
MENLO PARK FIRE PROTECTION DISTRICT

Fund Balance Policy

Fund Balance Policy

The Menlo Park Fire Protection District (the District) believes that sound financial management principles require that sufficient funds be retained by the District to provide a stable financial base at all times. To retain this stable financial base, the District needs to maintain a General Fund Balance sufficient to fund all cash flows of the District, to provide financial reserves for replacement of fixed assets such as apparatus and equipment, unanticipated expenditures and/or revenue shortfalls due to unfavorable economic conditions or emergencies, set aside funds to work towards the paydown of the District's CalPERS Unfunded Actuarial Liability (UAL) and to provide funds for all opportunities that require an expenditures/reimbursement process.

The District's reporting and communication relating to fund balance reserves will utilize the classifications outlined in generally accepted accounting principles (GAAP). The District hereby establishes and will maintain reserves of fund balances, as defined herein, in accordance with Governmental Accounting and Financial Standards Board Statement No. 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions. This policy will ensure that the District maintains adequate fund balances and reserves in order to:

- a) Ensure sufficient funding to support the District's short-term and long-term operating objectives.
- b) Limit adverse annual and multi-year budgetary impacts from anticipated and unanticipated expenditures or revenue shortfalls and thereby stabilizing services fees and changes.
- c) Cover current outstanding liabilities or fund actuarial unfunded liabilities.
- d) Build and maintain the financial resiliency of the District.

This policy and the procedures promulgated under it supersede all previous regulations regarding the District's fund balance and reserve policies.

Fund Type Categories

The following definitions will be used in reporting activity in governmental funds across the District. The District may or may not report all fund types in any given reporting period, based on actual circumstances and activity. The District's finances are accounted for within four major fund categories or types: the General Fund, the Federal Emergency Management Agency (FEMA) Special Revenue Fund, the Capital Improvement Projects Fund, and the Debt Service Fund.

The purpose of each major fund is described below:

- **General Fund**—The General Fund is the general operating fund of the District. It is used to account for all financial resources of the District except those required to be accounted for in another fund.
- **FEMA Special Revenue Fund**— California Task Force 3 Urban Search and Rescue (US&R) FEMA Special Revenue Fund is used to account separately for funds received and disbursed for federal emergencies.
- **Capital Improvement Projects Fund (CIP)**— The Capital Improvement Projects Fund is used to account for the acquisition of property, renovation or complete rebuild of the District’s seven Fire Stations, Administration and Fire Prevention Offices, Annex Building, Special Operations Warehouse, and properties on 28 Almendral Ave. and 2110 Valporaiso.
- **Debt Service Fund**— he Debt Service Fund is used to account for accumulation of resources and payments made for the principal and interest on long-term debt.

This Policy shall apply to all District’s governmental funds.

Fund Balance Descriptions

Statement GASB 54 requires local governments to focus on the constraints imposed upon resources when reporting fund balance in government funds. The new fund balance classifications will indicate the level of constraints placed upon how resources can be spent and identify the sources of those constraints.

Constraints are broken down into five different classifications: non-spendable, restricted, committed, assigned, and unassigned. The classifications serve to provide clearer, more structured fund balance classifications so that users of governmental financial statement receive more consistent and understandable information on the specific purposes for which resources in a fund can be spent.

GASB 54 Fund Balance Classifications

- **Non-spendable**—consists of assets that are inherently non-spendable in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans receivables, financial assets held for resale, and principal of endowments.
- **Restricted**—consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through enabling legislation. That is, legislation that creates a new revenue source and restricts its use. Restrictions may be changed or lifted only with the consent of resource providers.
- **Committed**—consists of amounts that are subject to a purpose constraint imposed by a formal action of the government’s highest level of decision-making authority before the end of the fiscal year, and that require the same level of formal action to remove the constraint.
- **Assigned**—consists of amounts that are subject to a purpose constraint that represents an intended use established by the government’s highest level of decision-making authority,

or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance.

