



KENSINGTON FIRE PROTECTION DISTRICT

DATE: November 15, 2023
TO: Board of Directors
RE: Policy 1170 Financial Reserves Revisions for First Reading
SUBMITTED BY: Mary A. Morris-Mayorga, General Manager

Recommended Action

Staff recommends that the Board consider holding the first reading for revisions to the current *Policy 1170 Financial Reserves* which is retitled to a *Policy 1170 Fund Balance and Reserves*.

Background

At the regular meeting of the Board of Directors on October 18, 2023, revisions to the existing *Policy 1170 Financial Reserves* were presented to the Board for discussion. Highlights of the policy revisions include:

- new title of *Policy 1170 Fund Balance and Reserves*;
- a purpose which is consistent with and conveys current practices for budgeting, forecasting, and funding of operations as well as capital needs;
- adding definitions for fund balance categories including examples;
- expanding the policy statement; and
- listing existing reserve classifications.

The Board discussed the revisions and requested that the requirements for deposit and use of funds be included; that additional language has now been incorporated for a potential first reading.

Fiscal Impact

Revision of this policy would not increase or decrease overall District funds.

Attachments: Policy 1170 Fund Balance and Reserves (clean and redline)



KENSINGTON FIRE PROTECTION DISTRICT POLICY MANUAL

Policy Number	1170
Policy Title	Fund Balance and Reserves
Last Revision Date	11/15/2023, 05/01/2018

1170.00 Purpose: The District shall maintain funds as designated by this Fund Balance and Reserves Policy. Having an adequate financial reserve is critical to the successful and stable short- and long-term operation of the district. An adequate reserve ensures that the district will at all times have sufficient funding available to meet its operating and capital needs. The ability of the district to maintain reserve funds is a critical factor in providing reliable service and ensuring overall financial strength. This policy establishes a hierarchy of fund balance expenditures in conformance with Governmental Accounting Standards Board guidelines, reporting of fund balance classifications, and prudent reserve funding to achieve the following goals:

- a) Maintain operational sustainability in periods of economic uncertainty.
- b) Fund designated projects/programs or other special uses not otherwise funded by grants or requiring additional monetary support;
- c) Fund replacement and major repairs for the District's physical assets; and
- d) Fund capital improvements.

1170.01 Definitions: The two components of this policy, Fund Balance and Reserves, are often used interchangeably; however, are different due to the inclusion of non-cash accounts in fund balance (e.g. accounts receivable, prepaid, inventory).

Fund Balance – the difference between assets and liabilities

Reserve – the cash reserve balance for each designated fund or account

The District shall account for fund balance as required by Governmental Accounting Standards Board Statement No. 54 among these classes: non-spendable, restricted, committed, assigned and unassigned.

Assigned - A fund balance that is earmarked for intended use. The intent is established by the Board of Directors.

Committed - A fund balance incorporating limitations in its use as determined and defined by the Board of Directors. This is typically the El Cerrito Contract reserve in operating funds. For capital funds, this is the Public Safety Building renovation and Rolling Stock reserve.

Non-Spendable - A fund that is non-spendable due to constraints placed on the funds in this category such as committed loans or liens. At fiscal year-end, this amount is typically prepaid expenses for the upcoming fiscal year (i.e. annual memberships).

Restricted - A fund that has externally enforceable limitations on the use of the fund balance such as creditors, grantors, or laws regulating the use of the funds (e.g. bond proceeds, transportation funds).

Unassigned - Encompasses all fund balances left after considering the other four categories. Use is less restrained in this fund category.

1170.20 Policy: The Board of Directors shall be responsible for the establishment and management of all District reserves which will be reported within fund balance as referenced above.

- a) The Reserve fund accounts shall be established by the Board of Directors through adoption of this policy and codified by passage of a resolution.
- b) Changes to existing fund balances, establishment of new fund accounts and balances, and authorization for expenditures from fund balances shall require action by the Board of Directors.
- c) The balances of each Reserve Fund shall be reviewed by the Board of Director's Finance Committee as part of the budget each year. Any recommended changes to reserves for the upcoming fiscal year shall be presented to the full Board of Directors as an action item.

