



Budgeting and Fiscal Management Appropriate Level of Reserves Policy 7.1.0

POLICY. This policy establishes the minimum level of reserve funding to be maintained by the District within the fund balance of its governmental funds and net position of its proprietary enterprise funds. The policy further provides for the conditions under which reserve funds may be utilized, and a timeline for replenishment of reserve funds, when utilized.

1.0 Purpose. The District desires to maintain prudent reserves for each of its major funds, consistent with best practices, to guard against the financial impacts associated with economic cycles, revenue fluctuation, and unanticipated emergencies and/or mandates. Major funds include the General Fund, Utility Fund, Community Services Fund and Beach Fund.

In addition, this policy will also establish appropriate level of working capital to be maintained within its enterprise funds in order to meet its cash flow requirements related to operations and maintenance, contractual obligations, capital program expenditures and debt service.

2.0 Definitions. The District will apply classifications and definitions consistent with Governmental and Accounting Standards Board Standard 54. The specific GASB 54 classifications only apply to Governmental Funds. However, IVGID's policies will be guided by the intent of GASB 54 and will utilize similar language in denoting the reserve "buckets" described below for its Enterprise Funds.

Government Funds include the use of Non-Spendable, Restricted and Unrestricted balances. Unrestricted balances are in turn comprised of Committed, Assigned and Unassigned. These are defined as follows:

2.0.1 Non-Spendable Fund Balance - items that are not in spendable form (such as inventory and prepaid items), or are legally or contractually required to be maintained intact.

2.0.2 Restricted Fund Balance - amounts that can be spent only for specific purposes stipulated by (a) external resource providers such as creditors (by debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

2.0.3 Unrestricted Fund Balance - Unrestricted fund balance is the total of



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the committed fund balance, the assigned fund balance and the unassigned fund balance, which can consist of the following:

- *Committed Fund Balance* – Amounts that can be used for specific purposes as stipulated by the Board of Trustees via resolution. Such commitments may be changed or lifted only by the Board of Trustees taking the same formal action that imposed the constraint originally (resolution). Common types of commitments include CIP projects approved in one year that carry over into the following year.
- *Assigned Fund Balance* – Funds assigned at the discretion of the General Manager for specific purposes under their delegation of authority that do not require Board of Trustee approval. This may reflect management's intended use of resources and may or may not include specific amounts appropriated for expenditure in the subsequent year.
- *Unassigned Fund Balance* - Unassigned fund balance is the residual classification for the general fund and represents fund balance that has not been restricted, committed or assigned to specific purposes within the general fund.

2.0.4 Enterprise Funds Net Position consists of total assets, less total liabilities and serves as a useful indicator of the Enterprise Funds financial position. Net Position consists of three components as follows: Net Investment in Capital Assets, Restricted, and Unrestricted. Restricted are funds legally or contractually restricted for specific purposes, such as grants, bond covenants, or legal requirements. The Unrestricted component of net position is further classified into two categories: Designated and Undesignated. The Designated category of the Unrestricted Net Position is established by Board policy and is intended for a specific purpose or use per the Board's policy or the Board designee's directions. Undesignated is what is available after designation.



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3.0 Target Reserve Levels

3.0 General Fund Reserves. The policy of the District shall be to maintain a target fund balance of total Unrestricted Fund Balances within the General Fund equal to 15% of annual budgeted expenditures (less transfers and debt), to provide for economic uncertainty, fluctuations in General Fund revenues and unforeseen events that may require of unbudgeted expenditures.

Of this amount, 5% is designated as a reserve for economic uncertainty in the event that general fund revenues received within the fiscal year fall short of the amounts assumed in the approved budget.

An additional 10% is to be designated as an emergency reserve to cover unanticipated expenditures resulting from emergencies or unanticipated mandates.

In no case shall the fund balance for the District's General Fund fall below the 4% of expenditures required under Nevada Administrative Code Section 354.

The target reserve level established for the District's General Fund shall be reviewed annually.

3.1 Enterprise Fund Reserves (excluding Internal Services Fund). The policy of the District shall be to maintain target levels of reserves within the Unrestricted Net Position of each of its enterprise funds (excluding Internal Service Funds), is to achieve a target level of total Unrestricted Fund Balances of 25% of annual budgeted operating expenses (excluding depreciation and debt).

[propose to remove the capital reserve in its entirety]

Alternative 2 - if Board wishes to retain capital reserve
Capital Reserve Target: 1 year (or 50%) of 3-year average annual budgeted depreciation, reduced by the sum of 1) the amount of any funds that are restricted pursuant to debt or



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regulatory provisions that are calculated based on, or meant to set aside funds for, the funding of future capital replacement, and 2) any funds appearing in the Statement of Net Position as board designated funds for future approved capital investment. But in no event shall the capital reserve target calculated per this provision be less than zero

The target reserve levels established for each of the District's enterprise funds shall be reviewed annually.

