

Policy No.: 61
Issue No.: 2
Effective Date: 05/11/26
Subject: District's Fund Balance and Reserves

Policy No. 61 – District's Fund Balance and Reserves

Purpose: The purpose of this Policy is to (1) establish guidelines for the classification and management of fund balance, and (2) provide a framework through which the Board and District staff may allocate, report, and utilize reserves to support financial stability and long-term planning.

Background:

This Policy establishes the District's framework for managing fund balance and reserves, recognizing that fund balance is governed by the Governmental Accounting Standards Board (GASB) while reserves are Board-designated tools for financial planning and stability.

- Fund balance is reported in classifications that depict the relative strength of spending constraints to improve clarity and comparability.
- Reserves are used to support stable service delivery, address planned and unplanned needs, and mitigate financial risk.

Resolution No. 2025-02 establishes the District's reserve funds and their purposes; this Policy provides the ongoing governance for how fund balance and reserves are managed.

Fund Balance Policy/Procedure:

Fund Balance represents the net position of governmental funds and is reported in accordance with GASB Statement No. 54. This Policy establishes the District's authority to classify, commit, and assign fund balance consistent with accounting standards.

A. Fund Balance Classifications: The District shall comply with GASB Statement No. 54 and present fund balance in the following classifications:

- Nonspendable – amounts not in spendable form, including inventories and prepaid assets.
- Restricted – externally imposed constraints, including restrictions from creditors, grantors, contributors, and laws or regulations of other governments.
- Committed – constraints imposed by Board action including resolutions on how resources may be used. The Board may modify or rescind commitments through passage of new resolutions.
- Assigned – intended use expressed by the Board or delegated staff. Board or delegated staff may change the intent of the funds without a resolution.
- Unassigned – residual classification, including fund balance that has not been restricted, committed, or assigned and may be utilized by the District for any purpose.

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B. Authorization to Commit or Assign Fund Balance: Commitments of fund balance shall be established, modified, or rescinded by Board action. The Board may assign fund balance or delegate assignment authority to the General Manager by formal action.

Budget Reserves Policy/Procedure:

For purposes of this Policy, reserves are Board-designated allocations of fund balance established to support the following:

- Funding infrastructure replacement,
- Cash flow requirements,
- Economic uncertainty,
- Local disasters or catastrophic events, and
- Unfunded mandates and regulatory changes and requirements.

Reserve balances may be reported as committed or assigned fund balance, as applicable, in accordance with GASB Statement No. 54.

A. General Governance:

1. **Annual Review:** The reserve balances are intended to ensure that the District has enough reserves to meet current and future needs. Such balances and reserve targets shall be reviewed at least annually as part of the budget process.
2. **Reserve Fund Tracking:** The cash reserve balances are to be maintained in separate funds within the accounting system in a manner that ensures accurate tracking of transactions and transparency to the District's taxpayers.
3. **Use and Replenishment:** Whenever reserves are recommended for use, a replenishment plan, consistent with the fund purpose and any required replenishment timing constraints specified in this Policy, shall be presented to the Board.
4. **Target Levels:** Target reserves levels are minimum levels set for each fund. The minimum reserve balances are intended to support a sustainable financial condition, recognizing the risk and long-range financial planning perspective that is acceptable to the District. It is intended that interest income generated from any specific restricted reserve fund remain in such fund until any regulatory or contractual maximum is achieved.
5. **Emergencies:** In the event of a declared emergency, the Board may temporarily suspend reserve target levels as necessary to protect health, safety, and essential District operations.

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6. ***Allocations to Reserves:*** The board may authorize by resolution the allocation, reallocation, or transfer of available financial resources, including unspent budget appropriations, unassigned fund balance, and reserve balances between fiscal years, funds, or reserve accounts, when deemed fiscally responsible and in the best interest of the District. Adjustments approved by resolution shall not require an amendment of this Policy.

B. Reserve Funds:

1. Operating Fund Reserve
 - a. Purpose: To provide working capital to meet cash flow needs during normal operations and to support the operation, maintenance, and administration of the District.
 - b. Target Reserve: Maintain a target reserve level at a minimum of 6 months of annual operation and maintenance ("O&M") expense, or no less than \$1.5 million.
 - c. Authority to Use: Authority for use of up to 30% of operating reserves is delegated to the General Manager in written agreement with the Board Treasurer; such use will be reported to the Board at the next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds, and a replenishment plan. Use in excess of 30% requires prior Board approval.
 - d. Replenishment: Include an allocation to restore the reserve to the target reserve level in the following budget.
2. District Facilities Reserve
 - a. Purpose: To fund improvements and major repairs to the District's Waterwise Community Center campus.
 - b. Target Reserve: Maintain a minimum level of \$1,000,000, subject to availability of funds and prioritization of funding between the established reserve funds.
 - c. Authority to Use: Prior Board approval required.
 - d. Replenishment: Present a plan to the Board to return the reserve to the target reserve level over no more than a five-year period.
3. Major Structural Failures / Emergency Reserve
 - a. Purpose: To fund recovery from natural disasters and to fund emergency repairs caused by structural failures or unexpected damage to District infrastructure.
 - b. Target Reserve: Maintain at a level of 25% of Operating Fund budget appropriations, excluding any interfund transfers, or no less than \$2.35 million.
 - c. Authority to Use: Prior Board approval required.

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- d. Replenishment: Present a plan to the Board following termination of the emergency to return the reserve to the target reserve level as quickly as is practicable given the unique nature of each emergency.
4. Land and Basins Reserve
 - a. Purpose: To fund land purchases, building new basins, replacement of major groundwater recharge components, regulatory driven changes, and planned replacement of assets.
 - b. Target Reserve: Maintain a minimum level of \$2,000,000, subject to availability of funds and prioritization of funding between the established reserve funds.
 - c. Authority to Use: Prior Board approval required.
 - d. Replenishment: Present a plan to the Board to return the reserve to the target reserve level over no more than a five-year period.
 5. Pension Liability Reserve
 - a. Purpose: To ensure the District can meet long-term retirement benefit commitments.
 - b. Target Reserve: Maintain at a level sufficient to fully fund the District's net pension liability (NPL), as reflected in the most recent actuarial valuation.
 - c. Authority to Use: Prior Board approval required.
 - d. Replenishment: As part of each year-end closing process, adjust reserve balance to the NPL reflected in the most recent actuarial valuation report.
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 6. Compensated Absences Reserve
 - a. Purpose: To cover financial obligations associated with accrued employee leave, such as vacation and sick time, when employees take time off or separate from employment.
 - b. Target Reserve: Maintain at a level to fully fund the District's accrued leave liability.
 - c. Authority to Use: Authority is delegated to the General Manager to utilize funds in accordance with District policy.
 - d. Replenishment: As part of each year-end closing process, adjust reserve balance to the accrued leave liability.

Revision:

Issue No. 1: 10/11/21, Original policy.

Issue No. 2: 05/11/26, Revised to align with current accounting standards and Board-adopted reserve practices, and to clarify how the District manages fund balance and reserves.