



ARTICLE 1.5

FINANCIAL POLICY STATEMENTS

A. Aggressive Oversight by the Board of Directors

The Board of Directors recognizes their responsibility for fiscal accountability to the community, the employee's of the District and the organization. The Board of Directors is committed to staying informed on all financial aspects of District Operations. The Board further commits to using utmost diligence in guaranteeing sound fiscal management principles throughout their decision making process.

B. Treasurer

The District Board acknowledges the Treasurer of the County of Santa Cruz as Treasurer of the District by Statute (Health and Safety Code Section 13854). All cash and reserve funds are held in the investment pool of Santa Cruz County under the management of the County Treasurer. Reserve fund balances will be held available for funding the "dry tax season", capital outlay and mobile equipment objectives rather than borrowing additional funds for that purpose. The District shall maintain a line of credit with the County of Santa Cruz for cash flow needs.

C. Open and Complete Reporting

The Board of Directors and Staff commit to disclose and report all current impacts to the District's finances at every regular monthly Board Meeting. Care will be given to report in a format easily understood by district clientele.

Budget deviations will be processed per policy and Staff shall provide quarterly financial statements to the Board of Directors formatted to include description of funds, expenditure and revenue balances and projected trends throughout the fiscal year.

D. Timely Payment

The District shall process all routine bills received by the District for payment within 30 days and submit all claims to the Board for review at the next regular meeting.

E. Reserves and Designations

The District shall forecast future liabilities and plan for adequate funding based upon economic conditions. Categories shall include:

- a. Accumulated unpaid compensated absences (vacation, cto, sick leave).
- b. Equipment replacement
- c. Facilities – improvement, maintenance, purchase, construction.
- d. Mobile equipment.
- e. Other post employment benefits - Actuarially Determined Contribution (ADC)

E. Reserves and Designations – continued

The funds needed by each category in a fiscal year will be included in that current year budget. Funds not used in the current fiscal year will be transferred to the following years reserve accounts until those accounts become fully funded.

In a given fiscal year, the District's target prefunding contribution for Other Post Employment Benefits (OPEB) is equal to any excess of the year's "Actuarially Defined Contribution" (ADC) over the subsidized portion of premiums for retiree medical, dental, and life insurance. The ADC is determined by an actuarial valuation and includes an amortization of the District's unfunded OPEB liability. While the District strives to maintain a goal of contributing 100% of the ADC, it may temporarily reduce or forgo contributions in times of economic hardship. Any contributions will be deposited in the District's account within the California Employers' Retiree Benefit Trust (CERBT), which is a Section 115 trust operated by CalPERS.

Once funded, these accounts shall not be depleted for any reason other than their stated purpose. If revenues fall, current expenses will be cut to match revenues rather than spending of reserves.

F. Indebtedness

Great diligence will be used to accomplish the mission of the Central Fire Protection District by applying contemporary business practices and recognized cash management principles based on current economic conditions minimizing the use of debt issuance except where appropriate to meet District goals.

G. Budgets

The goal of the Fire District Budget is to reflect a balance of recurring revenues allocated to wages and benefits while maintaining services and supplies as a reflection of current economic conditions, to demonstrate fiscal responsibility and provide adequate reserves.

H. Fund Balance Policy

1. PURPOSE

The Board recognizes the maintenance of a fund balance is essential to the preservation of the financial integrity of the District and is fiscally advantageous for both the District and the taxpayer. This policy establishes goals and provides guidance concerning the desired level of fund balances maintained by the District to mitigate financial risk as well as ensure adequate financial resources to protect the District against unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The District's Fund Balance Policy shall address the following:

- A. To document the District's Approach to establishing and maintaining adequate fund balances of the District's Operations
- B. Maintain a procedure for reviewing fund balances and making necessary changes to fund balances.
- C. Predict anticipated expenses, target reserve levels, and methodology for calculating reserve levels. Anticipated expenses and target reserve funding shall be established by the Finance Committee each year before approval of the Preliminary Budget.
- D. To properly classify the District's fund balances as per Government Accounting Standards Board (GASB) Statement No. 54; Fund Balance Reporting and Governmental Fund Type Definitions.

