



RURAL NORTH VACAVILLE WATER DISTRICT

POLICY TITLE: Reserve Policy
POLICY NUMBER: 2150

ADOPTED: September 9, 2014
REVISIONS: March 10, 2015, June 14, 2016, June 12, 2018, June 9, 2020, April 13, 2021, February 8, 2022, April 11, 2023

PURPOSE OF THE POLICY: The primary purposes of the Reserve Policy are: to establish reserve funds that meet specific needs of the District; to identify when and how reserve funds are utilized and replenished; to establish appropriate oversight and transparency of reserve fund balances; and to recognize the long-term nature of such funds and their relationship to current and projected customer rates. Collectively, these reserve funds enable the District to operate in a safe and prudent manner and to mitigate certain risks.

FUND CLASSIFICATIONS: The District shall maintain 5 fund classifications that collectively comprise the District's reserve fund balance. The Fund classifications are:

- 1) Non-spendable funds,
- 2) Restricted funds,
- 3) Committed funds,
- 4) Assigned funds.
- 5) Unassigned funds

Distinction is made among the funds based primarily on the extent to which the District is bound to honor constraints on how specific amounts can be spent.

PROCEDURES: The General Manager will maintain procedures for each fund classification in conformance with this Policy. The General Manager will report to the Board the financial changes to each reserve fund on an annual basis, or more frequently if stated in this Policy or as requested by the Board.

POLICY REVIEW: The Board of Directors will **review this Policy annually**.

RESERVE OVERSIGHT: The Board of Directors has oversight responsibilities for all reserves as discussed in this Reserve Policy. Board oversight will be accomplished through regular reporting and review of this Policy.

2150.1 NON-SPENDABLE FUNDS CLASSIFICATION

Non-Spendable Funds are amounts that cannot be spent because they are (a) not in a spendable form or (b) legally or contractually required to be maintained intact. It includes long-term receivables.

2150.2 RESTRICTED FUNDS CLASSIFICATION

Restricted Funds are those financial assets that are restricted by a legal requirement to be maintained. Restrictions may arise from loan agreements, laws, or regulations.

Restricted Fund Assets are cash and cash equivalents and short-term investments.

2150.2.1 DEBT SERVICE FUND

The Debt Service Fund is a restricted fund of the District for debt service, to meet the reserve requirement as established by the Board approved loan agreements. This category is set up for the benefit of the lienholders; in case there are delinquencies the District can still make its scheduled debt service payments. The amount of assets to be held as debt service reserve is determined at the time of debt issuance.

2150.2.2 DEBT EXTINGUISHMENT FUND

The Debt Extinguishment Fund is a restricted fund of the District for principal debt service. This category is set up for the benefit of the lienholders; to hold money in reserve to satisfy the debt. This category is comprised of prepayment and partial payments, interest earned, and payments made for reserve connections. The District must use these funds to satisfy the debt or upon payment of the loan in full..

2150.3. COMMITTED FUNDS CLASSIFICATION

Committed Funds are those financial assets set aside to be spent only for specific purposes as determined by formal Board action.

2150.4 ASSIGNED FUNDS CLASSIFICATION

Assigned Funds are those financial assets constrained by the District's intent to use for specific purposes, but are neither legally restricted nor committed. Assigned fund assets are cash and cash equivalents.

2150.4.1 CAPITAL MAINTENANCE FUND RESERVE

The Capital Maintenance Fund is set up in the operating account to set aside money in reserve to be utilized for future maintenance of the water system. The District has established this reserve target amount to be \$750,000. Annually, the Board of Directors will review future goals for this reserve.

2150.4.2 OPERATING FUND RESERVE

The Operating Fund is an assigned fund of financial assets established to provide a reserve for short term cash flow needs and unexpected, unbudgeted operating expenditures and emergencies/ contingencies that may arise. The District shall target short term investments and/or cash equal to **\$750,000**. The General Manager is responsible for maintaining the required balance in this reserve and must notify the Board President whenever operational activity cause the reserve to fluctuate by more than 20% of the established value.

2150.5 UNASSIGNED FUNDS CLASSIFICATION

Unassigned Fund balance is the residual classification for the District's funds and includes all spendable amounts not contained in any other classification and includes the District's checking account balance.