

Agenda
Sacramento Suburban Water District
Finance and Audit Committee

3701 Marconi Avenue, Suite 100
Sacramento, CA 95821

Monday, November 14, 2011
4:00 p.m.

Public documents relating to any open session item listed on this agenda that are distributed to members of the Finance and Audit Committee less than 72 hours before the meeting are available for public inspection in the customer service area of the District's Administrative Office at the address listed above.

The public may address the Committee concerning an agenda item either before or during the Board's consideration of that agenda item. Persons who wish to comment on either agenda or non-agenda items should fill out a Comment Card and give it to the General Manager. The Committee Chair will call for comments at the appropriate time. Comments will be subject to reasonable time limits (3 minutes).

In compliance with the Americans with Disabilities Act, if you have a disability, and you need a disability-related modification or accommodation to participate in this meeting, then please contact Sacramento Suburban Water District Human Resources at 679.3972. Requests must be made as early as possible, and at least one full business day before the start of the meeting.

Call to Order

Roll Call

Public Comment

This is the opportunity for the public to comment on non-agenda items within the Committee's jurisdiction. Comments are limited to 3 minutes.

Items for Discussion and Action

1. **Review the 2011 Audit Engagement Letter from Gilbert Associates, Inc.**
Review the proposed Audit Engagement Letter. The 2011 financial statement audit includes standard audit, single audit for the federal challenge grant, and expanded testing of certain monetary transactions. Recommend to full Board for approval.

2. **Review Background Information on Guidelines and Components for a Reserve Policy.**
Review guidelines, principles and comparative information for future development of a District Reserve Policy. Provide direction to Staff.

* * * * *

Finance and Audit Committee

November 14, 2011

Page 2 of 2

I certify that the foregoing agenda for the November 14, 2011, meeting of the Sacramento Suburban Water District Finance and Audit Committee was posted by November 9, 2011 at the Sacramento Suburban Water District office, 3701 Marconi Avenue, Suite 100, Sacramento, California, and was made available to the public during normal business hours.

Robert S. Roscoe
General Manager/Secretary
Sacramento Suburban Water District



Agenda Item: 1

Date: November 9, 2011

Subject: 2011 Audit Engagement Letter from Gilbert Associates, Inc.

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:

Recommend approval of the audit Engagement Letter with Gilbert Associates, Inc. to the Board of Directors and request authorization for the Finance and Audit Committee Chair (Director Schild) to execute the Engagement Letter.

Discussion:

The District has received the "Engagement Letter" for the December 31, 2011 audit from Gilbert Associates, Inc. The Engagement Letter for 2011 includes audits for both the District and a required "Single Audit" for the Challenge Grant. The Engagement Letter is essentially the contract agreement between the District and the auditor's for the current years audit and is renewable annually.

Staff has reviewed the Engagement Letter and confirmed it meets all the services requested by the Board in the previous year, including the expanded expenditure testing the District has requested for the past eight years over and above that required for a standard public agency audit (see the first paragraph on page 2 of the Engagement Letter).

Per the District's "Engagement of Auditor Policy" (PL – Fin 001), "the Finance and Audit Committee is responsible for recommending the District's independent auditor to the full Board for appointment and compensation, and administering the relationship between the District and independent auditor during the course of the audit..." Therefore, the Finance and Audit Committee will review audit results as the audit progresses. At the conclusion of the audit, the auditors will provide a report to the Finance and Audit Committee and a report to the Board of Directors.

Fiscal Impact:

\$39,000 for the financial statement audit and \$2,000 for the Challenge Grant audit.

Strategic Plan Alignment:

Finance – 4.G. Produce annual financial statements and supporting documentation to allow outside auditors to provide the District with unqualified audit opinions.



