SECTION 2 – APPENDIX 3

LITTLE THOMPSON WATER DISTRICT RESERVE POLICY

Little Thompson Water District's Reserve Policy is intended to ensure that the District will at all times have sufficient funding available to meet its operating, capital and debt service obligations. Reserves will be managed in a manner that allows the District to fund costs consistent with its annually updated Long Term Financial Plan while avoiding significant rate fluctuations due to changes in cash flow requirements.

Adequate and sound financial policies promote the District's bond ratings in the capital markets; provide financing flexibility; avoid potential restrictive debt covenants; and ensure the District's customers of stable rates.

The Reserve Policy covers all reserve funds of the District. At the end of each calendar year compliance with the Reserve Policy will be reported to the District's Board of Directors as part of each Fiscal Year-End Report.

Reserve Funds Types

There are two major types of reserve funds: Legally Restricted Reserves and Board Designated Reserves. Legally Restricted Reserves have restrictions imposed by an outside source, such as bond covenants, contractual obligations, etc. Board Designated Reserves are set aside for a specific purpose as determined by the Board of Directors. The Board of Directors has the authority to redirect the use of Board Designated Reserves as the needs of the District change.

LEGALLY RESTRICTED RESERVES

- Debt Reserve Fund: It is the obligation of the District to meet reserve requirements of bonds and loans. It is the policy of the District to fully fund such reserves as set forth in any covenants for the District's water revenue bonds and loan agreements, at the time of adoption of this policy or in the future. Currently the District has no reserve requirements for its current debt issuance.

BOARD DESIGNATED RESERVES

- Debt Service Fund: Monthly transfers from available operating revenues will be made into this sinking fund. Monies from this fund will be used to make full and timely debt service payments. These funds are completely separate from and in addition to any Debt Reserve Funds required by bond and loan covenants. The monthly transfers shall be made in amounts so that at no time shall fund levels be less than 25% of the annual debt service due on all debt obligations.

- Water Resources Fund: When a new customer connects to the District's system and elects to pay cash-in-lieu of dedicating a water right in accordance with District policy, those funds are set aside in this reserve for future water purchases, development of new water rights, conversion or enhancement of existing rights, or other water resources purposes as the Board may deem appropriate. These funds are only spent upon appropriation by the Board. The minimum amount held in the Water Resources Fund shall be $500,000.

- Operations and Maintenance Fund: This fund is designed to provide a liquidity cushion to ensure adequate working capital to deal with cash flow fluctuations while still maintaining operations and maintenance activities. The District shall maintain an Operations and Maintenance Reserve Fund in an amount equal to six months of operation and maintenance expenses, excluding debt service and depreciation and Windy Gap Firming expenses for which the Windy Gap Firming Fund has been established. Guidelines for use of this fund are:

    - Revenue Shortfall: This fund allows authorized expenditures needed to sustain operations to be made in a year when revenue is below budget due to cool/wet weather or water shortage.

    - Unanticipated Operating Expenses: The Board, at its discretion, may use this fund to make budget amendments as described elsewhere in the District's financial policies.

    - As a part of the annual budget process the Board may add to or replenish this fund (if needed) using any legally available source of funds, such as revenues above budget due to hot/dry weather.

- Capital Projects Fund: The purpose of this fund is to accrue funding to install new capital projects that are a general result of future growth such as treatment plant expansions, transmission line construction, and water storage tank construction. The capital fund holds bond proceeds, plant investment fee revenues, and other capital related revenues after all other reserves are satisfied. All working capital balances in excess of reserve requirements are transferred to this fund at year's end and will become available (but not restricted) for capital use in subsequent years as appropriated by the Board.

- Capital Replacement and Rehabilitation Fund: The purpose of this fund is to provide monies for the long-term maintenance of and end of useful life replacement costs associated with existing infrastructure. This fund shall also be used for changes in operating requirements such as water quality standards or fire protection changes requiring system improvements or treatment changes. The District shall budget for a minimum of 5% of the annual operating revenue to be placed in this account with the annual goal of 10% of the annual operating

revenue. All operating revenue (excluding surcharge revenue) in excess of that required to pay for operating expenses and debt service shall be transferred to this fund at year's end and will become available (but not restricted) for capital replacement and rehabilitation use in subsequent years as appropriated by the Board.

- Land Acquisition/Building Remodel Fund: This fund was established in the amount of $2,000,000 to have funds available should a property be made available in a location that makes sense for a future water plant or future office building. This fund was authorized in 2022. Subsequently, the fund was amended in 2025 to include the ability to remodel the current building and site for future growth. No additional funds shall be added to this reserve fund unless directed by the Board. This fund shall terminate at the end of 2026 unless otherwise directed by the Board.

- Windy Gap Firming Fund: This fund will provide for the timely payment of the debt payment for the Windy Gap Firming Project that is due in January of the following year. The majority of the debt payment shall be provided by others as a part of a development obligation from the Barefoot development project. The debt payment due from others for the Barefoot development shall be invoiced shortly after the notice of amount due is received from Northern Colorado Water Conservancy District (Northern Water).