



Cabrillo Point Academy

Fund Balance Reserve Policy

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FUND BALANCE RESERVES POLICY

The Board of Directors of Cabrillo Point Academy (“Board”) states its belief that a key element of the financial stability of Cabrillo Point Academy (“School”) is ensuring that adequate levels of reserves are maintained. Reserves are essential in mitigating current and future risks that may occur from unforeseen revenue fluctuations and/or unanticipated expenditures, and to fund all existing programs. Reserves provide cash flow liquidity to fund general operations. Prudent reserves afford the school time to thoughtfully identify and implement budget adjustments.

1. DEFINITIONS

Fund Balance

The difference between the total assets and liabilities of the school, representing the net worth of the organization. As a charter school, Cabrillo Point Academy only has a single fund, and the fund balance in its General Fund represents the reserves available to the organization. The accounting terms “fund balance”, “net asset balance”, “net position”, and “reserves” functionally mean the same thing when applied to the School.

Restricted Fund Balance

Portion of the fund balance that is subject to external or internal restrictions, such as grants, donations, or legal requirements.

Unrestricted Fund Balance

Portion of the fund balance that is available for discretionary use by the school.

2. OBJECTIVES

Maintain Adequate Reserves

To maintain adequate reserves to address unforeseen financial needs, emergencies, or cash flow fluctuations.

Promote Fiscal Responsibility

To promote fiscal responsibility and accountability in the management of the school's financial resources.

Support Strategic Initiatives

To allocate funds for strategic initiatives, improvements, and program enhancements that align with the school's mission, vision, and educational goals.

Comply with Legal and Regulatory Requirements

To adhere to all relevant laws, regulations, and reporting requirements governing fund balance management for charter schools.

3. FUND BALANCE ALLOCATION

Minimum Fund Balance

Maintain a minimum fund balance of 5% of the annual operating budget to ensure reserves for economic uncertainty and compliance with State requirements.

Maximum Fund Balance

The Board of Directors shall review Cabrillo Point Academy's fund balance annually to avoid excessive fund balance accumulation. Excess funds should be utilized for strategic initiatives or returned to stakeholders through program enhancements, instructional spending, or investments in infrastructure.

Restricted Funds

Allocate restricted fund balances in accordance with restricted funding requirements, ensuring compliance with regulations and reporting obligations.

Unrestricted Funds

Utilize unrestricted fund balances for the following purposes:

- **Reserves for Economic Uncertainty**

Represents an overall 'safety net' for the School to cover a variety of unforeseen mid-term to long-term economic circumstances, including higher than expected outflows in any of the three assignments below. The onset of the COVID-19 pandemic in 2020 is an excellent example of how unforeseen events can require substantial reserves. Within a space of two months, State budget projections reduced projected K-12 funding by up to nineteen percent (19%) for the upcoming year. While federal stimulus ultimately mitigated part of this, there are no guarantees that future unforeseen impacts will be similarly offset. The funds designated for economic uncertainty represent the amounts necessary to protect the School from any combination of unforeseen revenue shortfalls, unexpected costs, and economic uncertainties.

- **Special Education**

Represents a reserve for associated costs in the event a school enrolls a student with exceptional needs requiring services that are not covered by the school's adopted budget or by emergency Special Education Local Plan Area (SELPA) funding. The typical range for this assignment is one to four percent (1-4%) of annual expenditures, and the specific percentage may be set or reset by the Board at any time depending on changing circumstances.

- **Legal**

While much can be done to prevent litigation, even the best planning does not eliminate the risk of litigation. This reserve is earmarked to cover potential legal costs. The typical range is one to four percent (1-4%) of annual expenditures, and the specific percentage may be set or reset by the Board at any time depending on changing circumstances.

- **Cash Flow Reserve**

Reserved to cover short-term delays in cash receipts from governmental sources. California's statewide tax base has become increasingly volatile as dependence on capital gains tax and higher-end income tax brackets has increased over time. This has in turn caused the State to defer or delay monthly K-12 apportionments for months at a time and even into the following fiscal year, with deferrals totaling as much as thirty-five percent (35%) of annual funding. For charter schools without sufficient reserves, this has meant resorting to outside lenders and incurring hundreds of thousands of dollars in interest and fees to obtain interim funding to cover payroll and other critical expenses. The recommended level for this assignment is thirty-five percent (35%) of annual expenditures, matching the high end of recent actual deferrals for some schools, but this percentage may be set or reset by the Board at any time depending on changing circumstances.

- **Capital Expenditures**

Reserve for capital expenditures, including facility improvements, equipment purchases, and technology upgrades.

- **Program Enhancements**

Reserve to support program enhancements, curriculum development, staff professional development, and other initiatives aligned with the school's strategic objectives.

- **Debt Service**

Allocation for potential debt service obligations, including repayment of loans or bonds.

- **Other Strategic Initiatives**

Funds earmarked for any other strategic initiatives approved by the governing board, provided they align with Cabrillo Point Academy's mission, vision, and educational goals.

4. REVIEW AND REVISION

Regular Review

The fund balance policy should be reviewed periodically to assess its effectiveness and alignment with policies and regulations, to inform revisions as needed.