Gilbert Associates, Inc.
CPAs and Advisors

October 26, 2011

Mr. Neil W. Schild
Chair Finance and Audit Committee
Sacramento Suburban Water District
3701 Marconi Avenue, Suite 100
Sacramento, California 95821

Dear Mr. Schild:

We are pleased to confirm our understanding of the services we are to provide Sacramento Suburban Water District (the District) for the year ended December 31, 2011. We will audit the basic financial statements of the District as of and for the year ended December 31, 2011. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the District's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the District's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist principally of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- Management's Discussion and Analysis
- Schedule of Funding Progress (OPEB)

Supplementary information other than RSI also accompanies the District's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole:

- Schedule of Net Revenues

The following other information accompanying the Comprehensive Annual Financial Report (CAFR) will not be subjected to the auditing procedures applied in our audit of the basic financial statements, and for which our auditor's report will not provide an opinion or any assurance.

- Introductory and Statistical Sections

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101 Parkshore Drive, Suite 100 • Folsom, CA 95630
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Mr. Neil W. Schild
Chair Finance and Audit Committee
Sacramento Suburban Water District
October 26, 2011
Page 2

Additionally, as part of these services, we will expand the scope of our expense testing to include additional sample sizes requested by the District. Sample sizes under Generally Accepted Auditing Standards (GAAS) vary based on auditor judgment and evaluation. These expanded procedures are intended to go beyond the sample sizes determined by Gilbert Associates, Inc. under GAAS. This expense testing will include general cash disbursements, payroll disbursements, wire and ACH transfers, petty cash, and Purchasing Card payments. Additionally, this testing will include verifying payments to District employees and Board members on a sample basis. Furthermore, it will include verifying the pay rates for at least one period of senior management, finance staff, anyone involved in the payroll processing function and a sample of 10 other employees. For expenses, the additional sample size will be between 50 to 75 expenditures.

Furthermore, upon completion of these services, Gilbert Associates, Inc. will present the financial statements and the results of the audit to the District's Finance and Audit Committee.

Audit Objectives

The objective of our audit is the expression of an opinion as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on:

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The reports on internal control and compliance will include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the organization, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of the accounting records of the program and other procedures we consider necessary to enable us to express such opinions and to render the required reports. If our opinions on the financial statements or the Single Audit compliance opinions are other than unqualified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. Management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal awards in accordance with the requirements of OMB Circular A-133. As part of the audit, we will assist with preparation of your financial statements, schedule of expenditures of federal awards, and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements, schedule of expenditures of federal awards, and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and the schedule of expenditures of federal awards and that you have reviewed and approved the financial statements, schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met and that there is reasonable assurance that government programs are administered in compliance with compliance requirements. You are also responsible for the selection and application of accounting principles; for the fair presentation in the financial statements of the District and the respective changes in financial position and cash flows in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon.

Mr. Neil W. Schild
Chair Finance and Audit Committee
Sacramento Suburban Water District
October 26, 2011
Page 4

With regard to using the auditor's report, you understand that you must obtain our prior written consent to reproduce or use our report in bond offering official statements or other documents. With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Management is responsible for establishment and maintenance of a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, or attestation engagements, performance audits, or other studies. You are also responsible for providing management's views on any current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Controls

Our audit will include obtaining an understanding of the entity and its environment, including internal controls, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal controls and, accordingly, no opinion will be expressed in our report on internal controls issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal controls or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and OMB Circular A-133.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the District's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* and related addenda for the types of compliance requirements that could have a direct and material effect on each of District's major programs. The purpose of these procedures will be to express an opinion on the District's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Audit Administration, Fees, and Other

We understand that your employees will prepare all cash or other confirmations we request and will locate any invoices selected by us for testing.

