in anticipation of GASB 67 and 68.

## **E) REVENUE MAXIMIZATION**

LAUSD receives the majority of its funding from the State of California. To supplement these funds, LAUSD shall seek additional revenues from other funding sources including the Federal Government, foundations, corporations, mandate funding, parent and community organizations, and through new and changes to funding legislations. These additional resources should be for purposes that are consistent with the District's goals and objectives and which complement the LAUSD's resources. LAUSD shall also seek the approval of granting agencies to provide flexibility in the use of scarce resources.

## **F) REVENUE AND EXPENDITURE ESTIMATION**

LASUD shall strive to include in the budget all revenues that can reasonably be expected for the fiscal year. The Chief Financial Officer shall appropriate funds for expenditure based on a prudent assessment of the risks associated with each revenue source. The authority to spend in part or all of the budgeted revenue will be provided based on revenue certainty.

## Reserve for Anticipated Balances:

This is a non-budget add reserve requested by the Los Angeles County of Education to allow for technical adjustment for expenditure.

## **G) COST RECOVERY THROUGH FEES AND CHARGES**

LAUSD may charge fees to recover costs of certain services, such as those provided to charter schools. LAUSD shall set fees so that they cover the entire cost of the service provided, including all direct and indirect costs subject to any legal restrictions.

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## H) CAPITAL PLAN

LAUSD will strive to provide comprehensive planning and budgeting for its capital needs by:

- Developing, on a periodic basis, a Statement of Need for capital programs.
- Annually adopting a multi-year capital budget that identifies the projects planned, the estimated cost of each project, the expected sources of revenue for each project, and the fiscal year or years in which project funds must be committed.
- Annually presenting an analysis of the future operational impact of the capital projects.

## I) ASSET MANAGEMENT

The District will strive to:

- Budget appropriate amounts so that physical assets are properly maintained and replaced when needed.
- Maintain inventories of assets and the condition of major assets assessed on a regular basis to develop appropriate replacement and maintenance programs.
- Prepare a maintenance plan to sustain the need to maintain the value of its assets and protect the health and safety of students and employees.
- Annually estimate and set aside resources for preventative maintenance.

## J) PRUDENT DEBT MANAGEMENT

LAUSD shall adhere to the Debt Management Policy as adopted by the Board of Education.

## K) PROGRAM SUSTAINABILITY

To achieve sustainability, LAUSD should strive to:

- Link multi-year programs to multi-year funding. When funding is non-continuous, the program should be identified as limited.
- Set parameters for multi-year programs and offices by identifying specific “sunset dates” for program termination as well as the ending date for personnel assignments funded in the program.
- Make defined fiscal commitments rather than open-ended commitments (e.g. fund health benefits at a specific cost level rather than a specific service level).
- Identify impact on the budget of unfunded mandates and other spending pressures.

## L) GASB STANDARDS FOR FINANCIAL ACCOUNTING AND REPORTING

The Governmental Accounting Standards Board promotes rules governing financial accounting and reporting. LAUSD shall comply with these rules. LAUSD shall strive to receive the GFOA Certificate for Excellence in Financial Reporting annually.



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## ***Principle Three: The budget should be clear and easy to understand.***

A broad cross-section of stakeholders in the District rely on LAUSD's budget and related financial documents for crucial financial information. These stakeholders include parents, teachers, community groups, administrators, and oversight bodies. LAUSD's budget should be organized and presented in such a way that both lay persons and experts can understand:

- What the District intends to do and how it intends to do it
- The District's overall financial condition
- The historical context for LAUSD programs

In addition, LAUSD should strive to develop its annual budget in a manner consistent with the GFOA standards for budget presentation. These guidelines are established to provide appropriate disclosure of financial information to the public and other interested parties, while facilitating management decisions on program expenditures.

LAUSD has identified guidelines for the presentation of budgets consistent with GFOA standards from four perspectives:

- a) Policy Document
- b) Financial Plan
- c) Operations Guide
- d) Communications Device

## ***Principle Four: The budget should be timely and easy to manage at the school level.***

The process of managing the budget is easier for schools and offices if they have access to systems and training. The District will define the parameters under which schools and offices will manage their budgets.

## ***Principle Five: The budget process should inform stakeholders.***

Prior to the adoption of the final budget, District staff will inform stakeholders in accordance with the budget Timetable and materials will be posted to the website.

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## III. FUND BALANCE POLICY AND PROCEDURES

### A. PURPOSE

This Fund Balance Policy establishes the policy and procedures for reporting and maintaining fund balance in the District's financial statements. The policy also authorizes and directs the Chief Financial Officer to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions, effective beginning the 2010-11 fiscal year.

### B. GENERAL POLICY

There are five separate components of fund balance. Each component identifies the extent to which the District is bound by 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 resources for unrestricted use*)

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. This policy is focused on the last three components listed above.

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.

### C. PROVISIONS

#### Committed Fund Balance

The Governing Board, as the District's highest level of decision-making authority, may commit fund balances for specific purposes pursuant to constraints imposed by formal actions. Commitment of funds can be made through the adoption of the budget as long as the intent to commit the funds is specifically stated. These committed amounts cannot be used for any other purpose unless the Governing Board removes or changes the specific use through formal action. Governing Board action to commit fund balance needs to occur within the fiscal reporting period, no later than June 30. The amount which will be committed can be determined subsequently but prior to the release of the District's financial statements.

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Pursuant to GASB 54, the District commits to maintaining the Deferred Maintenance and Adult Education funds to support programs for which the funds were originally established. Amounts transferred into or retained in the funds will be determined annually per Board adoption of the budget and approval of the year end unaudited actuals report.

## **Assigned Fund Balance**

Amounts that are neither restricted nor committed may be constrained by the District's intent to be used for specific purposes. This policy hereby delegates the authority to assign amounts to the Superintendent, or designee.

## **Unassigned Fund Balance**

These are residual positive net resources for 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 aforementioned components of fund balance. For financial statement reporting purposes, these reserves are included in the unassigned fund balance. This includes:

- **Reserve For Economic Uncertainty**– The District will maintain an economic uncertainty reserve, consisting of unassigned amounts, of at least 1% of total General Fund expenditures and other financing uses in accordance with Section 15450 of the California Code of Regulations. The primary purpose of this reserve is to avoid the need for service level reductions in the event that an economic downturn causes revenues to be substantially lower than budgeted. In the event that the District must expend all or part of this reserve, the District will identify and implement a budgetary plan to replenish this reserve the following year. This reserve may be increased by legal requirement.