2. DEFINITIONS

The fund balance is a measurement of available financial resources and is the difference between total assets and total liabilities in each fund.

GASB Statement 54 distinguishes fund balance classified based on the relative strength of the constraints that control the purposes for which specified amounts can be spent. Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

- 1) **Nonspendable fund balance** – amounts that are not in a spendable form or are legally or contractually required to be maintained intact (e.g., prepaid items and deposits on file with other agencies)
- 2) **Restricted fund balance** – amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation (e.g., grants or donations).
- 3) **Committed fund balance** – amounts that can be used only for the specific purposes determined by a formal action of the Board of Directors, through ordinance or resolution. These committed amounts cannot be use for any other purpose unless the Board removes or changes the specific use through the same type of formal action taken to establish the commitment. Board action to commit fund balance must occur within the fiscal reporting period; however, the amount or amounts can be determined subsequently.
- 4) **Assigned fund balance** – amounts *intended* to be used by the government for specific purposes. Intent is expressed by the Board Directors or by a designee to whom the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other

governmental funds are, at a minimum, intended to be used for the purpose of that fund.

- 5) **Unassigned fund balance** – includes all amounts not contained in other classifications and is the residual classification of the general fund.

3. POLICY

The Board of Directors shall be responsible for the oversight of all District fund accounts and balances. Changes to the existing fund balances, establishing new fund accounts, and authorizing expenditures for fund balances shall require action by the Board. The Finance Committee shall review fund balances and recommend changes to fund balances for the upcoming fiscal year to be presented to the full Board of Directors prior to the adoption of the Preliminary Budget.

Reserve Fund Designations and Funding Levels

- A. **Compensated Absences Reserve:** An “Assigned” fund for the purpose of providing funds for the payment to employees for unused sick leave, vacation, and other leave as defined in collective bargaining agreements. The funding level shall be at a minimum of 25% or as determined by the Fire Chief based on year end balances.
- B. **Equipment Replacement Reserve:** An “Assigned” fund for the purpose of providing funds for the replacement or improvement of capital equipment utilized in the delivery of emergency services. Fund balance requirements shall be based on the Equipment Replacement Schedule and reviewed biennially by the Fire Chief and Finance Committee to determine proper level of funding.
- C. **Capital Improvement Reserve:** An “Assigned” fund for the purpose of funding capital improvement projects and acquisitions. Fund balance requirements shall be based on the Capital Budget Process or the District’s Facility Assessment Report.
- D. **Mobile Equipment Reserve:** An “Assigned” fund for the purpose of providing funds for the replacement of apparatus and support vehicles. Fund balance requirements shall be based on the Fleet Replacement Schedule and reviewed biennially by the Fire Chief and Finance Committee to determine proper level of funding.
- E. **Minimum Fund Balance:** It is the goal of the District to achieve and maintain an unassigned fund balance in the general fund at a *maximum* of Five (5) Months of the General Fund Operating Expenditures at the end of each

fiscal year to provide adequate cash flow and avoid short term borrowing in the subsequent fiscal year.

Reserve Fund Expenditures and Replenishment

- A. Fund balances shall be reviewed by the Finance Committee before adoption of the Preliminary Budget each year.
- B. All expenditures or transfers between reserve funds shall be approved by the Board of Directors.
- C. If the unassigned minimum fund balance at fiscal year-end falls below the goal, the District shall develop a restoration plan to achieve and maintain the minimum fund balance. Should the unassigned minimum fund balance ever exceed the maximum range, the District will consider such fund balance surpluses for one-time expenditures that are non-recurring in nature which will not require additional expense outlays for maintenance, additional staffing or other recurring expenditures.