Mr. Neil W. Schild
Chair Finance and Audit Committee
Sacramento Suburban Water District
October 26, 2011
Page 6

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

The audit documentation for this engagement is the property of Gilbert Associates, Inc. and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to the Bureau of Reclamation or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Gilbert Associates, Inc. personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release date or for any additional period requested by the Bureau of Reclamation. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.) except that we agree that our gross fee, including expenses, will not exceed \$41,000 (\$39,000 basic financial statements including CAFR and \$2,000 single audit). Our detailed invoices for these fees will be rendered each month as work progresses and are payable on presentation. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. In the event that either party claims a breach of contract of any term of this engagement, the claim shall, at our option, be submitted to binding arbitration at 2880 Gateway Oaks Drive, Suite 100, Sacramento, California 95833.

The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

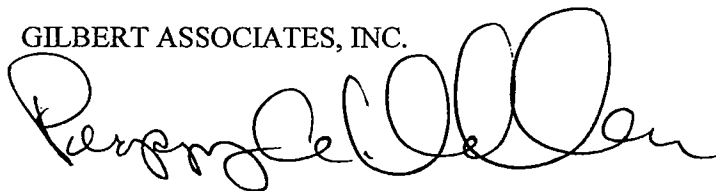
Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2011 peer review report accompanies this letter.

Mr. Neil W. Schild
Chair Finance and Audit Committee
Sacramento Suburban Water District
October 26, 2011
Page 7

We appreciate the opportunity to be of service to the Sacramento Suburban Water District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Sincerely,

GILBERT ASSOCIATES, INC.



Peggy A. Vande Vooren, CPA
Shareholder

RESPONSE:

This letter correctly sets forth the understanding of Sacramento Suburban Water District.

BY: _____
Director Neil W. Schild

TITLE: _____
Chair Finance and Audit Committee

DATE: _____



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Certified Public Accountants

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SYSTEM REVIEW REPORT

May 12, 2011

**To the Shareholders
Gilbert Associates, Inc.
and the Peer Review Committee of the California Society of CPAs**

We have reviewed the system of quality control for the accounting and auditing practice of **Gilbert Associates, Inc.** (the firm) in effect for the year ended November 30, 2010. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of **Gilbert Associates, Inc.** in effect for the year ended November 30, 2010, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. **Gilbert Associates, Inc.** has received a peer review rating of *pass*.


EUBANK, BETTS, HIRN, WOOD, PLLC



Agenda Item: 2

Date: November 9, 2011

Subject: Background Information on Guidelines and Components for a Reserve Policy.

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:

Review provided information. Provide staff direction as appropriate.

Discussion:

Staff is providing the Committee with informational material on reserve policies in general. No specific changes to the District's current Reserve Policy are expected to occur at this meeting.

RESERVE POLICY: ITEMS FOR CONSIDERATION

Finance and Audit Committee Meeting
November 14, 2011



BEST PRACTICES

Established Based on Specific District Issues
Purpose Set in the Strategic Planning Process
Not established in isolation

Established in the Long-Term Financial Planning Process:

Customer Revenue (Rates)

Other Revenue (Grants, Investment Income, Rent, Etc.)

Projected Operating Costs (Including Material Costs)

Long-Term Asset Plans

Legal, Regulatory, and Contractual Requirements



BEST PRACTICES (continued)

Clear Rationale - Segregate Into Components
Establish Policies for Components Where Needed
Set Target Levels For Reserve Components
Quantifiable
Percentage or Dollar Amount
Ceilings and Floors
Established Commensurate With Other Financial
Policies – Investment, Fixed Asset, Other
Evaluated During Annual Budget Process



BEST PRACTICE SOURCES

Industry (Theory):

AWWA	ACWA	CSDA
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Professional (Requirements and Metrics):

GFOA	AICPA	CSMFO
S&P	Moody's	KNN

Other Entities (Application):

CHWD	City of Sacramento	Metropolitan WD
SJWD	City of Roseville	San Diego WD
PCWA	City of Pleasanton	Contra Costa WD
Palmdale WD	Santa Clara Valley WD	Castaic Lake WA
Alameda County		



RESERVE FUND CATEGORIES

(AS ESTABLISHED BY GASB 54)

Non-Spendable Reserves

Due to nonspendable form, legal, or contractual requirement.

