



Reserve Fund Policy

August 5, 2009

1. PURPOSE

Prudent financial planning and fiscal responsibility includes anticipating and preparing for future funding requirements as well as unforeseen and unexpected emergencies disasters, and other events. Casitas Municipal Water District (District) has established reserve funds for its long term organizational and operational stability and the reserve funds enable the District to minimize significant rate fluctuations due to unforeseen and unexpected cash flow requirements. This Reserve Fund Policy is to ensure that the District accumulates, manages, maintains and uses certain financial resources only for specified purposes.

2. TYPES OF RESERVE FUNDS

The District maintains two types of reserve funds:

- a. Restricted Reserves. Restricted reserves are reserves that are restricted by an outside source, such as by statute, court order, or contract.
- b. Designated Reserves. Designated reserves are reserves that are established and set aside to be used only for a specific, designated purpose.

3. SPECIFIC RESERVE FUNDS

The District maintains the following reserve funds:

- a. Debt Service Reserve. The Debt Service Reserve is a restricted reserve that is governed by legal bond covenants and is to be used if the District is unable to meet the required debt service obligation. The bond covenants require that Debt Service Reserve be maintained at a level sufficient to fund the maximum annual debt service payments.
 - i. Mira Monte Fund – Restricted Fund
 - ii. Debt Service Fund – Restricted Fund
 - iii. Safe Drinking Water Fund – Restricted Fund
- b. Emergency Reserve. The Emergency Reserve is to be used only to cover cash flow shortages caused by an unexpected event, such as a natural disaster, water shortage situation, or other unforeseen expense.
 - i. Storm Damage Fund – Un-restricted, Designated Fund
 - ii. Variation in Water Sales Fund – Un-restricted, Designated Fund

- c. Operating Reserve. The Operating Reserve is a designated reserve to be used only to cover cash flow shortages caused by a short-term, unexpected disruption of anticipated revenue or when expenses become due before the anticipated revenue to pay expenses received.
 - i. Cash Flow Fund – Un-restricted, Designated Fund

- d. Capital Reserve. The Capital Reserve is a designated reserve to be used to fund the capital improvement program and for unforeseen capital projects that are necessary to meet regulatory requirements, system reliability, and future needs.
 - i. Capital Facilities Fund – Restricted Fund
 - ii. Flexible Storage Fund – Un-restricted, Designated Fund
 - iii. Capital Improvement Fund – Un-restricted, Designated Fund

4. MANAGEMENT OF RESERVE FUNDS

The Board of Directors and General Manager will be responsible for managing the reserve funds. The Board must authorize all expenditures for the District's reserve funds. The Board will review annually the balance of the reserve funds, work collaboratively with the General Manager and Accounting Manager to designate unrestricted reserves and evaluate the goals and purposes of each reserve fund.

