

**Subject**

SAN DIEGO LAFCO FUND BALANCE

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**Purpose**

This policy establishes guidelines and requirements for the classification of fund balances consistent with the Governmental Accounting Standards Board (GASB) Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

**Background**

The term, "fund balance" is used to describe the difference between assets and liabilities reported within a fund. In the past, fund balances have been classified into three separate components: Reserved, Designated, and Undesignated. Limitations were associated with these classifications with respect to the purpose and usage of funds. The force of these limitations could vary significantly, depending on the funding source.

The Governmental Accounting Standards Board (GASB) issued Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for implementation in 2011. This new standard does not affect the calculation of fund balance; however, it altered various components used to report it. There are also new categories and terminology reflected in an approach that focuses on the constraints placed on the specific purposes of the funds. GASB Statement Number 54 applies to governmental funds such as LAFCO's General Fund.

With the shift of focus of GASB Statement Number 54, emphasis is now placed on the extent to which the government agency (LAFCO) is bound to honor constraints on the specific purposes for which amounts in the fund can be spent, rather than availability of fund resources. Under this new GASB, fund balances are classified as "Non-Spendable" and "Spendable". Spendable categories are further classified as *Restricted*, *Committed*, *Assigned*, and *Unassigned*. Definitions and LAFCO policies for Non-Spendable and Spendable categories follow:

- *Non-Spendable*: Amounts that cannot be spent or are not in spendable form (i.e. prepaid items, land held for resale, long-term receivables), or are legally or contractually required to be maintained intact.
- *Restricted*: Amounts that are externally imposed by creditors, grantors, contributors, or laws and regulations of other governments. They may also be

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internally imposed by enabling legislation. Examples are debt service reserves, gas tax funds and grants.

- *Committed:* Amounts committed for specific purposes by formal action of the governing body, such as enacted ordinances and resolutions, which prevent the amounts from being used for any other purpose without the governing body's formal action. These also include contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- *Assigned:* Amounts intended to be used for specific purposes without formal action by the governing body. This authority to determine the portions of a fund's balance that is to be Assigned and reported as "Assigned" in the Agency's Comprehensive Annual Financial Report (CAFR) may be delegated to the Executive Officer or the Executive Officer's designee.
- *Unassigned:* Amounts in the General Fund in excess of Non-Spendable, Restricted, Committed, and Assigned fund balances. For LAFCO, the General Fund Contingency Reserve and remaining spendable amounts which are not included in one of the other classifications would be classified as "Unassigned" for presentation in the CAFR.

### Policy

It is the policy of the San Diego Local Agency Formation Commission to:

1. Classify its fund balance in accordance with the Governmental Accounting Standards Board (GASB) Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Reporting of fund balance in LAFCO's CAFR will be based on the amounts and classifications listed in the fund balance summary of LAFCO's Annual Budget. Classification of fund balance reflects the current plans of the Commission with respect to the use of fund balance. These plans represent current intention and are subject to change and assignment. Furthermore, the classification of funds (reflecting current plans for asset use) does not in any way limit the ability of LAFCO to use those funds for other purposes, as deemed necessary by LAFCO.

2. Under GASB Statement Number 54, fund balances will be classified as “Non-Spendable” and “Spendable”. Spendable categories will be further classified as *Restricted, Committed, Assigned, and Unassigned*.
- a. Non-Spendable: The Commission shall designate fund balance as “Non-Spendable” for amounts that cannot be spent or are not in spendable form (i.e. prepaid items, land held for resale, long-term receivables), or are legally or contractually required to be maintained intact.
  - b. Restricted (Spendable): The Commission shall designate fund balance as “Restricted” for amounts that are externally imposed by creditors, grantors, contributors, or laws and regulations of other governments. The Commission may also restrict fund balance if required by internally imposed enabling legislation or regulations.
  - c. Committed (Spendable): The Commission shall designate fund balance as “Committed” for amounts committed for specific purposes by formal action of the San Diego LAFCO, such as enacted ordinances, resolutions, actions items, or budgetary decisions, which prevent the amounts from being used for any other purpose without formal action of LAFCO. Committed funds also include contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
  - d. Assigned (Spendable): The Commission or Executive Officer may designate fund balance as “Assigned” for amounts intended to be used for specific purposes with or without formal action. This authority to determine the portions of a fund's balance that is to be reported as "Assigned" in LAFCO's CAFR may be delegated to the Executive Officer or the Executive Officer's designee.
  - e. Unassigned (Spendable): The Commission shall designate fund balance as “Unassigned” for amounts in the General Fund that are in excess of Non-Spendable, Restricted, Committed, and Assigned fund balances. For LAFCO, the General Fund Contingency Reserve and remaining spendable amounts which are not included in one of the other classifications shall be classified as "Unassigned" for presentation in the CAFR.

Adopted: June 3, 2013