



GEORGETOWN DIVIDE PUBLIC UTILITY DISTRICT

Policy and Procedures Manual

POLICY TITLE: Financial Reserve Policy and Procedures

POLICY NUMBER: 2225 **Adopted:** November 13, 2018 **Amended:** April 4, 2024

REFERENCES: Governmental Accounting Standards Board Statement No. 54

Section 2225.01 Purpose

The Georgetown Divide Public Utility District (the District) shall maintain reserve funds from existing unrestricted funds as designated by the District's Reserve Policy. This policy establishes the procedure and level of reserve funding to achieve the following specific goals:

- a) **Operating Reserve:**
The purpose of the Operating Reserve is to cover operating and administrative costs, as well as the difference in timing between the District's receipts and expenses. As such, the Operating Reserve accommodates rate stabilization in order to guard against water rate fluctuations.
- b) **Capital Replacement Reserve:**
The purpose of the Capital Replacement Reserve is to meet future capital expenditure and surplus property needs.
- c) **Emergency Reserve:**
The purpose of the Emergency Reserve is to cover the costs of potential replacement costs related to catastrophes; net of any insurance proceeds received.
- d) **Other reserves as legally mandated.**

The District shall account for reserves as required by Governmental Accounting Standards Board Statement No. 54, which distinguishes reserves among these classes: non-spendable, restricted, committed, assigned, and unassigned. The reserves stated by this policy, unless otherwise required by law, contract, or District policy shall be deemed "assigned" reserves.

Section 2225.02 Policy

Use of District Reserves is limited to available "Unrestricted" Funds (not obligated by law, contract, or agreement), including donations, interest earned, fees for service, or other non-grant earnings. All special use funds will be designated by formal action of the Board of Directors.

- a) **Operating Reserve:**
Operating Reserve will accumulate from unrestricted funds in an amount equal to 120 days of operating expenses.

- b) Capital Replacement Reserve:
Capital Replacement Reserve will accumulate from existing unrestricted funds in an amount determined by analysis of the annual amount needed for replacement and rehabilitation based on current value of assets and anticipated service life as described by the American Water Works Association, or as described in a Board-adopted rate study.
- c) Emergency Reserve:
Emergency Reserve will accumulate from unrestricted funds in an amount equal to replacement cost, less any amounts anticipated to receive from insurance, the Federal Emergency Management Agency (FEMA), and the State Office of Emergency Services (OES), less the Capital Replacement Reserve. The likelihood of a loss generating a net cost to the District which exceeds the Capital Replacement Reserve would be remote. The Emergency Reserve would be considered to be funded by the Capital Replacement Reserve.

Section 2225.03 Reserve Fund Utilization

Reserve Balances are designated by the Board of Directors from unrestricted funds. Designation by the Board is authoritative and any departure from the designation is a violation of this policy. As such, any changes or recommendations for changes must be presented to, and approved by, the Board of Directors. Therefore, the use of funds are to be used for their intended use, defined as follows:

- a) Operating Reserve:
Operating Reserve funds will be used exclusively to ensure the ability to cover immediate operating cash flows.
- b) Capital Replacement Reserve:
Capital Replacement Reserve funds shall be limited to costs related to improve capital assets, increase their useful life, or add to the value of these assets.
- c) Emergency Reserve:
Emergency Reserve funds are to be used to cover the cost of capital replacement, net of any insurance proceeds or reimbursements from State, Federal, or other grant agencies.
- d) Excess Revenue:
In the event excess revenue exists at the end of the fiscal year, these funds may be used to meet reserve balance thresholds, and the Board of Directors has the authority to designate funds to reserve funds as deemed necessary.

Section 2225.04 End of Year Fund Transfer

At the end of the fiscal year a fund transfer is authorized by the Board that takes funds from the Water Fund and deposits them into the Capital Reserve Fund. This fund transfer will occur after the audited report and with recommendations from the District CPA. The Operating Reserves for the District are calculated to maintain a 120-day operating reserve and the remainder is to be authorized by the Board to transfer to the Capital Reserve Fund.

Section 2225.05 Monitoring Reserve Levels

The General Manager, in collaboration with District Finance personnel, shall establish an internal accounting mechanism set forth by an administrative policy in order to track and report on reserve activity, including the source and use of funds transferred in and out of reserve funds. Also included in the administrative policy shall be additional procedures to follow when reserve balance thresholds are met. In addition, the General Manager and finance personnel shall perform a reserve status analysis

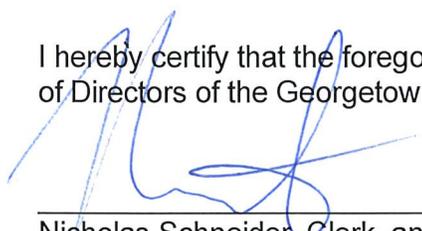
annually, to be provided to the Board of Directors during annual deliberation for approval of budget and reserve funds.

Additional information may be provided to the Board of Directors upon the occurrence of the following events:

- a) When a major change in conditions threatens the reserve levels established by this policy or calls into question the effectiveness of this policy;
- b) Upon General Manager and/or Board request.

Certification

I hereby certify that the foregoing is a full, true, and correct copy of Policy 2225 adopted by the Board of Directors of the Georgetown Divide Public Utility District on April 4, 2024.



Nicholas Schneider, Clerk, and Ex-Officio
Secretary, Board of Directors
GEORGETOWN DIVIDE PUBLIC UTILITY DISTRICT

DISTRIBUTION: