

# McCLOUD COMMUNITY SERVICES DISTRICT

## **Policy and Procedure Manual**

**POLICY TITLE:** District Financial Reserves  
**POLICY NUMBER:** 3025  
**ADOPTED:** April 14, 2003  
**COMMITTEE REVIEW:** 03/10/15, 10/13/15, 05/09/17, 04/26/21  
**AMENDED:** 06/12/17, 05/10/21

**3025.10** The goal of this policy is to increase public awareness of the reserve funding requirements of the District and to limit the use of such reserve funds to only those purposes for which they are intended and approved. The Board of Directors of the District believe that the public is more likely to support development of, understand the need for, and appropriate usage of such reserve funds if the District reserve accounts, approval requirements and limitations are clearly detailed in policy.

**3025.20** The objective of this policy is to develop budgeted reserve categories and acceptable expenditures for each and to set into policy reserve funds and amounts that, once adopted, can only be modified through action of the board in public session. The reserve categories detailed herein will be established for every service delivered by the District and for the District administrative office and equipment maintenance facility. The development of fully funded reserve categories will ultimately provide for rate stabilization, District funded capital improvement projects and equipment purchases, and funding for unplanned events and emergencies.

**3025.30** Expenditure of reserve funds for purposes not specifically contained within the annual budget shall require approval of the Board of Directors.

**3025.31** Amendment or adoption of the annual budget which effects the Capital Reserve and/or Contingency Reserve funding levels as detailed herein shall require amendment of this policy, conducted in accordance with McCloud Community Services District Policy 1010.

**3025.32** The District's Finance and Audit Committee shall review any proposed amendment to the financial provisions of this policy prior to review by the Policy Review Committee and/or Board of Directors.

**3025.33** For the purposes of this policy, operating expenses such as salaries and other

employee related costs, insurances, supplies, vehicle maintenance, training, publications, fuel, electrical power and similar costs shall **not** be considered eligible expenses for Capital Outlay or Capital Reserve funds. Contingency Reserves may be used to fund operating expenses on a short term basis, not to exceed one Fiscal year and only following exhausting all available operating cost reducing measures.

**3025.40** The following standard terminology shall be used when listing reserve accounts in all budgets, reports, financial statements and audits. Reserve account terminology and definitions:

**3025.41** Reserve Fund Types: GASB 54 adopted a rule establishing five subcategories of fund balance: Nonspendable, Restricted, Committed, Assigned and Unassigned Fund Balances. Of the five, four apply to our reserve fund balances. The fifth fund type, Nonspendable, does not apply to reserve fund balances. All five are defined below:

**3025.411** Nonspendable fund balances are fund balances that are associated with inventories and does not apply to our reserve balances.

**3025.412** Restricted Reserves have restrictions imposed by an outside source, such as bond covenants, contractual obligations, loan requirements, etc.

**3025.413** Committed 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 these reserves as the needs of the District change. The Capital Outlay and Capital Reserve funds are Committed Reserves.

**3025.414** Assigned Reserves are set aside with the intention to use them for a specific purpose; intent can be expressed by the Board of Directors or by an official designated to do so. Contingency Reserves for a specific service category are considered Assigned reserves.

**3025.415** Unrestricted Reserves are available for any purpose and reported as Contingency Reserves in the General Fund.

**3025.42** Capital Outlay: Board Designated Funding budgeted for expenditure in each service category and for the District administrative office, facility and equipment maintenance within the fiscal year for tools, equipment, facilities or infrastructure. As a guideline for the purposes of this policy, Capital Outlay expenditures shall be those which have a value in excess of five hundred dollars (\$500) and a life expectancy of greater than 3 years.

**3025.43** Capital Reserves: Board Designated Funding budgeted in each service category and for the District administrative office, facility and equipment maintenance for accumulation from fiscal year to fiscal year, over a set period of years, for the sole

purpose of funding future tool and equipment purchases, facilities and infrastructure replacement, improvement or expansion. The purposes for which the Capital Reserves are established shall be referenced separately in the budget during each fiscal year that the Capital Reserve fund is maintained. All Capital Reserve funds established shall be substantiated by reference to Master Plans, Capital Improvement Plans or specific funding agency requirements.

**3025.431** Capital Reserve funding accumulation shall be limited to the amount set upon its establishment or as amended by the Board of Directors and shall include up to 100% of the value of the depreciated fixed assets related to such service, including a proportionate share of fixed assets relative to the District administrative office and equipment maintenance.

