

Policy: #1240 – Cash Reserve Policy

SCOPE OF POLICY: Board of Directors

RESPONSIBILITY: Board of Directors, Board President

I. Policy

Minimum cash reserves attempt to quantify the minimum amount of cash (operating, capital funds, bond funds) Elkhorn Rural Public Power District (ERPPD) should keep in reserve. Actual cash reserves may vary substantially above the minimum and is dependent on the life cycle of assets that are currently in service.

II. Procedure

A. The methodology used is based on certain assumptions related to percent of operation and maintenance, rate base, capital improvements, and debt service. The establishment of minimum cash reserves considers a number of factors including:

1. Working Capital Lag
2. Investment in Assets
3. Annual Debt Service
4. Capital Improvement Program

B. The minimum cash reserve policy will include the following in the calculation (see current Long-Term Financial Projection report):

1. 12% of Operation & Maintenance Expense less Depreciation Expense
2. 5% of Power Supply Risk
3. 0% of Historical Rate Base
4. 50% of Current Portion of Debt Service
5. 20% of Five-Year Capital Improvements Net of Bond Proceeds

C. If certain events should occur that results in cash reserves falling below the minimum cash reserve levels the Board will act to restore the cash reserves to the minimum levels. These actions may consider a number of factors including:

1. Rate Adjustments
2. Cost reductions
3. Issuance of bonds to fund capital improvement programs
4. Modification of the assumptions used to determine the cash reserve levels

D. The calculated minimum cash reserves will be updated and reviewed by the Board periodically using the services of a professional rate consultant.