- **Unassigned**—fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. If another governmental fund has a fund balance deficit, then it will be reported as a negative amount in the unassigned classification in that fund. Positive unassigned amounts will be reported only in the general fund.

District’s Fund Balance Classifications

Non-spendable Fund Balance

Prepaid Assets: The prepaid assets fund balance was established to indicate those amounts relating to prepaid and deposits that are not in spendable form. This consists of prepaid purchases of apparatus and fixed assets.

Restricted Fund Balance

Debt Service: The Debt Service reserve was established as mandated by debt covenants and disclosure requirements of debt issuance in which the District is required to keep designated deposits with appointed Trustee as part of the Certificate of Participation agreement.

Committed Fund Balance

Budgetary Deficit: The Budgetary Deficit Fund balance was established to set up reserves to pay for any subsequent year’s non-routine budget deficit. A minimum shortfall threshold for the use of funds has been identified in order to meet the Committed Fund Balance requirements as stated under GASB 54.

Use Requirement	Maximum Set Aside
A minimum projected budget deficit of greater than five percent.	Maximum set aside balance at year-end be calculated as six months of General Fund Operating Expenditures, plus 50 percent of the budgeted transfers out from the General Fund to other funds

FEMA Deployments: The FEMA Deployments Fund Balance was established to reserve funds in case of Federal Emergency that would require deployment of District assets. Reimbursable expenditures are requested from FEMA within 90 days of deployment and the amounts due in their entirety are to be received within 120 days. The Committed FEMA Deployment Reserve fund is funded and identified in the District’s financial statements.

Apparatus: The Apparatus Reserve is maintained to fund replacement of fire trucks and engines. The District owns and operates various apparatus and equipment. The Apparatus deployed by the District are highly specialized and unique.

The replacement of Apparatus is based upon three criteria:

- Age
- Mileage
- Condition

Generally, replacement occurs when either the age exceeds 10 years, the mileage exceeds 100,000 miles, or the condition is deemed to be poor or insufficient for safe operation.

The Apparatus fund balance was established to ensure availability of funds for needed replacements without a negative budgetary impact. The financial objective is to utilize this fund's reserves to absorb the cash flow variations caused by the timing of apparatus replacements. Having sufficient fund balances is central to maintain service levels even in times of economic contraction or annual revenue constraints.

Equipment Replacement: The District deploys a wide variety of equipment, including vehicles, in its everyday operations. The equipment has a useful life ranging from five to twenty years. Equipment, as all mechanical systems and devices, are prone to failure and obsolescence, and planning for both expected and unexpected replacement needs is essential. Replacement of various equipment will result in different levels of expenditures in different years, and maintaining a sufficient reserve fund will ensure adequate resources are available without adverse budgetary impacts.

The District's equipment reserve covers:

- Communication Radios
- Emergency Equipment
- Emergency Medical Equipment
- Information Technology Equipment
- Rolling Stock (i.e. Vehicles)

Debt Service: The committed reserve to Debt Service was established as a precaution to offset any economic downturn. This would allow the District to make regular debt service payment shall there is a revenue shortfall.

CIP Development Contribution: The CIP development contribution reserve consists of funds received from development contract in the District jurisdictions. The funds received are committed for the betterment of the jurisdiction and are to be spent on added apparatus, rolling stock or CIP related projects.

CIP (Admin/Fire Prevention building & Station 1-6, 77 Special Ops Warehouse): The District's CIP funds were established to provide reserves to fund the improvement or replacement of fire stations and administration facilities. Construction projects usually extend

over more than one financial reporting period. The District has a vital CIP program and is continually seeking new one-time funds to support the projects needed due to aging of facilities, growth and development in its jurisdictions.

Assigned Fund Balance

Encumbrances (Purchase Orders): Encumbrances assigned fund balance consists of open purchase orders for the fiscal year which will roll over to the new fiscal year. As such, a reserve for encumbrances is necessary to provide funding for the approved expenditures.

