
Herlong Public Utility District

POLICY HANDBOOK – SERIES 3140

POLICY TITLE: Financial Reserves
POLICY NUMBER: 3140

3140.1 This Policy of the Governing Board of Herlong Public Utility District (District) to direct the General Manager/District Clerk to establish and maintain certain fund balances to ensure the sound fiscal management of District resources.

3140.2 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.

3140.3 Capital Improvements: The purpose of this reserve is to provide funding for District's Capital Improvement Program. The District continually updates the Capital Improvement Programs as priorities, designs, and estimated costs change. The only commitment to actual funding of capital improvement occurs annually with the adoption of the District's Budget.

3140.4 Emergency and Contingency: The purpose of this reserve is for unanticipated expenses resulting from emergencies including but not limited to earthquakes, floods, winds, fires, and damages to or destruction of District facilities and property.

3140.5 Working Capital: The purpose of this reserve is for operating revenue and expense variances, such as reduced water sales and investment income, and/or increased operating expenses, such as extraordinary measures necessary as the result of unforeseen climatic, operational and economic conditions.

3140.6 Restricted Fund Balance: This 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 funds for these funding types. 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 ordinance or resolution that authorize the issuance of debt. It is the District's policy that debt reserve requirements for any outstanding debt issue will consistent with the resolution authorizing the issuance of debt

3140.7 Unassigned Fund Balance is the net resources not allocated to the categories as described above.