

## FINANCIAL RESERVES AND FUND BALANCE POLICY

### I. POLICY STATEMENT

The Kern County Cemetery District (the District), under direction of the Board of Trustees, considers it prudent to establish a policy for its reserves and fund balances. The Reserves and Fund Balance Policy will assist with effective development of annual budgets, and promote clear communications with the general public, staff, and administration. The elements of the policy are created by the District for its own purposes and may, therefore, be revised by the District as needed in the future.

The District is authorized to establish a reserve fund under the Health and Safety Code §9071 as a restricted reserve fund. With that established fund the District must declare the exclusive purposes and constraints for which the funds in the reserve may be spent.

It is the intention that this Policy be informed by best practices and advisories developed by organizations such as the Government Finance Officers Associate (“GFOA”) and the California Special Districts Association (“CSDA”); however the Policy must also reflect the objectives and tolerances of the District. The GFOA recommends that all state and local governments adopt comprehensive written financial management policies, including a formal policy on the level of fund balance maintained in the general fund. This Policy has been drafted with reference to the guidance of the GFOA and the CSDA as of the date of adoption. The District Manager will periodically review the GFOA Best Practices and Advisories and any guidance issued by CSDA and recommend conforming modifications to this Policy as warranted.

This Fund Balance Policy will set guidelines for the appropriate level of fund balance, so as to mitigate current and future risks. The Policy is intended to enhance the quality of decisions about budgeting and net asset management. Through this Policy, the Board will oversee the process by which the District will manage for revenue volatility, maintain adequate liquidity, manage and mitigate financial market risk, ensure stable tax rates, and anticipate District commitments and assignments.

### II. POLICY PURPOSE AND SCOPE

The purpose of this Policy is to promote financial stability of the District by setting guidelines for fund balance. In accordance with Generally Accepted Accounting Principles, the term fund balance refers to the difference between assets and liabilities under the modified accrual basis of accounting for governmental funds. Unrestricted fund balance refers to the categories of fund balance that include only resources without a constraint on spending or for which the constraint on spending is imposed by the government itself. Unrestricted fund balance is a measure of economic stability, and adequate levels of unrestricted fund balance will assure liquidity and will mitigate the risks associated with revenue volatility and unanticipated expenditures.

### III. FUND BALANCES UNDER GASB 54

The Governmental Accounting Standards Board (GASB) issued Statement No. 54 for implementation effective for fiscal years beginning on or after June 15, 2010. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to honor constraints imposed upon the use of the resources reported in governmental funds. In addition, GASB 54 requires the identification of the authorization level and type of action for Committing or Assigning fund balances.

#### 1. Nonspendable Fund Balance

These are resources that are inherently nonspendable. The amounts may be in a nonspendable form (such as inventory or prepaid expense) or the amounts may be required by legal or contractual provisions to be maintained intact (such as a revolving fund or principal of an endowment fund).

## 2. Restricted Fund Balance

Resources that are subject to externally enforceable legal restrictions; these restrictions are either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Examples of restrict fund balance for the District include the income from the endowment principal fund, grants, and funds restricted for debt service.

## 3. Unrestricted Fund Balance

### 1. Committed fund balance:

These are resources that are constrained to specific purposes by a formal action of the highest level of decision-making authority. Action to commit funds must occur within the fiscal reporting period while the amount committed may be determined subsequently. Examples include contracts already executed but not yet spent, specific agreements that have not yet been executed, and minimum fund balance reserves

*Authority to Commit* – The highest level of decision-making authority for the District is the Board of Trustees and the commitment must be made by a formal action (defined as either resolutions or minute actions approved by the Board of Trustees at a noticed public meeting). The constraint remains binding unless removed in the same formal manner by the Board.

### 2. Assigned fund balance:

These resources are intended for a specific purpose as evidenced by the District's adopted budget and/or long-term financial plan, or to eliminate a projected deficit in the subsequent year's budget. Assignments may be made after the end of the fiscal year but prior to financial statement issuance.

*Authority to Commit* – Upon action by the Board of Trustees, the General Manager shall assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

### 3. Unassigned fund balance:

These consist of any residual net resources, in excess of the amounts in the foregoing categories. These amounts are available for any purpose, and are reported only in the general fund.

## 4. Rainy Day or Contingency Funds

GASB Statement No. 54 further classifies rainy day funds or contingency funds as “stabilization arrangements” and places specific restrictions on what qualifies for such designation. The formal action of a governing body that imposes the parameters for these arrangements must identify and describe the specific circumstances under which a need for funding would arise. Those circumstances should be such that they would not be expected to occur routinely. The intended purpose must be sufficiently detailed and reported as either restricted or committed, depending on the source of the constraint.

## IV. DISTRICT FUND SUMMARY

The following describes the District's major governmental funds:

General Fund – Use to account for all financial resources except those required to be accounted for in other funds. By definition, unassigned fund balance is reported only in the General Fund. There are two general funds used by the District. One is the fund at the County of Kern that includes all property tax receipts that are then available by the District to use. The second is the fund at a bank of choice that is used to pay the accrued expenditures that the District incurs.

Preneed Contracts Fund – Invested outside the District in an acceptable investment arrangement or kept at the county and used to account for resources collected in advance of District services.

Endowment Care Fund – Used to account for the earnings of the Endowment Care Principle. These resources are restricted for the maintenance and care of cemeteries in accordance with the provisions of the Health and Safety Code. Endowment Care Principle are resources that are collected with the sale of interment spaces and that is legally restricted per the Health and Safety Code §9065, section (e). Resources are restricted to the extent that only earnings, and not principal, may be used for purposes that support the District’s programs.

Land Use Fund – Invested outside the District in an acceptable investment arrangement or kept at the County and accumulates as percentage of the price when lots are sold. This money is invested and can be used to expand the cemetery as the available lots are sold or used.

## V. POLICY DIRECTIVES

The GFOA recommends, at a minimum, that general purpose governments, regardless of size, maintain aggregate unrestricted fund balances in their general fund of no less than two months of regular general fund operating revenues or expenditures, whichever is most predictable. The CSDA recommends that special districts should consider the unique circumstances associated with the District’s operational environment when setting a target level of reserves (factors include capital improvement plans, frequency of one-time revenues and expenditures and key operating benchmarks).

In accordance with best practices, and legal and accounting guidelines, the District hereby adopts the following fund balance policies:

1. The District will make an annual determination as to its target unrestricted fund balance level. In determining this level of fund balance, the District will give consideration to revenue volatility and predictability, perceived exposure to significant one-time outlays, liquidity pressures, and ongoing commitments and assignments. It is understood that there will be discrepancies between GAAP fund balance and budgetary fund balance, and this parameter shall refer to the GAAP determined fund balance. Notwithstanding other requirements and fund balance designations as described herein, it shall be the policy of the District to seek to maintain a minimum, unassigned General Fund balance equal to 25% of projected annual operating expenditures.
2. The District establishes the following usage flow of fund balance. If there is an expenditure incurred for purposes for which both restricted and unrestricted fund balance is available, the District will consider restricted fund balance to have been spent before unrestricted fund balance. Further, if there is an expenditure incurred for purposes for which committed, assigned, or unassigned fund balance classifications could be used, then the District will consider committed fund balance to be spent before assigned fund balance, and consider assigned fund balance to be spent before unassigned fund balance.
3. The District may choose to balance its annual budget by assigning a portion of existing unassigned fund balance, or by reassigning funds in an amount no greater than the projected excess of expected expenditures over expected revenues.