

1. The Rancho Pauma Mutual Water Company reserve fund policy is a financial policy guided by prudent accounting principles to provide for the short and long term financial stability of the company.
2. The appropriateness of the target balance ranges of cash and equivalent values on the balance sheet will be reviewed annually and may be revised accordingly as necessary, with the target values being managed over the midterm as part of the annual budgeting and rate setting processes.
3. To work towards rate stability the rate setting process will be structured to recover any then deficit from the target value of the cash and cash equivalents over the then subsequent four to five year period.
4. The following criteria are to be considered for establishing adequate funds:
 - A. Working Capital - funds to cover the month by month working capital requirements of the company so that it may meet its financial obligations on a timely basis without reliance on short term cash flow;
 1. two months of typical monthly operating expenses rounded up to the nearest \$5,000 increment
 - B. Infrastructure & Cash Expense Plan - funds to cover 45% of the forecasted 5 year capital improvement plan & cash expenditures (unique engineering expenses, legal defense funds, contingencies, etc.)
 1. funds equal to 45% of the described schedule
 - C. Current debt repayment - funds to provide for any scheduled debt repayment obligations that fall due within the then following twelve month period;
 1. Funds equal to the value of the current debt obligation shown on the balance sheet.
 - D. Business Interruption - estimated cost to continue short term water distribution in by purchase of water in the event of failure of a major producing well or storage facility
 1. cost of purchasing one month of high water demand, less McMillan usage

As of March 2021 – \$1,313,820

- A. \$135,000
- B. \$843,750
- C. \$0
- D. 73,000 @ \$4.59 (Yuima's Price) = \$335,070