

# Desert Recreation District

## Administrative Manual

**SUBJECT:** Fund Balance Policy

**SECTION:** General Administration

**POLICY NUMBER:** AP 004

**DATE PREPARED:** March 11, 2009

**REVISION DATE:** June 8, 2011

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### Purpose

To ensure sound financial management this includes the practice and discipline of maintaining adequate reserve funds for known and unknown contingencies. Such contingencies and occurrences include, but are not limited to:

- Cash flow requirements
- Economic uncertainties including downturns in the local, state or national economy
- Local emergencies and natural disasters
- Loss or shift of a major revenue source such as ERAF
- Unanticipated operating or capital expenditures
- Uninsured losses
- Tax refunds
- Future capital projects
- Vehicle and equipment replacement
- Capital asset and infrastructure repair and replacement

The policy also authorizes and directs the Accounting Supervisor to prepare financial reports, which accurately categorize fund balance per Governmental Accounting Standards Board Statement No. 54: Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). Further, this policy is established in order to provide a measure of financial protection for the District against unforeseen circumstances and to comply with GASB Statement No. 54.

### Policy and Authority

The establishment of a prudent financial reserve policy is important to ensure the long-term financial health of the District. It is the policy of the Board of Directors of the Desert Recreation District to maintain the following Fund Balance categories:

Reserve levels will be adjusted annually in accordance with this policy. Reserve levels will be set at the end of each fiscal year in conjunction with the preparation of the District's annual financial statements. The District Board of Directors shall annually review the Fund Balance Policy, and consider such changes, if any, that it deems appropriate. Such review shall occur in conjunction with the review and adoption of the annual District budget and Capital Improvement Program. Once Fund reserves are designated for a specified purpose it requires a four-fifths (4/5) majority vote of the Board to appropriate said funds for a different purpose.

## Fund Categories and Definitions

### A. Nonspendable Fund Balance:

Is that portion of a fund balance that includes amounts that cannot be spent because they are either (a) not in a spendable form, such as prepaid items, inventories of the supplies, or loans receivable; or (b) legally or contractually required to be maintained intact, such as the principal portion of an endowment. This category was traditionally reported as a “*Reserved*” fund balance under the former GASB standard.

The *Nonspendable Fund Balance* will include, but is not limited to, the following:

1. Reserve Prepaid Items: The portion of fund balance represents the asset amount of prepaid expenditures, held by a given fund. Currently held in this fund is Liability Insurance, Workman’s Comp, Maintenance Agreements that require fees paid in advance.

### B. Restricted Fund Balance (Reserve):

Is that portion of a fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributions, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. This category was traditionally reported as a “*Reserved*” fund balance under the former GASB standard. The restricted fund balance category includes amounts that can be spent for specific purposes stipulated by:

- Constitutional provisions;
- External resource providers; and/or
- Enabling legislation.

The *Restricted Fund Balance* will include, but is not limited to, the following Assessment Districts:

1. Assessment District 93-1 (District Wide)
2. Assessment District 97-1 (Thousand Palms)
3. Assessment District 01-1 (Indio Community Center)
4. Assessment District 02-1 (Coachella-Placitas De la Paz)
5. Assessment District 03-1 (Mecca-Mexicas/Huerta De Mecca)
6. Assessment District 03-2 (Thousand Palms-Ridgeview)
7. Assessment District 07-1 (Master Plan)

### C. Committed Fund Balance (Reserves):

Is that portion of a fund balance which includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District’s highest level of decision-making authority, and remain binding unless removed in the same manner. This category was traditionally reported as a “*Designated*” fund balance under the former GASB standard.

The *Committed Fund Balance* will include, but is not limited to, the following:

1. OPEB Committed Fund Balance (General Fund): Reserve for Other Post Employment Health Benefits Government Accounting Standards Board Statement 45 (GASB 45) Other Post Employment Benefits (OPEB) states that government agencies which offer post employment benefits other than pensions, such as retiree health and welfare benefits costs, must have an actuarial valuation performed to determine that liability.

In preparation for this requirement an actuarial valuation of District retiree benefits liability was completed for the year ended June 30, 2009. Annually, during the budget development, the Board of Directors will determine the funding amount to contribute, if any, to this fund for the upcoming fiscal year.

2. QUIMBY Fund Reserve: The Quimby Act is found at California Government Code Section 66477 (The Act). The Act provides for the dedication of land or payment of development fees for park land, capital facilities and capital equipment. Where fees are to be paid (instead of land dedicated) fees are calculated using a formula set out in the Act. The fees may be used for land acquisition or for facility construction, but for no other purpose.

D. Assigned Fund Balance (Reserves):

Is that portion of a fund balance which includes amounts that are constrained by the District's intent to be used for specific purposes; but that are neither restricted nor committed. Such intent needs to be established at either the highest level of decision-making, or by an official designated for that purpose. This category was traditionally reported as a "*Designated*" fund balance under the former GASB standard.

The *Assigned Fund Balance* will include, but is not limited to, the following:

1. Reserve for Operations (General Fund): The District shall maintain a minimum *Reserve for Operations* equal to a minimum of 40% and a maximum of 50% of discretionary General Fund revenues. These funds are set-aside because the District receives the majority of its funding from the property taxes and assessment district fees collected by the County of Riverside. These funds do not reach the District until January, six months into the fiscal year, resulting in a six-month delay in receiving revenue from the beginning of the fiscal year. Therefore it is imperative that the District has an operating fund to fulfill its general operating costs. Due to the delay in receiving funding, not having reserves could inhibit the District's ability in providing services for the benefit of residents within the District. The recommended maximum level for *Reserve for Operations* is equal to 50% or six (6) months operating revenue.
2. Reserves for Capital Assets and Infrastructure Replacement: The District will maintain a reserve for Capital Assets and Infrastructure Replacement. It is long-term goal of the District to build and maintain this reserve at an amount equal to 100% of accumulated depreciation.

E. Unassigned Fund Balance (Reserves):

Unassigned fund balance is the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected conditions. It is more commonly referred to as the "operating budget" or general fund. This category was traditionally reported as an "undesignated" fund balance under the former GASB standard.

1. Excess Unassigned Fund Balance: It is the intent of the Board of Directors to limit use of fund balances in the Unassigned Fund Balance to address unanticipated one-time needs. Excess unassigned fund balances shall not be applied to recurring annual operating expenditures. At the end of each fiscal year, the Accounting Supervisor will report on the audited year-end budgetary fiscal results. Should actual Unassigned Fund revenues exceed expenditures and encumbrances, a year-end operating surplus shall be reported. Any year-end operating surplus which results in the Unassigned Fund balance exceeding the level required by this policy shall be deemed available for allocation for the following, subject to Board approval:
  - o Re-appropriation within the subsequent year's capital budget; and/or
  - o Re-appropriation within the subsequent year's operating budget to provide for one-time, non-recurring needs.