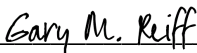
 DENVER WATER	
TITLE: Denver Water Cash Reserve Policy	
POLICY OWNER: Chief Finance Officer	
EFFECTIVE DATE: August 25, 2021	PREVIOUS EFFECTIVE DATES: June 27, 2018
ENTERPRISE POLICY APPROVED:	
<small>DocuSigned by:</small>  _____ President	8/30/2021 _____ Approval Date

I. Governing Authority

This Cash Reserve Policy is issued in accordance with Article X of the Charter of the City and County of Denver, which requires that all revenues received by Denver Water be placed into the Water Works Fund. This Policy governs the use of funds within the Water Works Fund.

II. General provisions

Types of Reserves. Denver Water’s reserves will be separated into categories as follows:

Restricted and designated reserves:

- A. Legally restricted reserves and funds:
 - 1. Debt Service Funds
 - 2. Bond Reserve
 - 3. Unspent Bond Proceeds Funds
 - 4. Grants
 - 5. Other legally restricted reserves
- B. Board-restricted and designated reserves:
 - 1. Operating cash reserves
 - 2. Capital Reserve
 - 3. Reserves for Future Construction Projects
 - 4. Exposure Reserve
 - 5. Other Board restricted and designated reserves

Unrestricted and undesignated funds:

Each of the reserves, to the extent possible, will be established utilizing the following criteria:

- 1. Distinguish between legally restricted and unrestricted net assets
- 2. Contain a defined and distinct purpose
- 3. Contain a target level or a guideline
- 4. Identify events or conditions that prompt the use of the reserve
- 5. Specify periodic review dates for balances

Cash and/or cash equivalents and investment balances shall be maintained in amounts sufficient to cover each reserve balance.

III. Restricted and Designated Reserves

A. Legally restricted reserves and funds:

Legally restricted reserves and funds are established by law or covenant and are utilized for narrowly defined purposes. These reserves are reviewed and updated by the

Treasury staff on a monthly basis, with the exception of other legally restricted reserves, which are reviewed by the Office of General Counsel on an annual basis. Denver Water's legally restricted reserves and funds are:

1. Debt Service Funds:

- a) Definition and Purpose. Debt Service accounts are established pursuant to the Bond Resolution as a condition of each bond issue and funded with net revenues. The funds are legally protected by bond covenants and can only be used to make regularly scheduled debt service payments.
- b) Target Level. Following the bond issuance, the Board is obligated to accumulate a pro rata portion of the interest and principal to come due on the next payment date. Reserve amounts change monthly as additional funds are accumulated and debt service amounts paid out on due dates, which vary with bond series.
- c) Events or Conditions Prompting the Use of the Reserves. The reserves are used to cover the scheduled debt service amount on the debt payment date.

2. Bond Reserve Funds:

- a) Definition and Purpose. Bond reserve accounts, if any, are established pursuant to the Bond Resolution as a condition of each bond issue and may be funded with bond proceeds. The funds are legally protected by bond covenants and can only be used in the event of default by the borrower or to pay down principal or interest at maturity.
- b) Target Level. The bond reserve requirements, if any, are established at the time of the bond issue. The amount is recalculated as the bonds are paid down. Any excess funds are transferred to the debt service account.
- c) Events or Conditions Prompting the Use of the Reserves. The reserves may be used by the trustee if the amounts in the principal fund, mandatory redemption fund or interest fund are insufficient or for the retirement of all bonds then outstanding.

3. Unspent Bond Proceeds Funds:

- a) Definition and Purpose. Unspent bonds proceeds are accumulated in capital project accounts, which are established pursuant to the Bond Resolution as a condition of each bond issue. The funds are legally protected by bond covenants and can only be used to pay for eligible capital improvements listed in the Board's Reimbursement Resolution adopted prior to a bond issuance.

- b) Target Level. The capital project accounts are established at the time of the bond issue. The amount is calculated as net proceeds of the bonds remaining after funding the Bond Reserve account and paying the issuance costs. The amount is reduced by the reimbursement of eligible capital expenditures made prior to bond issuance as well as future eligible capital expenditures. Any excess funds remaining after completion of eligible capital improvement projects are transferred to the debt service account.
- c) Events or Conditions Prompting the Use of the Reserves. The reserves must be used to pay for eligible capital improvements listed in the Board's Reimbursement Resolution adopted prior to a bond issuance. As a general rule, funds in a specific capital project account are to be paid out completely within 18 month following the bond issuance date.

