

## **F350 RESERVE AND LIQUIDITY POLICY**

The purpose of the Corporation's Reserve and Liquidity Policy ("Policy") is to provide the Board of School Trustees and School Administration with shared objectives and parameters for the management of its funds, to maintain and improve the financial stability of the Corporation and maintain sufficient liquidity of the Corporation'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 Corporation is well-managed and has budgetary flexibility. This Policy shall be reviewed annually to determine if any adjustments are needed by the Chief Operating Officer/Treasurer and the Board of School Trustees of Finance during the annual Board of Finance meeting.

### **Definitions:**

For purposes of this policy, the following definitions apply:

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

*Corporation* shall mean the Mt. Vernon Community School Corporation.

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

*School Administration* shall mean the management team of Mt. Vernon Community School Corporation, specifically the Superintendent, the Chief Operating Officer/Treasurer, and the Board of School Trustees.

*Board of School Trustees* shall mean the Mt. Vernon Board of School Trustees.

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

### **Reserve Target:**

When assessing the Available Fund Balance for the Corporation, the Corporation shall consider the Corporation's Unrestricted Funds. Unrestricted Funds are available for operational needs of the Corporation and may be considered when setting a reserve target for the Available Fund Balance for a combined minimum target goal of between eight percent (8%) to fifteen percent (15%) ("Reserve Target"). The Corporation also plans to maintain a cash balance in its Rainy Day Fund, with a goal to maintain a balance of two million dollars (\$2,000,000), but not allow the balance to decrease lower than five

hundred thousand dollars (\$500,000). The Corporation will use the Rainy Day Fund for non-recurring expenses. The Chief Operating Officer/Treasurer or their designee will measure compliance with this Policy as of June 30 each year, or as soon as practical after final fiscal year-end account balances become available in conjunction with the preparation of the Corporation'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 Operating Officer/Treasurer 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 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 Corporation 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 Corporation 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 Corporation. 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 Operating Officer/Treasurer to ensure the Corporation is able to meet foreseeable and unforeseeable financial obligations. This Policy is implemented to provide guidance on the minimum liquidity level that the Corporation 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 Balances should comply with this Policy.

#### **A. Key Considerations for Interfund Borrowing**

Interfund borrowing may be used for non-restricted funds of the Corporation, 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 Corporation 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 Corporation will be able to withstand fluctuations in monthly revenues/expenditures, to enable the Corporation to be able to timely meet its financial obligations. Two months' operational expenditures should be available in cash or cash equivalent.

#### **Policy Modifications:**

The Board of School Trustees 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 Corporation and as long as such exceptions or changes are consistent with the state and local laws.

Mt. Vernon Community School Corporation  
Adopted: 11/20/2023