

## DIVISION 2 – OPERATIONAL POLICIES

### CHAPTER 3 - FINANCIAL

#### SECTION 2.3.1 BUDGET POLICIES

2.3.1.1 Open, Collaborative Process: LAFCo encourages an open, collaborative process in the development and approval of its budget, and efforts to equitably apportion or reapportion the cost of its budget. LAFCo encourages cooperation and collaborative efforts among agencies in order to reduce the costs of special projects, studies and state mandates.

2.3.1.2 Annual Work Plan: As a part of the budget development process LAFCo will annually review and adopt a work plan to fulfill the purposes and programs of state law and local policy, including requirements for service reviews, sphere of influence updates and other mandated functions. The work plan will guide the development of the budget based on a July 1 to June 30 fiscal year.

2.3.1.3 Preparation and Administration:

(a) The Executive Officer or designee shall serve as budget administrator to prepare, present, transmit, review, execute and maintain the LAFCo budget consistent with state law.

(b) The Executive Officer shall provide the Commission with a monthly budget report comparing revenues and expenditures to the adopted budget at the next regular meeting of the Commission following staff's receipt of the report from the Auditor-Controller.

2.3.1.4 Contingency Reserve:

(a) The annual budget shall include a contingency appropriation of 10% of total operating expenses, unless the Commission deems a different amount appropriate.

(b) Funds budgeted for contingency reserve shall not be used or transferred to any other expense account code without the prior approval of the Commission.

2.3.1.5 Budget Adjustments:

(a) The Commission may make adjustments to its budget at any time during the fiscal year, as it deems necessary.

(b) Adjustments between accounts within the same object may be approved by the Executive Officer.

(c) Transfers between expenditure objects may be approved by the Executive Officer.

#### SECTION 2.3.2 FUND BALANCE POLICIES

The Commission's fund balance policy establishes a minimum level at which unrestricted fund balance is to be maintained. The Commission believes that sound financial management principles require that sufficient funds be retained by the Commission to provide a stable financial base at all times. To retain this stable financial base, the Commission needs to maintain an unrestricted fund balance in its General

Fund sufficient to fund cash flows of the Commission and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls.

2.3.2.1 Circumstances in Which Unrestricted Fund Balance Can Be Appropriated:

Unrestricted fund balance includes committed, assigned and unassigned fund balance. Committed and assigned fund balances indicate amounts set aside by the Commission for specific purposes. Committed and assigned fund balances shall be appropriated for the approved purpose but may be transferred by majority approval of the Commission

2.3.2.2. Appropriate Level of Unassigned Fund Balance in the General Fund: The Commission will maintain an unassigned fund balance in the General Fund of approximately 60 days working capital. Excess fund balance remaining over and above the committed and assigned fund balances should be classified as “unassigned” in the General Fund. Should Unassigned Fund Balance fall below 45 days working capital it should be addressed in the next fiscal year budget.

2.3.2.3 Litigation Reserve Account:

(a) It is the goal of the Commission to establish and maintain a Litigation Reserve Account balance in the amount of \$100,000 with the intent of limiting the use of Litigation Account funds for unanticipated expenditures resulting from litigation against the Commission that does not occur routinely and would not be reimbursed by another party.

(b) Should the Litigation Reserve Account balance fall below the \$100,000 targeted level, the Commission shall approve and adopt a plan to restore this balance to the target level within 24 months. If restoration of committed fund balance cannot be accomplished within such period without severe hardship to the Commission, then the Commission will establish a different time period.

2.3.2.4 Year-End Fund Balances:

(a) If a portion of existing fund balance is included as a budgetary resource in the subsequent year’s budget to eliminate a projected excess of expenditures over expected revenues, then that portion of fund balance should be classified as assigned. The assignment expires with the establishment of the budget.

(b) An assignment of fund balance requires a majority vote of the Commission. However the Executive Officer is authorized to assign any fund balance used to balance a future budget upon the adoption of the annual budget.

2.3.2.5 Review: In conjunction with the adoption of the final budget, the Commission’s Fund Balance policies shall be reviewed annually to evaluate sufficiency of the adopted level of fund balance.