4. Grants:

- a) Definition and Purpose. Funds received for specific programs or projects. These funds are restricted for use according to the grant agreement or donor's instructions.
- b) Target Level. Grant amounts are based on grant agreements.
- c) Events or Conditions Prompting the Use of the Reserves. Grants can only be used to cover eligible expenses as specified in the grant agreement or donor's instructions.

5. Other legally restricted reserves:

- a) Definition and Purpose. Occasionally, the Board may be required to designate restricted reserve funds for other purposes, such as self-insurance reserve funds for certain state approved self-insurance programs.
- b) Target Level. The target level is determined by the relevant regulations, statutes and/or rulings.
- c) Events or Conditions Prompting the Use of the Reserves. These funds shall be used as contemplated in the relevant regulations, statutes and/or rulings.

B. Board-restricted and designated reserves:

Board-restricted and designated reserves are established by action of the Board and designated for specific purposes such as: temporary cash flow deficiencies caused by timing differences between revenue and operating expenses, construction projects, equipment purchases or operating contingencies. Reserve target levels will be reviewed by the Board during preparation and approval of the Financial Plan. Denver Water's

current Board-restricted and designated reserves are:

1. Operating Cash Reserves:

- a) Definition and Purpose. The Operating Cash Reserve is established at the beginning of the year to provide liquidity to compensate for differences in timing between receipts and operating expenditures throughout the year (due to seasonality of water revenues).
- b) Guideline. Denver Water's practice has been to set aside an amount equal to three months of the budgeted total operating expenses. The actual Operating Cash Reserve amount shall be established each year based on the Financial Plan.
- c) Events or Conditions Prompting the Use of the Reserves. This reserve will be routinely utilized by staff to cover temporary cash flow deficiencies caused by timing differences between revenues and operating expenses.

2. Capital Reserve:

- a) Definition and Purpose. The capital reserve is established to cover annual capital expenditures to be cash funded, unanticipated (unbudgeted) capital expenditures throughout the year and to provide liquidity to compensate for differences in timing between receipts and capital expenditures expected to be funded from current year water rates.
- b) Guideline. Denver Water's practice has been to set aside an amount approximating the larger of Denver Water's annual depreciation amount or two percent of the Denver Water's total capital assets (before depreciation).
- c) Events or Conditions Prompting the Use of the Reserves. This reserve may be routinely utilized by staff to cover temporary cash flow deficiencies caused by timing differences between revenues and capital expenditures expected to be funded from current year water rates. It will also be used to cover annual capital expenditures to be cash funded and unanticipated (unbudgeted) capital expenditures.

3. Reserves for Future Construction Projects:

- a) Definition and Purpose. Occasionally, the Board may designate reserve funds for certain large capital projects expected to be paid from cash in the future that would exceed the cash flows in any single year.
- b) Target Level. The target level is established as funds are designated annually by the Board to accumulate funding for specific future construction projects.
- c) Events or Conditions Prompting the Use of the Reserves. These funds are to be used as construction of the designated projects commence.

4. Exposure Reserve:

- a) Definition and Purpose. The Exposure Reserve is established to cover costs not covered by Denver Water's insurance policies, such as deductible amounts associated with Denver Water's risk management program, a reserve to cover initial repairs before insurance payout takes place and costs not covered by insurance policies, as well as any self-insured amounts above the budgeted amounts and/or amounts in legally restricted self-insurance reserve funds.
- b) Guideline. The Exposure Reserve amount shall be reviewed each year by the Treasury staff, based on the limits set in currently held insurance policies and historical data regarding losses.
- c) Events or Conditions Prompting the Use of the Reserves. The Board may designate use of this reserve after establishing that conditions exist per subsection (a) of this section.

5. Other Board restricted and designated reserves:

- a) Definition and Purpose. Occasionally, the Board may designate reserve funds for other purposes.
- b) Target Level. The target level is determined by the Board.
- c) Events or Conditions Prompting the Use of the Reserves. These funds shall be used in the amounts and at times designated by the Board.

IV. Unrestricted and undesignated funds

Unrestricted and undesignated funds are defined as available cash, cash equivalents and investments in excess of restricted and designated reserves. These funds may be used as a means of rate stabilization in future years.

V. Policy considerations

The Chief Finance Officer is responsible for the setting up cash reserve targets and development of operating guidelines to implement this policy.

The Policy shall be reviewed at least annually by the Chief Finance Officer. The Policy shall be presented to the Board for approval of any changes, but no less frequently than every three years. If no changes are needed, the existing approved Policy will remain in effect until the Board approves the recommended update to the Policy.