

Number: **BP 007**

Authority: Board of Directors
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Dept./Div.: Administration



BOARD POLICY

UNRESTRICTED DESIGNATED FINANCIAL RESERVES POLICY

ARTICLE 1 PURPOSE

Designated unrestricted reserves are established by the Board of Directors for purposes such as funding new capital facilities, construction, repair, replacement or refurbishment of existing facilities, emergencies, and operating liquidity. These funds can be utilized at the discretion of the Ironhouse Sanitary District ("District"). The Board may modify reserve designations at any time. Designated unrestricted reserves are different than restricted reserves, which are governed by a separate policy and used strictly to meet requirements established by creditors, grantors, agencies, regulations, or law. This policy sets forth the District's procedures for maintenance and use of the unrestricted financial reserves.

ARTICLE 2 POLICY

- 2.1 It is the Policy of the Board of Directors of the District to designate unrestricted financial reserves in order to protect the District's investment in its various assets, satisfy financial, regulatory, and contractual obligations, and ensure long-term stability for its customers. To accomplish these objectives, the District shall adhere to the policies and procedures contained herein.
- 2.2 If the District is contractually obligated to maintain reserves in excess of the requirements established in this policy, then, the more stringent requirement shall take precedence.
- 2.3 The Board shall review this Reserve Policy at least every three (3) years to ensure continued alignment with the District's financial condition and risk profile.

ARTICLE 3 OPERATING RESERVE

3.1 Purpose

The purpose of the Operating Reserve is to ensure adequate funds are available when needed to pay the District's normal and recurring operating costs. It also functions as a liquidity mechanism to manage the timing of revenue receipts, including property tax and sewer service fees as the first County installment of 55% is not paid until December of the fiscal year.

3.2 Use of Funds

Funds are to be utilized throughout the year in order to meet the District's operating obligations.

3.3 Target

Operating reserve equal to seven (7) months of budgeted operating and non-operating expenses (operating costs), excluding depreciation and expenses paid from other reserves (i.e. capacity reserve).

3.4 Minimum

Four (4) months of budgeted operating costs.

3.5 Maximum

Seven (7) months of budgeted operating costs. If reserves are above this level at fiscal year end, the General Manager/District Secretary shall direct the transfer of the excess funds to the District's Capital Expenditure Reserve..

3.6 Reporting

The Operating Reserve balance shall be reported in the District's monthly financial reports.

ARTICLE 4 CAPITAL EXPENDITURE RESERVE

4.1 Purpose

The purpose of Capital Expenditure Reserve is to ensure that adequate funds are available to purchase new capital assets that benefit current ratepayers, and to fund replacements, improvements, and major refurbishments to existing capital assets.

4.2 Use of Funds

Funds are to be utilized in accordance with the capital expenditure budget adopted by the Board of Directors.

4.3 **Target**

Capital Expenditure Reserve targets shall consist of two components:

- A. An emergency reserve of 1% of the cost basis of the District's capital assets;
and
- B. An amount equal to the five-year average annual expenditure identified in the Board adopted 5-year Capital Improvement Plan, excluding projects funded by debt, grants, or restricted reserves.

For purposes of this section, the five-year average shall be calculated by dividing the total eligible five-year capital expenditures by five (5).

4.4 **Minimum**

A minimum reserve consists of the first of the above elements (i.e., an emergency reserve of 1% of the cost basis of the District's capital assets).

4.5 **Maximum**

A maximum reserve consists of an amount that is two times the entire target in section 4.3.

4.6 **Reporting**

The Capital Expenditure Reserve balance shall be reported in the District's monthly financial reports.