

HERLONG PUBLIC UTILITY DISTRICT
POLICY HANDBOOK - SERIES 3000

POLICY TITLE: Financial Reserves
POLICY NUMBER: 3140

3140.1 The purpose of this policy of the Governing Board of Herlong Public Utility District (District) is to direct the General Manager/District appointed 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 balances 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.

The purpose of the District's Financial Reserve policy includes maintaining prudent level of financial resources to protect against reducing service levels: raising fees because of temporary revenue shortfalls and/or unpredicted one-time expenditures. Another purpose is to designate reserve funds for unanticipated large expenditures, planned large capital expenses and/or potential unplanned extraordinary costs.

Reserve Fund assignment can be designated through the budgeting process, or by approval of the Board of Directors, in order to address needs/opportunities in a timely fashion. The Board of Directors will designate reserve funds as either non-restricted or restricted with restricted reserve funds being limited in use for specific and designated purposes as set forth by the Board and/or as prescribed by other legal requirements or restrictions.

Funds allocated to any of the Reserve Funds designated in 3140.3 through 3140.6 may be invested in financial institutions and instruments which maintain the highest level of safety and liquidity in accordance with Policy 3120, Investment of District Funds.

As a component of sound financial management to meet both short and long-term financial objectives, the Board of Directors hereby designate the following Reserve Funds, listed by priority, to be established to support and further the District's mission.

3140.3 Working Capital Reserve Funds shall be established for each of the three primary Enterprises (Water, Wastewater and Fire). These funds will be designated as a non-restricted reserve funds that the General Manager is authorized to approve the expenditure of in response to day-to-day cash flow requirements within the specific Enterprise without prior approval of the Board of Directors. The target reserve amount is 6 months of the annual budgeted core expense for each specific Enterprise.

3140.4 Emergency & Disaster Reserve Funds shall be established for each of the three primary Enterprises (Water, Sewer and Fire). The purpose of the Emergency & Disaster Reserve Funds is to accumulate sufficient financial reserves necessary to insure a timely response by the District to natural disasters and/or other emergencies. This reserve fund will provide for rapid response and continued operation of the District's essential services during periods of natural disaster and/or other emergencies. Emergency Reserve funds shall be designated as a restricted reserve funds and shall be expended solely for the purposes of responding to and

HERLONG PUBLIC UTILITY DISTRICT
POLICY HANDBOOK - SERIES 3000

maintaining District operations during a natural disaster or other emergency. In response to an emergency event the General Manager is authorized to approve the expenditure of Emergency Reserve funds without prior approval of the Board of Directors and shall notify them at the earliest possible opportunity of any expenditure of these funds. Expenditures from these funds which are subsequently recovered in any amount shall be utilized solely for the purpose of refunding the respective Emergency & Disaster Reserve Fund. The target reserve amount is 5% of the annual revenue for each specific Enterprise.

3140.5 Facilities & Equipment Maintenance, Repair & Replacement Reserve Funds shall be established for each of the three primary Enterprises (Water, Sewer and Fire). The purpose of these funds is to accumulate sufficient reserves necessary to ensure timely maintenance, repair and replacement/upgrades and/or for necessary unplanned repair of District vehicles, mobile equipment and facilities to be safe, reliable, and up-to-date which is essential for the provision of public services in a timely, professional and cost-effective manner. It is desirable for the District to set aside funds on an on-going basis for these purposes. These funds will be designated as a non-restricted reserve funds that the General Manager is authorized to approve the expenditure of in accordance with approved budget authorizations without prior approval of the Board of directors. The target reserve amount is 50% of the annual depreciation amount of the assets in each specific Enterprise.

3140.6 Capital Investment Reserve Funds shall be established for each of the three primary Enterprises (Water, Sewer and Fire). The purpose of these funds is to provide funding for the requirements and priorities of the District Capital Investment Program. The District continually updates the Capital Investment Program for each fund as priorities, designs, and estimated costs change. The only actual dispersal commitment from these funds for capital improvement occurs annually with the adoption of the District's budget. These funds will be designated as a non-restricted reserve funds that the General Manager is authorized to approve the expenditure of in accordance with approved budget authorizations. The target reserve amount is 25% of the total accumulated depreciation amount of the assets in each specific Enterprise.

3140.7 The General Manager or his/her designee will perform a review and analysis of each designated reserve fund and provide the analysis and a reserve status report no less than annually for inclusion in the annual budget process. Additional interim information or reports may be requested by the Board of Directors or provided to the Board of Directors upon the occurrence of events that significantly impact established reserve targets or reserve balances.

3140.8 This Financial Reserve Policy shall be reviewed on an annual basis and the Board of Directors must approve any modification.