

RANCHO ADOBE FIRE PROTECTION DISTRICT FINANCIAL POLICY

1. PURPOSE AND SCOPE.

The primary purpose of this Financial Policy is to provide guidelines for the District Board and staff to use in making financial decisions that ensure core services are maintained and the District's vision for the community is achieved.

This policy will keep the Board informed of the financial condition of District funds. This includes an early alert on major exceptions that can have a positive or negative impact on the District Budget

In addition, financial policies provide a level of security for the community by ensuring residents' tax dollars are being used openly, legally, efficiently and effectively and in a manner that provides insulation from fiscal crisis and economic disruption.

2. POLICY.

The District will maintain the fiscal integrity of its operating and capital replacement funds in order to provide services to its constituents.

Sound financial management policies enable the District to accomplish the following:

- Ensure the District maintains a financial base to sustain a consistent level of services;
- Ensure the District is able to withstand local and regional economic variations and/or adjust to changes in the service requirements of the community; and
- Maintain a good credit rating in the financial community, which assures taxpayers that the District is well managed financially and is in sound fiscal condition.

3. GENERAL FUND RESERVES.

Amounts Held in Reserve. In order to provide the District with sufficient cash flow for capital replacement, future obligations and during times of unexpected economic uncertainty, appropriate reserve levels shall be maintained in the District's General Fund.

Unassigned Reserves. The District will strive to maintain a minimum fund balance of at least two months of regular general fund operating expenditures.

Assigned Reserves. Capital Replacement, accrued absence obligations and lease obligations shall be assessed each year during the budget process. The District will strive to build and maintain sufficient funds based on this assessment.

Funding Target Fund Balances. Funding and replenishment of General fund balance targets shall come from excess revenues over expenditures or one time revenues. Reserves will be funded in the following priority order:

- (a) Budget Stabilization/Emergency Disaster
- (b) Apparatus and Equipment Replacement
- (c) Capital Improvement Projects
- (d) Future Liabilities (*i.e.*, accrued absence compensation, and lease obligation)
- (e) OPEB Funding

Conditions for Use of Reserves. The use of reserves shall be limited to unanticipated, non-recurring needs or anticipated future obligations or capital replacement. The District will avoid the appropriation of fund balances for recurring operating expenditures. If at any time the utilization of a fund balance to pay for operating expenditures is necessary to maintain the quality or level of current services, an explanation of the circumstances of the utilization of fund balance and the strategy to arrest the future use of fund balances will be presented to the District Board for approval.

The Fire Chief is authorized to make recommendations to the District Board for use of reserves. Any recommendation shall be accompanied by a proposal for the replenishment of the reserves. A majority vote of the Board will be required to use reserves. The Board will make best efforts to prevent the total General Fund reserve from dropping below 25% of the District's annual operating expenditures.

Excess Reserves. Reserve levels above the target may be used to prepay existing debt or for new expenditures with emphasis placed on on-time uses that achieve future operating cost reductions.

4. REVENUES.

Current Revenues for Current Uses. The District will use current revenues for current expenditures, avoiding procedures that balance current budgets by postponing needed expenditures, accruing future revenues, or rolling over short-term debt.

Non-Recurring and Volatile Revenues. Non-recurring revenues, such as sales of assets, and volatile revenues, such as interest earnings that exceed the average annual earnings over the last ten years, should be used to build up reserves, pay down debt or for special projects that reduce long-term operating costs.

Revenue Estimates. Revenues shall be estimated conservatively, generally based on the lesser of three- and five year growth rates for each revenue item. A five-year forecast shall be maintained using the same conservative approach.

Cost Recovery. Fees (*i.e.*, plan reviews, public education tuition) will be reviewed and updated on an ongoing basis to ensure they keep pace with changes in the cost of living as well as changes in methods or levels of service delivery. The level of cost recovery

may be adjusted periodically by the District Board to ensure that fees and charges are current, equitable, competitive, etc., and cover the percentage of the full costs deemed appropriate. In setting fees, the District will consider fees charged by other agencies for the same or similar services.

In implementing this goal, a comprehensive analysis of District costs and fees should be made at least every five years. In the interim, fees will be adjusted by annual changes in the Consumer Price Index.

