

# KNIGHTS LANDING RIDGE DRAINAGE DISTRICT

## Fund Balance Policy for Financial Statement Reporting

### **PURPOSE**

The purpose of this Policy is to enhance the usefulness of fund balance information by providing clearer fund balance classification that can be more consistently applied and by clarifying the existing governmental fund type definitions in accordance with Governmental Accounting Standards Board Statement NO. 54. The Policy establishes fund balance classification that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

### **BACKGROUND**

Fund Balances in the General Fund are comprised of classifications set aside for specific purposes, or funds that are unrestricted and available for use as circumstances dictate, including being used each year to balance the budget.

Currently the fund balances are divided into three basic classifications for accounting and tracking purposes: reserve, designated and undesignated/unreserved. Reserved funds are legally restricted funds established for a future specific use and are not available for general appropriations. Designated funds have been set aside by the District for a specific purpose.

The Governmental Accounting Standards Board (GASB) issued Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, to become effective for financial statements with period beginning after June 15, 2010. Statement No. 54 is designed to improve financial reporting by establishing fund balance classifications that are easier to understand and apply. Basically, a hierarchy has been established clarifying the constraints that govern how a government entity can use amounts reported as fund balance. Statement No. 54 establishes the following five new fund balance classifications:

**Non-spendable Fund Balance** – The portion of net resources that cannot be spent because they are either: (a) not in spendable form; or (b) legally or contractually required to be maintained intact (inventories, prepaid items, the principal of a permanent fund)

**Restricted Fund Balance** – The portion of net resources that can only be used for a specific purpose imposed by law through constitutional provisions or enabling legislation. Amount may also be restricted externally by creditors, grantors contributors.

**Committed Fund Balance** – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution, ordinance). Commitments may be changed or lifted by formal action only and must occur prior to the end of the reporting period. This should occur prior to the end of the reporting year, though the amount may be determined in the subsequent period.

**Assigned Fund Balance** – Amounts that are constrained by the District’s intent to be used for specific purposes, but are neither restricted nor committed. (Cannot assign an amount if it would result in a deficit unassigned fund balance amount). Intent should be expressed by the Board or General Manager who has been delegated the authority to assign amounts to be used for specific purposes. Assigned fund balance can be used to eliminate a projected budgetary deficit in the subsequent year’s budget. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed.

**Unassigned Fund Balance** – This is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts in the General Fund are technically available for any allowable government purpose. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending or specific purposes for which amounts had been restricted, committed, or assigned.

## Policy

### Classification of Fund Balances

1. District staff is authorized to evaluate existing fund balance classifications and reclassify them in accordance with GASB Statement No. 54 for implementation effective the fiscal year ended December 31, 2011.
2. For funds that are determined to fall within the “Committed Fund Balance” classification, the Board of Trustees shall adopt a resolution before fiscal year end to establish or re-establish the specific purpose for the funds. Committed Fund Balance must be re-established annually before fiscal year end.

GASB 54 Classification	Specifications	Examples
Non-spendable Fund Balance	Not in spendable form; legally or contractually required to be maintained intact	Inventories Prepaid Amounts Advances to Other Funds

Restricted Fund Balance	Constrained for a specific purpose, changed only with consent of outside party; legally enforceable	Grants Bond Proceeds
Committed Fund Balance	Established by Board of Trustees for specified purpose (by resolution); must be established before fiscal year end; requires Board action to appropriate; commitment survives budget	General Reserve Accumulated Capital Outlay
Assigned Fund Balance	Established by Board of Trustees or General Manager; less formal (minutes, memo, purchase order, budget document); may be established after fiscal year end; may expire at any time by any action.	General Fund Transfer Outs Capital Projects Purchase Orders Encumbrances Delegated authority to amend budgets, contracts or purchase orders
Unassigned Fund Balance	Residual fund balance after deducting non-spendable, restricted, committed and assigned fund balance	Only the General Fund can report positive unassigned fund balance

## Assumptions

1. It is assumed that restricted amounts to be spent before unrestricted fund balance when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned and unassigned) amounts are available.
2. This Policy assumes that unrestricted fund balance, committed, assigned and then unassigned amounts in that order will be spent when expenditure is incurred for a purpose for which amounts in any of those unrestricted fund balance classifications could be used.