

June 3, 2013

9

TO: Local Agency Formation Commission
FROM: Executive Officer
SUBJECT: San Diego LAFCO Fund Balance Policy

EXECUTIVE SUMMARY

When the FY 2012-13 LAFCO Budget was adopted on April 8, 2013, your Executive Officer noted that a follow-up item would be scheduled for a subsequent meeting pertaining to the adoption of a “Fund Balance” policy. “Fund Balance” is an accounting term used to describe the difference between assets and liabilities reported within a fund. The San Diego LAFCO currently has four accounts valued at \$965,516 with the County of San Diego that contain fund balance monies. Three of the accounts are interest bearing trust funds: Account 46725 (*Contingency Reserve*); Account 46726 (*Special Projects*); and Account 46727 (*Jurisdictional Projects*). The fourth account (Account 44595) is a revolving operating account that is not interest bearing. Figure 1 below contains a fund balance summary:

FIGURE 1
LAFCO Fund Balance Summary

Fund Account	Adopted FY12-13 Budget	Adopted FY13-14 Budget
44595 Fund Balance	\$ 94,969	\$ 94,969
46725 Contingency	525,743	527,057
46726 Special Project	195,665	102,081
46727 Jurisdictional	146,966	147,333
Interest	2,170	1,941
TOTAL	<u>\$965,513</u>	<u>\$873,381</u>

In the past, fund balance has been classified into three separate components: Reserved, Designated, and Undesignated. The three classifications contained limitations with respect to the purpose and use

for all or a portion of the resources within each fund. The force of the limitations varied, depending on their source and any specific LAFCO directive. The Governmental Accounting Standards Board (GASB) has recently issued new guidelines (GASB Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*) that changed reporting, classification, and terminology associated with fund balance. In order for LAFCO to comply with the provisions in GASB Statement Number 54, it is necessary that LAFCO adopt a fund balance policy based on these new categories and reporting definitions. The Commission should also ratify the classification of funds within its fund balance accounts; so that compliance with both the proposed policy and GASB Statement Number 54 can be achieved by June 3rd. Future LAFCO audits will evaluate Commission compliance with the proposed policy. Accordingly, adoption of the proposed policy is important and should occur as soon as possible.

The proposed Fund Balance policy contains provisions for classifying LAFCO fund balance as *Non-Spendable* and *Spendable* per the reporting guidelines of GASB Statement Number 54. For Spendable classifications, proposed provisions included further classifications, such as *Restricted*, *Committed*, *Assigned*, and *Unassigned*. The proposed Fund Balance policy (Policy F-101) is attached for Commission consideration / adoption and is summarized below:

NON-SPENDABLE FUND BALANCE

- **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. The San Diego LAFCO does not currently have any Non-Spendable funds; however, in the event that the Commission designates funds as “*Non-Spendable*” in the future, the proposed fund balance policy contains provisions enabling the Commission to utilize this fund balance designation.

SPENDABLE FUND BALANCE

- **Restricted:** Amounts that are externally imposed by creditors, grantors, contributors, or laws and regulations of other governments. They may also be internally imposed by enabling legislation. Examples are debt service reserves, gas tax fund and grants. The San Diego LAFCO does not currently have any Restricted funds. However, in the event that the Commission designates funds as “*Restricted*” in the future, the proposed fund balance policy contains provisions enabling the Commission to utilize this designation.
- **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. Prior to FY 2013-14, the San Diego LAFCO did not have any “*Committed*” fund balance; however, with the approval of the FY 2013-14 Budget, the Commission allocated \$175,000 from Trust Fund Account 46726 (*Special Projects*) to cover fee waivers associated with a possible fire agency reorganization project involving (but not limited to) dissolution of the Julian-Cuyamaca, Rural, and Pine Valley Fire Protection Districts, and expansion of County Service Area No. 135’s fire and emergency medical services latent powers; and elimination of the Greenwood Memorial Park Cemetery Island (City of San Diego). Therefore, the proposed fund balance policy contains provisions allowing the Commission to commit funds for specific purposes. A corollary provision memorializing the Commission’s FY 2013-14 budget decision is also recommended for adoption. This corollary provision will allow the reporting of \$175,000 as “Committed” in LAFCO upcoming annual audit.

- **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 designated as “*Assigned*” and reported “Assigned” in the Agency’s Comprehensive Annual Financial Report (CAFR) may be delegated to the Executive Officer or the Executive Officer’s designee. LAFCO Trust Fund Account 46726 (*Special Projects*) has a FY 2012-13 balance of \$195,665.80, of which \$25,000 was originally assigned to a special project involving the Ramona Municipal Water District (Montecito Ranch Development). As of this writing, \$2,925 of this assignment has been spent and the current assignment amount is \$22,075. The proposed LAFCO policy should reiterate the various authorities under GASB Statement Number 54 and the delegation of authority provisions for classifying fund balance as “Assigned”. The Commission should also separately ratify the assignment of \$25,000 that was made in 2011 (\$22,075 current balance of assigned funds). The Commission’s assignment of funds per the proposed policy and ratification of the assignment of funds for the above special project (Montecito Ranch Development) will be reported as “Assigned” in LAFCO’s upcoming annual audit.
- **Unassigned:** Amounts in the General Fund in excess of Non-Spendable, Restricted, Committed, and Assigned fund balances. This includes the remaining spendable amounts which are not included in one of the other classifications. For LAFCO, with exception of the funds committed (\$175,000) or assigned (\$22,075) for special projects in Trust Fund Account 46726 (*Special Projects*), all of LAFCO’s Fund Balance accounts are classified as “*Unassigned*”. The proposed policy contains provisions for making this classification and corollary

recommendations ratifying the “Committed” and “Assigned” classifications of Fund Balance. It is therefore,

RECOMMENDED: That your Commission

- (1) Review and adopt Proposed Fund Balance Policy F-101.
- (2) Accept the fund balance summary contained in the FY 2013-14 LAFCO Budget and as summarized in the June 3, 2013 Fund Balance staff report and that such fund balance summary represents the Commission’s current intention for usage of LAFCO fund balance for LAFCO’s four Accounts 44595, 46725, 46726, and 46727. Furthermore, ratify the following classifications for LAFCO’s fund balance:
 - a. Placement of a “Committed” classification on Account 46726 (*Special Project*) in the amount of \$175,000 to cover fee waivers associated with a possible fire agency reorganization project involving (but not limited to) dissolution of the Julian-Cuyamaca, Rural, and Pine Valley Fire Protection Districts, and expansion of County Service Area No. 135’s fire and emergency medical services latent powers; and elimination of the Greenwood Memorial Park Cemetery Island (City of San Diego).
 - b. Placement of an “Assigned” classification on Account 46726 (*Special Project*) fund balance of \$25,000 associated with the Montecito Ranch Development (current balance remaining of the assigned funds \$22,075).
 - c. Placement of an “Unassigned” classification on remaining spendable amounts which are not already included in one of the other classifications (Unspendable, Restricted, Committed, and Assigned).
 - d. Placement of the above classifications outlined in the recommendation 1-2 (a-c) are subject to change and assignment and reflect LAFCO’s current plans for asset / fund balance use and shall not in any way limit LAFCO’s ability to use such funds for other purposes in the future, as deemed necessary by LAFCO.

Respectfully Submitted,

MICHAEL D. OTT
Executive Officer

MDO:trl

Attachment:

Proposed LAFCO Fund Balance Policy F-101

9

Subject

SAN DIEGO LAFCO FUND BALANCE

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

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