Grants. Before applying for and accepting intergovernmental aid, the District will assess the merits of a particular project or acquisition as if it were funded with local tax dollars. Local tax dollars will not be used to make up for losses of intergovernmental aid without first reviewing the project or acquisition and its merits.

Grant revenues shall be included in the financial forecasts and annual Budgets when it is deemed likely that the District will receive the grant award. Should planned or budgeted grant revenues not be received, offsetting expenditure reductions shall be implemented or alternative revenue sources shall be identified by the Chief Financial Officer (hereinafter referred to as either the “Treasurer” or “Fire Chief”).

5. EXPENDITURES.

Funding Operations. The District will monitor and review methods of operation to ensure that services continue to be delivered in the most cost-effective manner possible. This review process encompasses a wide range of productivity issues, including:

- Analyzing systems and procedures to ensure efficient delivery of services.
- Evaluating the ability of new technologies and related capital investments to improve productivity.
- Developing the skills and abilities of all District employees.

Personnel Compensation. The Rancho Adobe Fire Protection District strives to provide excellent service to the community at all times. The District is committed to providing competitive compensation as part of an overall strategy of attracting and retaining highly qualified employees who exemplify our organizational values. The District’s compensation philosophy is based on both internal and external considerations, including the relative labor market and the District’s long-term fiscal health.

Salary range structures should be evaluated periodically to determine the relative competitiveness of the pay structure to the job market.

All proposed salary adjustments require approval of the District Board.

Productivity-enhancing options must be analyzed before a new position is created. All new positions must be authorized by the Board.

Staffing shall not exceed the authorized level. Overtime must be pre-authorized before it is incurred.

Budget surpluses that result from vacant positions are not to be used as justification for increased operational or capital expenditures.

Pension Funding. The District will use an actuarially accepted method of funding its pension system to maintain a fully funded position.

Other Post-Employment Benefits (OPEB) Funding Policy. Although OPEB will not be received by the employee until he or she retires from employment, these future benefits are being earned today, and as such, are a cost of providing public services today. GASB Statement 45 requires governments to measure the annual costs of OPEB through an actuarial-calculated Annual Required Contribution (ARC), systematically and rationally allocating the present value of the projected cost of benefits over the working life of benefiting employees.

Maintenance and Replacement. Maintenance and replacement funding will be prioritized each year to ensure that capital facilities and equipment are sufficiently maintained to avoid service disruption.

The District will annually project its equipment replacement and maintenance needs for the next five (5) years, and will update this projection each year. A maintenance and replacement schedule will be followed.

The District will maintain all assets at a level that protects capital investment and minimizes future maintenance and replacement costs.

Efficiency. The District will seek to optimize the efficiency and effectiveness of its services to reduce costs and improve service quality.

6. OPERATING BUDGET.

The District's annual budget will be developed in accordance with District goals, long range plans, the needs of the community, and federal and state law. The District seeks to maximize the value the public receives through its spending. Accordingly, existing spending patterns should be critically examined to make sure they continue to provide value.

The Treasurer shall be responsible for the management of the District's annual budget development process, along with monitoring and reporting during the year. The budget will be prepared in the modified accrual basis of accounting using prudent, conservative revenue and expenditure assumptions in the development of the budget. The annual budget shall be prepared in a manner to provide information in a readily understandable manner.

A balanced budget means the total revenues must equal expenditures. As such, the amount budgeted for operating expenditures (including transfers) shall not exceed the amount of forecasted revenue for the budget year. At no time during the budget process is the use of fund balance allowed to balance the budget. Ongoing expenditure programs shall only be supported by ongoing resources. One-time resources shall be identified and shall be used to support one time expenditures.

The Treasurer shall prepare and update a five year financial forecast on an annual basis as a multi-year financial planning tool and to address the future financial viability of the District. Should estimated expenditures and ending fund balances exceed estimated resources in the five year financial forecast, potential options to bring the five year financial forecast into balance shall be included as an integral part of the annual Budget process.

During times of financial stress, reducing expenditures through improved productivity is preferable to reducing staffing, thereby reducing services to the community.