- 3.2 Internal Services Funds.** Internal Service Funds (Engineering, Buildings, Fleet) are intended to be self-funding business-type activities supporting internal customers. At year-end, adjustments are made to user charges to ensure fund revenues and expenditures are balanced. As such, operating reserves are not required to be maintained.
- 3.3 Utility Fund Capital Asset Replacement Fund –** Under the provisions of loans secured by IVGID to finance its effluent pipeline project, it is subject to a covenant that requires it to establish a Capital Asset Replacement Fund. This fund will be included as a separate caption within Restricted Fund Balance on IVGID's Statement of Net Position. IVGID will fund this account annually based on the needed "replacement cost of the system's short lived assets (15 years or less)." The amount funded is an amount equal to annual straight-line depreciation on short lived assets (15 years or less) and must be recalculated at least every five years. Funds within this account can be expended (and removed from the account) to purchase any capital asset of the water utility. They may not be used for operations, maintenance, debt service, or other non-capital expenditures.
- 3.4 Other Designations.** The Board of Trustees may designate additional fund balances for specific purposes, which are to be considered in addition to the reserve levels established under this policy.

- 4.0 Working Capital.** The District will establish target levels of working capital



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that should be maintained within its enterprise funds in order to meet its cash flow requirements related to operations and maintenance, contractual obligations, capital program expenditures and debt service. Working capital target levels are not to be added to the target reserve levels. Rather, they are a separate metric to be used on a stand-alone basis to ensure that the district maintains an adequate level of liquidity

4.1. Target Level of Working Capital:

Working Capital Target = 90-days operating expenses (inclusive of depreciation and interest expense).

5.0 Debt Reserve Target. The District's approved annual budget will maintain required debt coverage ratios for all existing debt. In addition, should the District issue any variable-rate debt obligations, an additional debt reserve shall be established at a level equal to one year's interest expenses related to variable-rate debt.

5.1 Appropriate Use of Reserves. The targeted level of reserves established by Board policy serve to address significant short-term issues, including unexpected revenue shortfalls, higher than anticipated expenditures, or unforeseen emergencies.

It is the intent of the Board of Trustees to limit the use of reserves to address unanticipated, non-recurring needs. Fund balances should not be applied to recurring annual operating expenditures. Fund balances may, however, be applied buffer the impacts of a loss or reduction in revenues to allow time for the District to restructure its operations, but such use will only take place in the context of a Board-approved long-term financial plan.

6.0 Excess Unrestricted Fund Balance or Net Position. At the end of each fiscal year, the Finance Department will report on the audited year-end budgetary fiscal results. Should actual revenues exceed expenditures, including contractual obligations and carryforward items, a year-end surplus shall be reported.



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Any year-end operating surplus which results in unrestricted fund balances or unrestricted net position in excess of the targeted reserve levels established by the policy, shall be deemed available for allocation to specific needs, subject to Board action.

Priorities for possible allocation of available funds in excess of established target reserve levels include:

- 1) Payments toward unfunded liabilities, deferred maintenance and asset replacement.
- 2) Transfer to other funds, as deemed appropriate, to offset year-end deficits within those funds.
- 3) Allocation to capital projects with shortfalls in funding sources and/or to provide matching funds for awarded grants.
- 4) Re-appropriation within the subsequent year's operating budget to provide for one-time, non-recurring needs.

7.0 Replenishment of Reserves. If the any of the District's reserve balances are required to be drawn-down below the minimum level established by this policy, a plan will be developed and implemented to replenish reserves. Replenishing reserves will be a priority use of one-time resources, and minimum reserve balances will be restored within a maximum of two fiscal years.

8.0 Utility Rate Stabilization Fund. The District may establish a Utility Rate Stabilization reserve intended to mitigate potential future year's water and sewer rate adjustments necessary to meet operating, capital and debt obligations of the District's Utility Fund.

Consideration for establishing an appropriate Utility Rate Stabilization Fund should be made in conjunction with development of a periodic multi-year Utility Rate Study as well as annual utility rate adjustments.

Factors in determining whether, and to what extent, a Utility Rate Stabilization fund is warranted should include:

- Managing long-term utility rates to avoid excessive rate increases in any single year (example = in excess of 2.5-times CPI)



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- Mitigating the rate impacts associated with financing significant one-time capital projects
- Mitigating the potential impacts associated with significant fluctuations in charges for service revenues, beyond those associated with normal business cycles (example – mandated water conservation protocols).

9.0 Classifications. Fund balance in the District's financial reports will be classified in the following manner.

Governmental Funds		Proprietary (Enterprise) Funds	
	Non-Spendable		Net Investment in Capital Assets
	Restricted		Restricted
	Committed		Unrestricted
	Unassigned		Designated
	Unreserved Fund Balance		Operating Reserve
	Reserve (per Policy)		Capital Reserve
			Debt Reserve
			Other
			Undesignated