

GOVERNING BOARD POLICY
Mojave Desert Air Quality Management District

Policy No: 02-01
Effective Date: April 22, 2002

Adopted: April 22, 2002
Amended: January 24, 2011
Amended: June 11, 2012

/s/

Brad Mitzelfelt, Chair

Last Review: January 26, 2015

SUBJECT: FINANCIAL RESERVES

POLICY:

It is the policy of the Governing Board of the Mojave Desert Air Quality Management District (District) to direct the Air Pollution Control Officer (APCO) to establish and maintain certain fund balances to ensure the sound fiscal management of District resources. This policy is designed to conform to Government Accounting Standards Board Statement No. 54 (GASB 54).

AMPLIFICATION OF POLICY:

A. General

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 unrestricted fund balance in its funds sufficient to fund cash flows of the District and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. *All committed, assigned and unassigned fund balance in the General Fund is considered unrestricted.*

The purposes of the District's fund balance policy include maintaining prudent level of financial resources to protect against reducing service levels or raising fees because of temporary revenue shortfalls or unpredicted one-time expenditures. Another purpose is to reserve funds for unanticipated large expenditures, such as capital expenses; or extraordinary costs associated with defending the District's regulatory activities.

B. Classification of Funds

The following classifications conform to GASB 54. Examples are provided to illustrate how the classification might be used in practice.

1. Nonspendable Fund Balance includes amounts that are not in spendable form (tangible assets such as property, inventory), or are required to remain intact, and will never convert to cash. The District is likely to report these as Capital or Fixed Assets.

2. Restricted Fund Balance includes amounts that can be spent only for the specific purposes stipulated by the external source, government code, enabling legislation, or other legal restriction. The District is likely to establish separate trust funds for these funding types; for example: Mobile Emission Reduction Revenue (AB 2766), and Carl Moyer Grant Program Funds are held in separate trust accounts and are reported separate from the District's General Fund. This category could be further distinguished as follows:

a. Special Revenue Funds. Special revenue funds are created to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

b. Debt Service Funds. Debt service funds contain specific debt reserve amounts that are subject to the requirements set forth by the ordinances or resolutions that authorize the issuance of debt. It is the District's policy that debt reserve requirements for any outstanding debt issue will be consistent with the resolution authorizing the issuance of debt.

3. Committed Fund Balance are designated and described by specific policy and includes amounts that can be used only for the specific purposes determined by a formal action of the Governing Board. Commitments may be changed only by action of the Governing Board. The District's Operating Cash Reserves, as established by C.1. below, is an example of this classification.

4. Assigned Fund Balance is used to describe the portion of the fund balance that reflects the intended use of resources; the intent being established by the Governing Board, or the Board's designee. From time to time the Governing Board may establish other designations of fund balance through the budget process. Such fund balance will be allocated and defined in the District's annual adopted budget. Examples include the District's Reserve for Building Improvements, and Legal and Litigation.

5. Unassigned Fund Balance is the net resources not allocated to the categories as described above.

C. Establishment of Specific Funds

1. Operating Cash Reserve

It is the policy of the Governing Board of the MDAQMD to achieve and maintain an unrestricted fund balance in the General Fund. The APCO shall establish and include in the annual operating Budget of the District an Operating Cash Reserve of not less than ten percent (10%) of the combined budget categories of Salaries and Benefits, Services and Supplies and Transfers to Debt Service. In no case shall the Operating Cash Reserve be less than \$500,000.

2. Budgetary Reserves

Any reserve identified by line item in the District's most recently adopted budget. These will usually be identified in the budget as "Assigned Fund Balance" and use of these funds is subject to the appropriate authority as determined by policy.