

# **SOUTHERN MARIN EMERGENCY MEDICAL PARAMEDIC SYSTEM**

## **RESERVES AND FUND BALANCE POLICY**

Section: Administration

Effective Date: July 1, 2026

Pages: 3

### **1. Purpose:**

The purpose of this Reserves and Fund Balance Policy (“Policy”) is to establish a prudent framework for maintaining financial stability, managing risk, and ensuring the availability of resources to support ongoing operations, capital needs, and unforeseen events.

This Policy defines the classification, target levels, and governance of fund balance and reserves to promote transparency, fiscal discipline, and long-term sustainability.

### **2. Authority:**

This Policy is adopted by the SMEMPS Board of Directors (“Board”) as authorized by the Amended and Restated Joint Powers Agreement for the Southern Marin Emergency Medical Paramedic System and associated Bylaws. This Policy may be reviewed and revised by the Board from time to time in its discretion, to reflect legal requirements and best practices.

### **3. Fund Balance Classifications:**

The organization shall maintain fund balance classifications in accordance with generally accepted accounting principles.

#### **2.1 Unassigned Fund Balance**

The Unassigned Fund Balance represents resources available to address unforeseen expenditures, revenue shortfalls, and cash flow variability. Given the availability of backup apparatus and insurance coverage, the Unassigned Fund Balance is not intended to fully fund major capital replacement events, but rather to provide liquidity for operational needs and timing-related financial exposures.

#### **Target Level:**

The Unassigned Fund Balance shall be maintained at a minimum of two (2) months of approved operating expenditures. The Board may temporarily retain amounts above the minimum Unassigned Fund Balance level upon making a documented finding that such retention is necessary to address anticipated financial risks, timing considerations, or planned one-time expenditures.

#### **Use of Funds:**

Use of unassigned fund balance requires Board approval and should be limited to emergency expenditures, unanticipated revenue declines, and one-time, non-recurring needs.

# **SOUTHERN MARIN EMERGENCY MEDICAL PARAMEDIC SYSTEM**

## **Replenishment:**

If the Unassigned Fund Balance falls below the target level, a plan shall be developed and approved by the Board to restore the balance within a reasonable timeframe.

Replenishment shall take priority over the distribution of net operating surplus to member agencies, consistent with Section 9.6.1 of the Joint Powers Authority agreement. Any surplus revenues remaining at fiscal year-end shall first be applied to restore the Unassigned Fund Balance to the required minimum target level before any distribution to member agencies is authorized.

If available surplus revenues are insufficient to fully restore the Unassigned Fund Balance to the target level, all available surplus shall be applied toward replenishment, and the remaining shortfall shall be addressed through a Board-approved replenishment plan. Such plan may include phased restoration over multiple fiscal years, budgetary expenditure adjustments, revenue strategies, or temporary suspension or reduction of future surplus distributions until the target level is achieved.

## **4. Assigned Reserves**

Assigned reserves are established by the Board to fund specific future obligations and planned expenditure needs. These reserves support long-term asset management and reduce volatility in annual budgeting.

### **3.1 Capital Replacement Reserve**

#### **Purpose:**

To fund the scheduled replacement of SMEMPS-owned apparatus, medical equipment, and other operational assets.

#### **Funding Methodology:**

The reserve shall be funded using a systematic, levelized approach intended to accumulate sufficient resources for replacement at the end of each asset's useful life. Annual contributions shall be based on the estimated replacement cost of assets, adjusted for inflation, and allocated over their estimated service life.

For each asset or category of assets, the annual contribution shall generally be calculated as the projected replacement cost divided by the estimated useful life, with adjustments made periodically to reflect changes in cost estimates, service life, or operational conditions.

#### **Funding Process:**

The estimated funding requirement shall be determined prior to adoption of the Annual Budget. Funding or adjustments shall occur following Board approval of the Budget and prior to the start of the fiscal year.

#### **Use of Funds:**

Expenditures from this reserve shall be limited to capital replacement unless otherwise approved by the Board.

#### **Internal Tracking:**

The reserve shall be internally tracked by major asset categories, including at a minimum apparatus and equipment, to support financial planning, transparency, and alignment with

# **SOUTHERN MARIN EMERGENCY MEDICAL PARAMEDIC SYSTEM**

operational risk exposure. Staff shall maintain supporting schedules documenting estimated replacement cost, useful life, and annual contributions.

## **3.2 Other Assigned Reserves**

The Board may establish additional assigned reserves for specific, non-capital purposes, including but not limited to strategic initiatives, major one-time expenditures, or other identified organizational needs.

Any such reserve shall be established by formal Board action and shall include, at a minimum:

- A clearly defined purpose;
- A target funding level or funding methodology;
- Conditions for use; and
- Criteria or timeline for dissolution or re-evaluation.

Assigned reserves shall not be established for ongoing operating expenditures or to circumvent the use of Unassigned Fund Balance.

## **5. Distribution of Excess Fund Balance**

At the close of each fiscal year, any available fund balance in excess of the minimum Unassigned Fund Balance requirement, after accounting for assigned reserves, shall be considered surplus and distributed to member agencies in accordance with the Joint Powers Authority Agreement and Plan of Operations, unless the Board votes to retain such amounts in accordance with this Policy by resolution.

## **6. Governance and Oversight**

The Board of Directors retains authority over the establishment, modification, and use of all reserves and fund balance classifications.

Reserve levels and funding methodologies shall be reviewed annually as part of the budget process.

Any use of reserves outside of their stated purpose requires explicit Board approval.

## **7. Policy Review**

This Policy shall be reviewed at least every three (3) years, or more frequently as needed, to ensure alignment with organizational objectives, financial conditions, and best practices.