The following reserves reflect those which have been established by the Board of Directors and include the use of funds:

- a) El Cerrito Contract Reserve: This reserve account funds fire protection services provided by the City of El Cerrito for a period of 12 months; however, in May 2022 a contract amendment reduced the requirement to a period of 6 months in recognition of the public safety building renovation. Use of this fund is exclusively to pay for contract fire protection services in the event operating funds are not sufficient to cover (i.e. in advance of property tax installments).
- b) Vehicle Replacements (Type I, Type III, and Command Vehicles): This reserve account funds vehicle replacements and is funded annually as part of the budget from operating funds. Use of this fund will be authorized through vehicle purchases included in the budget and approved by the Board of Directors.
- c) Building Maintenance: After completion of the public safety building renovation, this reserve account will fund future maintenance needs. Use of this fund will be authorized as part of the budget when operating funds are not sufficient to cover maintenance.
- d) Building Improvements/Renovation: This reserve account funds the public safety building renovation and is anticipated to be depleted by the end of Fiscal Year 2024 or the end of the project. Use of this fund will be authorized as part of the project budget.
- e) Such other amounts as the Board shall deem prudent.

1170.03 Reserve funds need not be segregated from other funds or accounts of the District and are pooled for investment purposes.



KENSINGTON FIRE PROTECTION DISTRICT POLICY MANUAL

Policy Number	1170
Policy Title	<u>Financial Fund Balance and Reserves</u>
Last Revision Date	05/01/2018

1170.040 Purpose: The District shall maintain funds as designated by this Fund Balance and Reserves Policy. Having an adequate financial reserve is critical to the successful and stable short- and long-term operation of the district. An adequate reserve ensures that the district will at all times have sufficient funding available to meet its operating and capital needs. The ability of the district to maintain reserve funds is a critical factor in providing reliable service and ensuring overall financial strength. This policy establishes a hierarchy of fund balance expenditures in conformance with Governmental Accounting Standards Board guidelines, reporting of fund balance classifications, and prudent reserve funding to achieve the following goals:

- a) Maintain operational sustainability in periods of economic uncertainty.
- b) Fund designated projects/programs or other special uses not otherwise funded by grants or requiring additional monetary support;
- c) Fund replacement and major repairs for the District's physical assets; and
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1170.01 Definitions: The two components of this policy, Fund Balance and Reserves, are often used interchangeably; however, are different due to the inclusion of non-cash accounts in fund balance (e.g. accounts receivable, prepaid, inventory).

Fund Balance – the difference between assets and liabilities

Reserve – the cash reserve balance for each designated fund or account

The District shall account for fund balance as required by Governmental Accounting Standards Board Statement No. 54 among these classes: non-spendable, restricted, committed, assigned and unassigned.

Assigned - A fund balance that is earmarked for intended use. The intent is established by the Board of Directors.

Committed - A fund balance incorporating limitations in its use as determined and defined by the Board of Directors. This is typically the El Cerrito Contract reserve in operating funds. For capital funds, this is the Public Safety Building renovation and Rolling Stock reserve.

Non-Spendable - A fund that is non-spendable due to constraints placed on the funds in this category such as committed loans or liens. At fiscal year-end, this amount is typically prepaid expenses for the upcoming fiscal year (i.e. annual memberships).

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- c) The balances of each Reserve Fund shall be reviewed by the Board of Director's Finance Committee as part of the budget each year. Any recommended changes to reserves for the upcoming fiscal year shall be presented to the full Board of Directors as an action item.

The following reserves reflect those which have been established by the Board of Directors and include the use of funds:

- a) El Cerrito Contract Reserve: This It is the District's policy to establish, to the extent practicable, a reserve account to funds fire protection services provided by the City of El Cerrito for a period of 12 months; however, in May 2022 a contract amendment reduced the requirement to a period of 6 months in recognition of the public safety building renovation. Use of this fund is exclusively to pay for contract fire protection services in the event operating funds are not sufficient to cover (i.e. in advance of property tax installments).
- b) Vehicle Replacements (Type I, Type III, and Command Vehicles): This reserve account funds vehicle replacements and is funded annually as part of the budget from operating funds. Use of this fund will be authorized through vehicle purchases included in the budget and approved by the Board of Directors.
- c) Building Maintenance: After completion of the public safety building renovation, this reserve account will fund future maintenance needs. Use of this fund will be authorized as part of the budget when operating funds are not sufficient to cover maintenance.
- d) Building Improvements/Renovation: This reserve account funds the public safety building renovation and is anticipated to be depleted by the end of Fiscal Year 2024 or the end of the project. Use of this fund will be authorized as part of the project budget.
- e) Such other amounts as the Board shall deem prudent.

~~1170.20 The District shall maintain a capital reserves account to satisfy equipment and building replacement costs in amounts recommended by the Fire Chief. A replacement cost schedule will be included as part of the annual budget.~~

1170.03 Reserve funds need not be segregated from other funds or accounts of the District and are pooled for investment purposes.