The Treasurer shall provide timely and accurate budget monitoring reports to the Fire Chief and District Board on a monthly basis. Operating program appropriations not spent during the fiscal year should be assigned to reserve accounts falling short of their goal. A "use it or lose it" mindset is discouraged; the District will prioritize the budgetary needs required to serve the community, and therefore, will not take away future line item requests based solely on recent spending patterns that may have been less than expected.

The Fire Chief shall have primary responsibility for the implementation, management, and monitoring of the Budget in accordance with the District Board's direction. Any significant variances from the adopted budget shall be reported by the Fire Chief to the Board in a timely manner.

Timeline.

- Prevention, Training and Safety Officers submit budget requests before March 31.
- The Treasurer develops a preliminary Budget to be presented to the Board at the May Board meeting.
- The Treasurer develops the final Budget to be adopted by the Board at the September Board meeting.

The Board may amend or supplement the budget at any time after its adoption by majority vote of the Board members. The Fire Chief has the authority to make administrative adjustments to the budget as long as those changes will not have a significant policy impact or affect budgeted year-end fund balances.

The Fire Chief is authorized to transfer budgeted amounts within the general fund. Any revisions that alter the total expenditure authority or change the number of authorized

employee positions, salary ranges, pay classifications, hours, or other significant conditions of employment, must be approved by the District Board.

7. CAPITAL ASSET MANAGEMENT.

Capital Assets and Equipment Replacement. The District will maintain a schedule of individual capital assets with values in excess of \$5,000, and an estimated useful life in excess of one year. All items with an original value of less than these thresholds or with an estimated useful life of one year or less will be recorded as operating expenditures.

Balanced Capital Asset Plan. Expenditures included in the District's Capital Asset Plan should equal estimated resources available for capital spending.

Funding Capital Assets. Capital Assets and Equipment Replacement may be funded from the following resources:

- Capital Reserves
- One time resources
- Low-interest lease purchase agreements

Maintenance Funding. It is the District's policy to ensure that adequate resources are allocated to maintain existing vehicles and equipment before targeting resources to purchase new equipment that will also have maintenance obligations.

8. LONG-TERM FINANCIAL PLANNING.

A long-term financial plan shall be developed to maintain long-term fiscal solvency by identifying significant future expenses, liabilities, problems and resources that are not included or recognized in the annual budget.

The Treasurer should prepare a five year forecast that maintains the current level of services, including known changes that will occur during the forecast period. The financial plan will forecast revenues, expenditures, and financial position at least five years into the future. If the forecast does not depict a positive operating position in all five years of the forecast, the District will strive to balance the operating budget for all years included in the five year financial forecast.

9. DEBT.

The District will consider the use of debt financing only for equipment replacement or for one-time capital improvement projects and only when the project's useful life will exceed the term of the financing.

Debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures.

An internal feasibility analysis will be prepared for each long-term financing, which analyzes the impact on current and future budgets for debt service. This analysis will also address the reliability of revenues to support debt service.

Annual debt service shall not exceed five percent (5%) of budgeted expenditures.

In general, refinancing for economic savings will be undertaken whenever net present value savings of at least five percent (5%) of the refunded debt can be achieved.

(a) Refinancing that produces net present value savings of less than five percent will be considered on a case-by-case basis, provided that the present value savings are at least three percent (3%) of the refunded debt.

(b) Refinancing with savings of less than three percent (3%), or with negative savings, will not be considered unless there is a compelling public policy objective.

10. INVESTMENT.

It is the policy of the District to invest public funds in a manner which maximizes security and provides maximum return in preserving and protecting funds, while meeting the daily cash flow demands and conforming to all applicable federal, state and/or local government statutes governing the investment of public funds.

The District has adopted a separate Investment Policy. The primary goal of the District's Investment Policy shall be:

- To ensure the safety of all funds entrusted to the District;
- To maintain the availability of those funds for the payment of all necessary obligations of the District;
- To provide for the investment of all funds, not immediately required, in interest-bearing securities or pooled investment products. The safety of the principal invested shall always be the primary concern.

The Fire Chief shall have the authority to invest all District funds in accordance with the Investment Policy.

