



HIGHWAY 14 REGIONAL WATER SERVICES COMMISSION

POLICY AND PROCEDURE HANDBOOK

FINANCIAL

POLICY: OPERATING AND CAPITAL RESERVES

Policy FIN 1.03

POLICY

The Highway 14 Regional Water Services Commission will establish and maintain sufficient operating and capital reserves to optimize cash flow, minimize changes in water rates implication, due to fluctuations in operating activities and capital requirements and finance emergency, unforeseen, or unusual expenditures.

DEFINITIONS

Capital Reserves:	Money set aside to fund acquisition or purchase of tangible capital assets or construct new infrastructure.
Emergency:	An occurrence or situation which could jeopardize the safety, health, or welfare of residents in the areas served by the Highway 14 Water Services Commission.
Operating Reserves:	Money set aside to fund non-capital expenses
Surplus:	The excess of revenue over expenses, net of annual amortization, at December 31 st of the year as reported in the draft financial statements.

DATA

CAPITAL

Current Alberta Inflation Rate	1.9%
Value of Assets December 31, 2013	\$10,500,000
Life Span of Asset	67 years
Current Depreciation Rate	1.5%
Current Interest Rate	1.23%

Therefore:

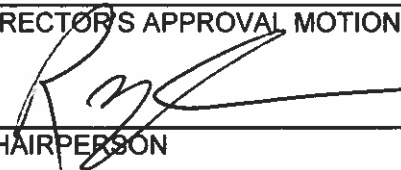
Replacement value	67 years from 2013 year end inflated at 1.9% per year \$38,000,000
Existing Asset	To achieve the Replacement Value at the Current Interest Rate will require an annual contribution to the capital reserve of \$365,000
New Infrastructure	To expand the infrastructure (waterline extensions or truck fill stations) and provide service to additional residents will require an annual contribution to the capital reserve of \$100,000
Operating	Operational & Maintenance Budget i.e. Transmission, Distribution Urban & Rural, Distribution & Transmission Building & Equipment, Truckfill Building & Equipment, Vehicle Repairs & Maintenance

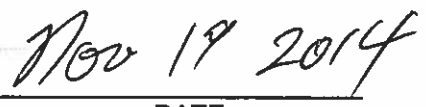
GUIDELINES

1. The Commission Board will establish a Capital Reserve
2. The Commission Board will establish an Operating Reserve
3. Annually, or as required, the Commission Board will review the status of each reserve and establish new reserves, adjust the amount contributed to Operating and Capital Reserves.

4. The Commission Board shall approve all transfers between Operating and Capital Reserves.
5. The Commission will budget annually for the following contributions to reserve:
 - (a) Operating Reserve (maximum of 20% of the Operational and Maintenance Budget)
 - (b) Capital Reserve for Replacement Value (minimum of \$365,000 annually)Annual Surplus may be allocated upon recommendation by the Chief Administrative Officer for approval of the Commission Board. Priorities for the allocation will be:
 - (a) Payment of Debt (50% of Surplus)
 - (b) Capital Reserve for New Infrastructure (balance of Surplus)
6. The use of reserves not approved in the annual budget (i.e. unbudgeted) may be allocated to fund an Emergency upon authorization by the Chief Administrative Officer. In these instances, the Chief Administrative Officer will report the use of reserves to the Commission Board at a subsequent Commission meeting.
7. The Data will be reviewed annually by the Chief Administrative Officer to validate the accuracy.
8. The Commission will attempt to budget each year the allocation up to \$365,000 to Capital Reserve
9. The Commission will attempt to budget each year 20% of the Operational and Maintenance Budget allocation to Operating Reserve.

DIRECTOR'S APPROVAL MOTION # **14-27**


CHAIRPERSON


DATE