**3025.432** For the purposes of this policy, budgeted amounts for repayment of debt service shall not be considered Capital Reserves. Such debt service payment amounts shall be listed separately in each Fiscal year budget during which the payments are applicable.

**3025.433** Once the total funding required, as established or amended in any Capital Reserve Account is attained, funding agency requirements met or term limit reached, the Capital Reserve accumulation in that account shall cease unless the term or funding limit is amended by action of the Board of Directors. The total approved amount of that Capital Reserve amount shall be transferred to Capital Outlay budget line in the fiscal year during which the capital purchase or project is to be implemented.

**3025.434** The amount of the Capital Reserve funding approved in any fiscal year budget shall be the amount planned for additional accumulation in that account for that year. The total amount of accumulated Capital Reserves for each service category and account shall be publicly reported pursuant to section 3025.53 of this policy.

**3025.44** Contingency Reserves: Funding budgeted in each service category and for the District administrative office, facility and equipment maintenance for accumulation from fiscal year to fiscal year, with no specific term of such accumulation, for the sole purpose of funding Capital Outlay projects in future years and funding unbudgeted items on an emergency or unplanned basis. Contingency Reserves may also be used for expenditures related to short term revenue shortages as detailed in 3025.32 above, rate stabilization or to fund cost overruns from previous fiscal years.

**3025.441** A General Provision Contingency Reserve account was established upon the passage and implementation of Propositions 218 in 1996, which modified Article XIID of the California Constitution. Upon its establishment,

the General Contingency Reserve reflected the total amount of reserve funding in all service accounts. The General Contingency Reserve account shall continue to be maintained and reported by the District.

**3025.4411** Other than interest on the investment of the General Contingency Reserve fund, no additional funding shall be budgeted to accumulate in this account.

**3025.4412** The General Contingency Reserve shall be available for expenditure in any service delivered by the District and as approved for expenditure in accordance with the provisions of this section.

**3025.442** The amount of the Contingency Reserve funding approved in any Fiscal year budget shall be the amount planned for additional accumulation in that account for that year. The total amount of accumulated Contingency Reserves for each service category and account shall be publicly reported pursuant to section 3025.53 of this policy.

**3025.443** Contingency Reserve total funding accumulation shall be limited to one year's operating budget for the service.

**3025.444** Purchases from Contingency Reserves, other than purchases for emergencies declared by the General Manager pursuant to Board Policy 3080, shall require approval of the Board of Directors.

**3025.445** Capital Outlay funding approved but not expended during the fiscal year shall be accumulated in a Capital Reserve fund for that service, in the amount of and for the specific purpose previously established.

**3025.446** Operating Budget carry over funding (revenue over expenditures) shall be accumulated in the Contingency Reserve fund for that service.

**3025.447** Contingency Reserve funding approved for expenditure during any fiscal year shall be detailed in the budget as follows:

**3025.448** The budget line item to which the Contingency Reserve funding is transferred shall detail the amount of transfer from Contingency Reserve and the duration of the transfer.

**3025.449** The Contingency Reserve fund for that year shall reflect the total fund upon establishment less the amount transferred. A description of the amount transferred, and its

duration shall be detailed in the fiscal year budget for each year during which the transfer occurs.

**3025.50** The Capital Reserve and Contingency Reserve funding levels listed in Appendix A shall be contained in the annual budget for each service department and for the District administrative office, facility and equipment maintenance. Amendment of this policy is required for the establishment of a new reserve fund, modification or termination of previously established reserve funds. The fiscal year budget shall clearly identify the expenditure of reserve funds.

**3025.501** APPENDIX A- Capital Reserve Accounts. Living document. This will be revised as needed by District staff. Please request the latest version from the District Finance Officer.

**3025.51** Reserve Account Reporting

**3025.511** This policy shall be considered annually by the Board of Directors in conjunction with the adoption of the annual budget.

**3025.512** The Capital Reserve and Contingency Reserve Fund balances and Capital Expenditures shall be reported with the quarterly Financial Statements and contained within an Annual Reserve Report delivered to the Board of Directors and available for public review following the close of each fiscal year.

**3025.513** The Annual Reserve Report shall list each service provided by the District and the District administrative office, facility and equipment maintenance separately by Account Title. The report shall be prepared in a manner easily understood by the layperson, available free of charge to the public and posted on the District's website and distributed in the District's newsletter.