Restricted Reserves

Imposed by law, regulations, creditors, or grantors.

Committed Reserves

Use is for a specified purpose only. Usually requires Board action.

Assigned Reserves

Amounts constrained by Board determination.

Unassigned Reserves



RESTRICTED RESERVES

➤ *Debt Issuance Required Reserves*

➤ Debt Service Reserve Fund:

➤ Cash held in Trust.

➤ Arbitrage Rebate (federal tax liability) Fund:

➤ Created when the District earns a taxable investment yield on debt proceeds higher than the IRS allows.



COMMITTED RESERVES

➤ *Catastrophic Reserves*

- “Catastrophic” definition: Examples include events described in Section 3.0 of the District’s “Emergency Response Plan.”
- Purpose:
 - Provides funding for insurance covered “cash-flow” timing situations.
 - Periods of prolonged financial stress on District revenues.



ASSIGNED RESERVES

- *Operating Reserves (typically restricted if not established as a formal designated reserve)*
 - *Industry Best Practice suggests a minimum of 3 months of operating and non-operating (debt interest) expense*
 - Purpose:
 - Avoid Short-Term borrowing.
 - Operate District and meet cash demands.
 - Provide time to operate until bankruptcy declaration - remote.
 - Includes amount needed to pay debt interest, not principal.



ASSIGNED RESERVES (cont.)

➤ *Rate Stabilization Reserve*

- Intended as an “operating revenue” source for purposes of meeting debt covenant requirements.
- Typically set at a level to maintain stable rates over a District’s expected rate re-evaluation study period.
- Rate re-evaluation process analyzed regularly (median appears to be bi-annual).
- Rate changes are based on long-term planning process.



ASSIGNED RESERVES (cont.)

➤ *Encumbrance Fund Reserve*

- Established to pay for current CIP projects that are in process of completion.
- Includes CIP projects for which external funding may be available.

➤ *Grant Fund Reserve*

- Established based on requirements of grantor. Many grants require District to incur expense and apply for reimbursement.
- Often includes estimated “Local Cost Share” amounts.



ASSIGNED RESERVES (cont.)

- *Debt Service Restructuring Reserve*
 - Established to pay issuance costs and fund debt service reserve requirements on anticipated and unanticipated debt issuances. May eliminate if policy is changed to include as part of the borrowing.



ASSIGNED RESERVES (cont.)

- *Short-Term Liability Reserve*
 - Established to pay for short-term District liabilities.
 - To be a "going concern," District must be able to pay it's upcoming year's liabilities.



ASSIGNED RESERVES (cont.)

- *Repair and Replacement Reserve*
 - Established to pay for future infrastructure costs.
 - Preferably, amount to be based on District asset plans.
 - Empirically, amount based on depreciation expense for prior year.



ASSIGNED RESERVES (cont.)

- *Interest-Rate Risk Reserve*
 - Established to mitigate interest-rate risk that may occur in District variable-rate debt contracts, unless risk is mitigated in some other economic fashion (i.e., insurance or derivative instruments.)
 - Amount dependent on risk-mitigation balance relative to total reserve fund balance



UNASSIGNED RESERVES

- *Amount based on Board discretion.*



RESERVE FUND BALANCE

Observations:

- *Credit Rating Agency View*
 - *For "AA/Aa" Credit Rating*
 - *Based on Liquidity - \$25M*
 - *Based on Debt Covenant Ratio - \$50M*
- *Existing District Debt Covenants*
 - *Minimum Debt Covenant Ratio - \$37M*
- *Risk-Mitigation on 2009A COP*
 - *In-lieu of swap - \$42M*
- *Comparison to others invalid*
 - *To be relevant, evaluation should be based on:*
 - *Facts and circumstances*
 - *Alternative funding sources*



QUESTIONS/NEXT STEPS