PERS future - PERS payments: The PERS stabilization assigned fund balance was established to mitigate the impact of changes in the employer contribution rates on the General Fund. These funds can also be used to offset the unfunded pension liabilities. The Board's budget philosophy sets aside any excess funds created by budgeting the employer's contribution percentage at the higher rates to offset potential future PERS Safety Rates in excess of the budgeted amounts. The excess at year-end will be transferred to the reserve for future UAL PERS payment.

General Services: The General Services assigned fund balance was established in the FY 2009-10 to provide coverage for liability expenses and property protection which includes, but is not limited to, management liability, comprehensive crime, and portable equipment. The reserve is also allocated for unforeseen legal expenses.

Workers' Compensation: The Workers' Compensation assigned fund balance was established in FY 2009-10. This reserve shall be maintained at a level deemed adequate to meet projected liabilities as determined by an actuarial evaluation to be conducted at least once every 5 years.

Compensated Absences: The Compensated Absences assigned fund balance was established in 2009 to be used for payment of current and terminated employee's accrued annual leave and compensatory time off. The value of the actual accumulated employees' annual leave and compensatory time off balances at the end of each fiscal year is funded within this reserve.

Unassigned Fund Balance

Unassigned: The Unassigned fund balance can be used for any purposes that the District deems appropriate and beneficial to operations. The use of unassigned fund balance is based on availability and need.

Order and Use of Restricted and Unrestricted Funds

When both restricted and unrestricted funds are available for expenditures, restricted funds should be spent first unless legal requirements disallow it.

Authority for Fund Balance Designation

Authority to Commit Funds: Any funds set aside as committed fund balance requires the passage of a resolution by a simple majority vote of the Board of Directors. The passage of a resolution could occur before or after year-end of the applicable fiscal year. In the event the Board of Directors would like to lift the committed status of the funds, a formal passage of resolution must be taken.

Authority to Assign Funds: The Board of Directors or the Fire Chief and/or designee staff has the ability to set aside funds for specific purposes.

The table below provides a listing of authority for Fund Balance Designation:

Fund Balance Description	District's Fund Balance Classification	GASB 54 Classification	Decision Making Authority	Formal Action Required
Prepaid Assets	Non-spendable	Non-spendable	General Accepted Accounting Principles	Not Required
Debt Service account	Restricted	Restricted	Legal Restriction (Debt Agreement)	Not Required
Budgetary Deficit	Committed	Committed	Board of Directors	Required Resolution
FEMA Deployments	Committed	Committed	Board of Directors	Required Resolution
Apparatus	Committed	Committed	Board of Directors	Required Resolution
Equipment Replacement	Committed	Committed	Board of Directors	Required Resolution
Debt Services reserve	Committed	Committed	Board of Directors	Required Resolution
CIP Development Contribution	Committed	Committed	Board of Directors	Required Resolution
CIP Funds (Admin/Fire Prevention building & Station 1 -7 & Special Operations Warehouse)	Committed	Committed	Board of Directors	Required Resolution
Encumbrances (Purchase Orders)	Assigned	Assigned	Fire Chief & Fire Chief Designee	Not Required
UAL PERS Payments	Assigned	Assigned	Fire Chief & Fire Chief Designee	Not Required
General Services	Assigned	Assigned	Fire Chief & Fire Chief Designee	Not Required
Workers' Compensation	Assigned	Assigned	Fire Chief & Fire Chief Designee	Not Required
Compensated Absences	Assigned	Assigned	Fire Chief & Fire Chief Designee	Not Required
Unassigned	Undesignated	Undesignated	Fire Chief & Fire Chief Designee	Not Required

Minimum Level of Unassigned Fund Balance

The District does not currently have a formal minimum fund balance policy.

Annual Review and Determination of Fund Balance Reserve Amounts

Compliance with the provisions of this policy shall be reviewed, presented and discussed as part of the unaudited actuals financial reporting process and presentation to Board of Directors, and the amounts of non-spendable, restricted, committed, assigned and unassigned fund balances shall be reported.

Additional Information, Requirements and Responsibilities

It will be the responsibility of the Administrative Services Manager to keep this policy current and up-to-date.

Adopted Date: May 16, 2017
Revised Date: May 15, 2018