

RESERVE AND LIQUIDITY

The purpose of MSD Wayne Township's (the "District") Reserve and Liquidity Policy ("Policy") is to provide the School Board ("Board"), Chief Financial Officer 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 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 in January by the Board of Finance.

Definitions

As used in this policy:

"Available Fund 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 liabilities are subtracted from the total assets in each Unrestricted Fund ("Available Fund Balance").

"Reserve Target" shall mean target level of Available Fund Balance/Unrestricted Funds expenditures.

"Unrestricted Funds" shall be defined as the District's **Education Fund, Referendum Fund and Rainy Day Fund.**

Reserve Target

When assessing the Available Fund 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 Balance for a combined minimum target level equivalent to between five percent (5%) and eight percent (8%) ("Reserve Target"). The Chief Financial Officer or his/her designee ("Designee") will measure compliance with this Policy as of December 31st each year, or as soon as practical after final year- end account balances become available. For the purposes of this Policy, 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 District's Chief Financial Officer or 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 Balances and reserve levels will be considered and a plan to replenish the Available Fund 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. Such use of the Reserves will 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 financial obligations of the District. The marketability or 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 Office of Business Affairs to ensure that 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.

Use of Available Fund 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 in 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 that 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.

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.

Administrative Guidelines

The Superintendent may prepare administrative guidelines to implement this Policy.

MSD of Wayne Township, Marion County, Indiana
Adopted: January 6, 2020