District staff involved with the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair the ability to make impartial investment decisions. District staff shall disclose to the District any material interests in firms or businesses that conduct investment matters with the District, and they shall further disclose positions that could be related to the performance of the District portfolio. District staff shall subordinate their personal financial transactions to those of the District, particularly with regard to the

timing of purchases and sales. Any personal business relationship with an organization seeking to sell an investment to the District shall be disclosed.

The standard of prudence used by the District shall be the “prudent expert rule” and shall be applied in the context of managing the overall portfolio. Investments shall be made with the care, skill, prudence, and diligence, under circumstances then prevailing, which prudent persons acting in like capacities and familiar with such matters would use in the conduct of an enterprise of like character, and with like aims - not for speculation, but for investment considering the probable safety of their capital as well as the possible income to be derived.

11. ACCOUNTING AND FINANCIAL REPORTING.

Financial procedures shall be maintained to assure appropriate internal controls are in place to protect District assets. This includes, but is not limited to, recording all purchased fixed assets in the fixed asset inventory system at the time of purchase. Equipment with a purchase price of \$5,000 or greater and a useful life of greater than one year will be capitalized. The Battalion Chief or designee shall maintain an inventory of all safety, medical and other equipment that is not capitalized.

External Financial Reporting. The District will report the results of operations using the modified basis of accounting allowed for government reporting, which will be reconciled at year end during the audit process to conform to Generally Accepted Accounting Principles (GAAP), as indicated by the Governmental Account Standards Board (GASB).

Internal Financial Reporting. Monthly financial reports will be presented to the District Board after the close of each month. A comparison of actual revenue and expenditure performance compared to budget estimates will be included in the reports. Such reports will enable the Board to be consistently informed of the financial status of the District.

Independent Audit. The District shall have an annual financial audit conducted by an Independent public accounting firm. The auditor shall be a certified public accountant licensed in the State of California, with demonstrated experience and skill in governmental accounting and auditing. The auditor shall be fully independent, conforming with the independence standard communicated in the General Accountability Office’s Government Auditing Standards.

12. RISK MANAGEMENT AND INTERNAL CONTROLS.

Risk Management.

- Protection of Assets

Staff shall protect the District against the financial consequences of accidental losses which are catastrophic in nature and to preserve the District assets and public service capabilities from destruction or depletion.

- Safe Environment

The District shall maintain, to the extent possible, an exposure free work environment in which employees can safely and securely conduct their daily pursuits.

- Efficiency of Risk Management Activities

The District shall achieve risk management objectives in the most efficient and economical manner.

Responsibility.

- All employees shall follow safety regulations and report potentially unsafe conditions to management.
- Implementation

Management shall undertake reasonable actions, which will lessen the possibility of loss or injury in the workplace to all employees.

Internal Controls. The District will maintain a system of internal control to safeguard its assets against loss, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.

- Segregation of Duties

Invoices shall be authorized by the Battalion Chief, Fire Chief, Board Member or the appropriate staff before being recorded by the Administrative Manager. Bank transfers shall be authorized by the Fire Chief or a Board Member.

- Security of Assets and Records

Assets and records shall be protected against theft or environmental damage. Access to assets and records shall only be granted based on the needs of the employee's job.

- Finance and computer records shall be backed up daily.
- Periodic reconciliation and verification.

The Fire Chief shall verify all bank reconciliations monthly.

Payroll records shall be verified semi-monthly by the Fire Chief and the Administrative Manager.

A periodic physical inventory of fixed assets and non-capitalized equipment shall be performed by the appropriate Treasurer or designee.

Written internal control procedures will be maintained by the Treasurer for all financial functions. Procedures shall be reviewed and updated on a regular basis and in response to deficiencies uncovered by controls testing.

13. PROCUREMENT AND PURCHASING.

It is District policy to be responsible stewards of public funds. All District procurement shall conform to guiding values of accountability, ethics, impartiality, professionalism, service and transparency. Management and staff responsible for procurement shall apply sound business judgment and promote effective, economic and efficient acquisition. Business will be conducted with honesty and integrity and meet all applicable legal and ethical standards. Suppliers will be treated without discrimination and collaborative partnerships will be developed and maintained to meet public needs.

Quality, timeliness and long-term value shall be taken into account, as well as cost. Competition is essential to getting the best value of goods and services, and it is District Policy to encourage full and open competition to support integrity and transparency.