

# **Aromas Water District Resolution 2014-1 Adopting Financial Reserves Policy**

## **Purpose:**

The purpose of the Reserves policy for *AROMAS WATER DISTRICT* is to ensure the stability of the mission, programs, employment, and ongoing operations of the organization and to provide a source of internal funds for organizational priorities such as building repair and improvement, capital projects, emergencies, program opportunity, and capacity building.

The Reserves policy will be implemented in concert with the other governance and financial polices of *AROMAS WATER DISTRICT* and is intended to support the goals and strategies contained in these related policies and in strategic and operational plans.

## **Definitions and Goals:**

### Types of Reserves

The **Operating Reserve** is intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. Operating Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention of *AROMAS WATER DISTRICT* for Operating Reserves to be used and replenished within a reasonably short period of time. The Operating Reserve Fund is defined as the designated fund set aside by action of the Board of Directors.

The target minimum Operating Reserve Fund is equal to three months of average operating costs. The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, travel, program, and ongoing professional services. Depreciation, in-kind, and other non-cash expenses are not included in the calculation. The calculation of average monthly expenses also excludes one-time or unusual capital expenses.

The amount of the Operating Reserve fund target minimum will be calculated each year after approval of the annual budget, reported to the Board of Directors, and included in the regular financial reports.

The District should consider the level of needed unrestricted fund balance in order to have sufficient unrestricted operation or working capital to provide cash to cover cash balance fluctuations on a month to month basis. Typically this minimum cash balance would be a minimum of 60 days to a maximum of 180 days of its annual operation expenses. For Aromas Water District that unrestricted amount would be between \$150,000 and \$300,000.

The **Capital Emergency Reserve** is intended to handle costs associated with system failures due to unplanned or catastrophic events. The District should consider if it is prudent to establish and maintain a reserve to handle such events. Methods used to

calculate could be (1) a small percent of overall assets (such as 2% of total assets) or (2) the cost of the items at most risk/most vulnerable component of the system (say a specific pumping station, key water transmission line or water storage site). An Emergency Reserve at 2% of total assets would be about \$125,000. For replacement estimates, the District should consider potential catastrophic failures to the most vulnerable parts of the system. For example, during a major earthquake, this could include storage tank replacement, well loss and multiple water line ruptures. The estimates here could easily exceed \$500,000.

The **Capital Funding Reserve** would typically have projections out to 15 to 30 years, and include a plan for ongoing funding and use of the reserve funds. This fund does not have a rule of thumb as the two reserves above; the reserve needs to be specific to the planned rehabilitation of infrastructure and needed capital improvements.

Once the reserves are determined annual resolutions should be made to designate funds in accordance with the policy and in relation to planned capital improvements as recommended in the Strategic Plan.

### **Funding of Reserves:**

The Reserve funds will be funded with surplus unrestricted operating funds. The Board of Directors may from time to time direct that a specific source of revenue be set aside for the Reserves. Examples could include one-time gifts or bequests, special grants, or special assessments.

### **Use of Reserves:**

Use of the Reserves requires three steps:

#### 1. Identification of appropriate use of reserve funds.

The General Manager and staff will identify the need for access reserve funds and confirm that the use is consistent with the purpose of the reserves as described in this Policy. This step requires analysis of the reason for the shortfall, the availability of any other sources of funds before using reserves, and evaluation of the time period that the funds will be needed and replenished.

#### 2. Authority to use Reserves.

Authority for use of up to 20% of Reserves is delegated to the General Manager in consultation with the President of the Board of Directors. The use of Reserves will be reported to the Executive Committee/Board of Directors at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds and plans for replenishment to restore the Reserve fund to the target minimum amount. The General Manager must receive prior approval from the Board of Directors for use of Reserves in excess of 20%

3. Reporting and monitoring.

The General Manager is responsible for assuring that the Reserve funds are maintained and used only as described in this Policy. Upon approval for the use of Reserve funds, the General Manager will maintain records of the use of funds and plan for replenishment, if required. He/she will provide regular reports to the Board of Directors of progress to restore the fund to the target minimum amount, if required.

**Review of Policy:**

This Policy will be reviewed every 5 years or sooner if warranted by internal or external events or changes. Changes to the Policy will be recommended by the General Manager and approved by the Board of Directors.

Approved:

  
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Director K. WAYNE NORTON, PRESIDENT

I hereby certify that the foregoing Resolution was duly passed and adopted by the Board of Directors of the Aromas Water District at a legal meeting held on the 28th day of January, 2014 by the following vote:

Ayes: HOLMAN, MAHLER, DUTRA, NORTON, LEAP

Noes: NONE

Absent: NONE

In Witness Hereof, I have hereunto set my hand and affixed the official seal of the Aromas Water District.

  
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Lisa Dobbins, District Secretary

