

GATEWAY WATER MANAGEMENT AUTHORITY
POLICY AND PROCEDURES

FINANCIAL RESERVES

A. General Policy:

Maintaining adequate reserve is an essential part of sound financial management. The Board of Directors (Board) realizes the importance of reserve in providing funding availability for emergencies or unforeseen events should the need arise and to strengthen its financial stability. A key element of prudent financial planning is to ensure that sufficient funding is available to meet the agency's short-term and long-term plans. Additionally, fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. The Gateway Water Management Authority (GWMA) will at all times strive to have sufficient funding available to meet its operating, capital, if any, and other obligations in a manner consistent with its operating budget.

The Board may designate specific reserves and maintain minimum balances consistent with obligations that it has determined to be in the best interest of the Authority. The policy outlined in this document is intended to ensure that the GWMA has sufficient funds to meet current and future needs. Reserve balances will be reviewed by GWMA Staff and the Board during the preparation and approval of the annual budget.

B. Governmental Funds and Fund Balance Defined:

Governmental Funds, including the General Fund, use short-term or current flow of financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheets. The reported fund Balance is considered to be a measure of available spendable resources. Fund Balance is the excess of assets over liabilities.

GWMA has the following governmental fund:

1. General Fund – the General Fund is the general operating fund of GWMA. It is used to account for all financial resources necessary to sustain the day-to-day activities and thus pays for all administrative and operating expenditures except for those required to be accounted for in other funds. In addition, activities related to grants from Federal, State and/or local agencies are recorded in the General Fund.

For Governmental Funds, the Governmental Accounting Standards Board (GASB) Statement No. 54 defines five specific classifications of fund balance. The five classifications are intended to identify whether the specific components of fund balance are available for appropriation and are therefore "Spendable." The

classifications also are intended to identify the extent to which fund balance is constrained by special restrictions, if any. The five classifications of fund balance are as follows:

<u>CLASSIFICATIONS</u>	<u>NATURE OF RESTRICTION</u>
Non-Spendable	Cannot be readily converted to cash
Restricted	Externally imposed restrictions
Committed	Board imposed commitment
Assigned	Board or its Designee assigned purpose/intent
Unassigned	Residual balance not otherwise restricted

Non-spendable Fund Balance: The portion of fund balance that includes amounts that are either (a) not in a spendable form, or (b) legally or contractually required to be maintained intact. Examples of Non-spendable fund balance include reserve for inventories, if any, reserve for long-term receivables and reserve for prepared assets.

Restricted Fund Balance: The portion of fund balance that reflects constraints placed on the use of resources (other than non-spendable items) that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions.

Committed Fund Balance: The portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action by the Board and remain binding unless removed in the same manner. A Board resolution constitutes a formal action for the purposes of establishing committed fund balance.

Assigned Fund Balance: The portion of a fund balance that includes amounts that are constrained by the Board's intent to be used for specific purposes but are neither restricted nor committed. This policy hereby delegates the authority to the Executive Officer or designee to modify or create new assignments of fund balance.

Unassigned Fund Balance: The remaining amount of the fund balance after considering the other four classifications. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

C. GWMA Classifications:

GWMA shall accumulate, maintain and segregate its Fund Balance into the following classifications:

1. Non-Spendable Fund Balance
2. Restricted Fund Balance
3. Committed Fund Balance
4. Operating Reserve Fund (or Assigned Fund Balance)
5. Unassigned Fund Balance

D. Definitions and Target Level:

1. Non-Spendable Fund Balance

Definition: This is the amount earmarked for assets not in a spendable form such as insurance premium paid in advance for coverage beyond the current fiscal year.

Events or Conditions Prompting the Use of Non-Spendable Fund Balance: During the subsequent fiscal year, it is necessary to determine whether all or a portion of this Fund Balance applies to the current year. This amount then must be charged to the appropriate expenditure account of the current year, leaving as a remainder in the Fund Balance any amounts not yet applicable.

2. Restricted Fund Balance

Definition: This is the amount earmarked for Federal, State and/or local grant revenues received but not yet spent.

Events or Conditions Prompting the Use of Restricted Fund Balance: This reserve may be utilized when the Federal, State and/or local grant expenditures for the current fiscal year will exceed the current year revenues for the related grants.

3. Committed Fund Balance

Definition: This is the amount earmarked for specific purpose(s) imposed by a formal action by the Board. A Board resolution constitutes a formal action.

Events or Conditions Prompting the Use of Committed Fund Balance: This reserve may only be utilized in accordance to the original constraints imposed by the Board unless the Board modifies or rescinds the specified purpose by taking the same type of action it employed to previously commit an amount.

4. Operating Reserve Fund (or Assigned Fund Balance)

Definition: This is the amount earmarked for the purpose of covering expenditures occurring as a result of unforeseen events.

Target Level: The Operating Reserve shall be equal to six (6) months of the annual operating budget.

Events or Conditions Prompting the Use of Operating Reserve Fund: This reserve may be utilized for unforeseen operating expenditures after taking into consideration the use of the other Fund Balance classifications.

5. Unassigned Fund Balance

Definition: This is the net amount of the Ending Fund Balance less the other Fund Balance classifications.

Events or Conditions Prompting the Use of Unassigned Fund Balance: This amount shall be utilized after taking into consideration the other Fund Balance classifications.

The Board or designee shall determine the amount needed from any of the Fund Balance classification. The Board's approval at its regular meeting shall be required before expending any portion of any Fund Balance classification. Unforeseen events or conditions that may require an expenditure of such amounts include, but are not limited to natural disasters, unforeseen deficiencies of revenue source, or unexpected operating or capital expenditures.

When multiple types of Fund Balances are available for an expenditure, GWMA shall first utilize funds from the Restricted Fund Balance as appropriate, then from the Committed Fund Balance, then from the Assigned Fund Balance, and lastly from the Unassigned Fund Balance.

If any circumstances noted above occur, and the Operating Reserve Fund falls below the Board policy designated level of six (6) months of the annual General Fund Budget, all excess fund balance in future years shall first be used to replenish the Operating Reserve Fund until it reaches the policy designated level.

E. Amendment of Policy and Target Level

The Board of Directors may amend this Financial Reserve Policy and target level at any time by a majority vote at its regular meeting.