

**LITTLE THOMPSON WATER DISTRICT  
RESERVE POLICY  
SECTION 2 – APPENDIX 3**

Little Thompson Water District's Reserve Policy ensures that the District will at all times have sufficient funding available to meet its operating, capital and debt service obligations. Reserves will be managed in a manner that allows the District to fund costs consistent with its annually updated Long Term Financial Plan while avoiding significant rate fluctuations due to changes in cash flow requirements.

Adequate and sound financial policies promote the District's bond ratings in the capital markets; provide financing flexibility; avoid potential restrictive debt covenants; and ensure the District's customers of stable rates.

The Reserve Policy covers all reserve funds of the District. At the end of each calendar year compliance of the Reserve Policy will be reported to the District's Board of Directors as part of each Fiscal Year-End Report.

**Reserve Funds Types**

There are two major types of reserve funds: Legally Restricted Reserves and Board Designated Reserves. Legally Restricted Reserves have restrictions imposed by an outside source, such as bond covenants, contractual obligations, etc. Board Designated Reserves are set aside for a specific purpose as determined by the Board of Directors. The Board of Directors has the authority to redirect the use of Board Designated Reserves as the needs of the District change.

**LEGALLY RESTRICTED RESERVES**

- **Debt Reserve Fund:** It is the obligation of the District to meet reserve requirements of bonds and loans. It is the policy of the District to fully fund such reserves as set forth in the covenants for the District's water revenue bonds and loan agreements.
- **Operations and Maintenance Reserve Fund:** The District shall maintain an operations and maintenance reserve in an amount equal to three months of operation and maintenance expenses, excluding debt service and depreciation, as set for in the annual budget for the current fiscal year.

**BOARD DESIGNATED RESERVES**

- **Debt Service Fund:** Monthly transfers from available operating revenues will be made into this sinking fund. Monies from this fund will be used to make full and timely debt service payments. These funds are completely separate from and in addition to the Debt Reserve Funds required by bond and loan covenants. The monthly transfers shall be made in amounts so that at no time shall fund levels be less than 25% of the annual debt service due on all debt obligations.
- **Water Resources Fund:** When a new customer connects to the District's system and elects to pay cash-in-lieu of dedicating a water right in accordance with District policy,

those funds are set aside in this reserve for future water purchases, development of new water rights, conversion or enhancement of existing rights, or other water resources purposes as the Board may deem appropriate. These funds are only spent by appropriation of the Board. There is no minimum or maximum balance.

- Cash Flow Fund: This fund is designed to provide a liquidity cushion to ensure adequate working capital to deal with cash flow fluctuations, such as seasonal fluctuations in billing and receipts, lower than expected revenue collections due to cool/wet weather or water shortage, and unexpected operating expenses, without undue concern about other reserve fund levels or overall financial health of the District. The level of this fund will fluctuate from year to year and is set annually as a part of the budget process by the Board of Directors with a target of 10% of the annual operating revenue. Guidelines for use of this fund are:
  - Revenue Shortfall: This fund allows authorized expenditures needed to sustain operations to be made in a year when revenue is below budget due to cool/wet weather or water shortage.
  - Unexpected Operating Expenses: The Board, at its' discretion, may use this fund to make budget amendments as described elsewhere in the District's financial policies.
  - As a part of the annual budget process the Board can add to or replenish this fund (if needed) using any legally available source of funds, such as revenues above budget due to hot/dry weather.
- Vehicle & Equipment Replacement Fund: This fund is utilized to replace vehicles and heavy equipment while smoothing cash flows and minimizing annual pressure on rates. Funding will be from general operating revenue. Each year, funds will be credited to this sinking fund as provided for in the adopted annual budget. Budget levels will be based on an average annualized amount as determined by the District's Ten-Year Vehicle Replacement Plan. In addition, the net proceeds of the sale of replaced vehicles and equipment will be credited to the fund. Vehicles and equipment will be replaced using monies from this fund based on the Vehicle Replacement Plan and as appropriated in the current year budget. There is no minimum or maximum balance in this fund.
- Capital Projects Fund: The purpose of this fund is to accrue funding for the replacement of aging system facilities ensuring sustainability of the system for ongoing operations and to install new capital projects. The capital fund holds bond proceeds, plant investment fee revenues, other capital related revenues and surplus operating fund balances after all other reserves are satisfied. All working capital balances in excess of reserve requirements are transferred to this fund and year's end and will become available (but not restricted) for capital use in subsequent years as appropriated by the Board.