

RESERVE AND LIQUIDITY POLICY

The purpose of the District's Reserve and Liquidity Policy ("Policy") is to provide the School Board and School Administration with shared objectives and parameters for the management of its funds, to maintain and improve the financial stability of the District and maintain sufficient liquidity of the District's funds to provide an adequate cushion against unexpected temporary revenue shortfalls or unpredicted one-time expenditures while maintaining stable property tax rates. It is also the intent that this Policy will signal to credit rating agencies, investors, and the capital markets that the District is well-managed and has budgetary flexibility. This Policy shall be reviewed annually to determine if any adjustments are needed by the Chief Financial Officer and the School Board of Finance during the annual Board of Finance meeting.

Definitions:

For purposes of this policy, the following definitions apply:

Available Fund Operating Balance shall be defined as the amount, measured in dollars, of available reserves of the District as measured by the balance remaining after the total expenditures are subtracted from the end-of-year balance in each Unrestricted Fund ("Available Fund Operating Balance").

District shall mean the Metropolitan School District of Washington Township.

Reserve Target shall mean target level (measured as a percentage) of Available Fund Operating Balance divided by Unrestricted Funds expenditures.

School Administration shall mean the management team of the District, specifically the Superintendent, the Chief Financial Officer, and the School Board.

School Board shall mean the Metropolitan School District of Washington Township Board of Education.

Unrestricted Funds shall be defined as the District's Education Fund and Operations Fund.

Reserve Target:

When assessing the Available Fund Operating Balance for the District, the District shall consider the District's Unrestricted Funds. Unrestricted Funds are available for operational needs of the District and may be considered when setting a reserve target for the Available Fund Operating Balance for a combined minimum target goal of fifteen percent (15%) ("Reserve Target") in both the Education & Operations Funds. The District also plans to maintain a cash balance in its Rainy Day Fund, with a goal to maintain a balance of ten million dollars (\$10,000,000), but not allow the balance to decrease lower than five million dollars (\$5,000,000). The District will use the Rainy Day Fund for non-recurring expenses. The Chief Financial Officer or their designee will measure compliance with this Policy as

of December 31 each year, or as soon as practical after final year-end account balances become available in conjunction with the preparation of the District's budget. For the purposes of this Policy, the current year's actual operating expenses will exclude significant capital outlays and non-recurring items. The Reserve Target will also be actively monitored by the Chief Financial Officer or their designee throughout the year.

If the Reserve Target is not met or is projected to not be met at some point within a five-year time horizon, then during the annual budgeting process Available Fund Operating Balances and reserve levels will be considered and a plan to replenish the Available Fund Operating Balance to a level consistent with the Reserve Target will be established based on the requirements outlined in this Policy.

Maintaining Reserve Target:

In order to provide liquidity adequate to meet the needs and demands of providing government services, the Reserve Target will be maintained and managed through a method to minimize the need to borrow in the event of unforeseen financial challenges, including changes in revenue streams and expenses and weathering significant economic downturns or enrollment declines. The Reserve Target will generally be funded or replenished by excess revenues over expenses or one-time revenues.

It is the intent of this Policy to limit use of reserves to address unanticipated, non-recurring needs. Reserves shall not normally be applied to recurring annual operating expenses. Reserves may, however, be used to allow time for the District to restructure its operations in a deliberate manner as might be required in the event of an economic downturn, enrollment decline, or increase in operational costs due to an increase in enrollment, maintain employees, or inflationary pressures. Such use of reserves should only take place in the context of an adopted long-term financial plan.

Maintaining Liquidity:

This Policy sets forth the minimum risk management measures that the District must implement to ensure its current and future liquidity position is managed in a prudent manner. Liquidity is the amount of cash and the ease of converting assets to cash with minimum loss of the value of the asset to meet the financial obligations of the District. The marketability or the ability to buy or sell an asset without incurring significant losses to access the funds determines the liquidity and availability of the asset. Adequate liquidity shall be evaluated by the Chief Financial Officer to ensure the District is able to meet foreseeable and unforeseeable financial obligations. This Policy is implemented to provide guidance on the minimum liquidity level that the District should maintain.

There are various tools to help manage cash flow. The three most prominent are:

- Using a government's reserves;
- Interfund borrowing; and
- Borrowing funds externally, as permitted by state law.

The use of Available Fund Operating Balances should comply with this Policy.

A. Key Considerations for Interfund Borrowing

Interfund borrowing may be used for non-restricted funds of the District, but only to the extent allowed by state law. The following are prudent considerations:

- Confirm that interfund borrowing is allowed under the governing statutes and then consult the Indiana State Board of Accounts' guidance and review for any limitations or restrictions;
- Document each interfund loan along with a repayment schedule;
- Place a term limit on the loan; and
- Maintain appropriate accounting records that reflect the balances of loans in every fund affected by the transaction.

B. Key Considerations for Minimum Required Liquidity

The following constitutes key elements to consider when determining whether the District has adequate liquidity:

- An evaluation of all commitments resulting from liabilities related to employees' rights and benefits, including post-employment benefits, accrued paid time off and insurance;
- Reserve Target is evaluated as outlined in this Policy;
- Ability to repay outstanding debt obligations, including bonds, lease rental payments and other financial commitments to repay debt; and
- A level of cash available for the normal operational expenditures to ensure the District will be able to withstand fluctuations in monthly revenues/expenditures, to enable the District to be able to timely meet its financial obligations. Two months' operational expenditures should be available in cash or cash equivalent.

Policy Modifications:

The School Board may modify this Policy and may make exceptions to any of its guidelines, including the Reserve Target, at any time to the extent that the management of the reserves and liquidity achieves the goals of the District and as long as such exceptions or changes are consistent with the state and local laws.

MSD of Washington Township
Adopted: 11/13/24