

OLD LANGUAGE

Section III. Reserves

3.1. Purpose. Adequate reserves are a necessary component of the District's overall financial management strategy. Reserves are necessary to enable the District to deal with unforeseen emergencies or sudden changes in economic conditions.

3.2. Reserve Policy. One or more Reserve Funds shall be created to:

1. Provide sufficient cash flow to meet daily financial needs;
2. Ensure availability of funds to meet long-term debt obligations;
3. Sustain District services in the event of a catastrophic event such as a natural/manmade disaster or a major downturn in the economy; and
4. Meet short term and long-term capital needs.

After taking into account the various risks and associated obligations of the District, the District seeks to establish and maintain an unallocated Reserve Fund balance at no less than three (3) months of budgeted income, exclusive of income derived from debt funding.

Beginning with the 2019 budget development process, the Board will determine amounts to be directed to the Reserve Fund in order to reach the target fund balance by the close of the 2021 fiscal (calendar) year.

The Board will review the reserve target annually and if it is determined that conditions have changed which render the policy no longer appropriate for the level of risk and obligations, the Finance Committee will review and recommend an adjustment to the target reserve funding level for the subsequent fiscal year.

3.3. Reserve Deposits. The District's reserves shall be held in the Reserve Fund. Funding of reserves will generally come from excess revenues over expenditures or one-time revenues.

Unless otherwise directed by the Board, one-half of the appropriated funds shall be deposited in May and the remainder shall be deposited in November of each year.

3.4. Reserve Usage. The District will avoid utilizing reserves to fund recurring operating expenditures. The Superintendent is responsible for monitoring reserve levels and reporting to the Board on a quarterly basis. If, at any time, the utilization of reserves to pay for operating expenditures is necessary to maintain the quality or level of existing services, the Superintendent will provide the Finance Committee with an explanation of the circumstances. After review, the Superintendent will bring a recommendation to the Board, including a strategy to mitigate the future use of the reserves and restoration of the reserve balance.

All expenditures drawn from the reserve fund shall require prior approval from the Board unless previously authorized for expenditure within the annual budget development process. If a decision is made to utilize reserves, or if reserves fall below required minimum level as set by this policy, the fund balance shall be restored to the minimum target in the following fiscal year. If

significantly or fully depleted, restoring the reserve fund will be accomplished within three (3) years of use.

NEW LANGUAGE

Section III. Reserves

3.1. Purpose. Adequate reserves are an important component of the District's overall financial management strategy. Reserves are necessary to enable the District to prepare for unforeseen emergencies or sudden changes in economic conditions.

3.2.1 Reserve Policy. After taking into account the various risks and associated obligations of the District, the District seeks to establish and maintain an unallocated Reserve Fund. One or more Reserve Funds shall be created to:

- 1) Sustain District services in the event of a significant change in available revenues or required expenditures due to unforeseen changes such as one of the following:
 - a) catastrophic event such as a natural or manmade disaster;
 - b) a major downturn in the economy;
 - c) major change in insurance reimbursement rates; or
 - d) a change in clinic operator at the medical building
- 2) Meet short term and long-term capital needs;
 - a) Building
 - b) Equipment

Beginning with the 2019 budget development process, the Board established a required minimum level of \$100,000 and has directed this amount be appropriated to the Reserve Fund. In 2019 the Board will evaluate the long-range needs in order to establish a target fund balance equal to the greater of the forecasted need or 30% of the prior years' general fund income, exclusive of debt funding.

The Board will review the reserve target annually and if it is determined that conditions have changed which render the policy no longer appropriate for the level of risk and obligations, the Finance Committee will review and recommend an adjustment to the target reserve fund balance for the subsequent fiscal year(s).

3.3. Reserve Deposits. The District's reserves shall be held in the Reserve Fund. Funding of reserves will generally come from excess revenues over expenditures or one-time revenues.

The Board shall appropriate the funds necessary from year to year until the fund balance exceeds the target fund balance no later than the close of the 2023 fiscal (calendar) year.

Unless otherwise directed by the Board, one-half of the annual appropriated funds shall be deposited in May and the remainder shall be deposited in November of each year.

Commented [PM1]: This was previously stated as 3 months of income which would be equal to \$383K based on the 5 year forecast.

We are proposing 30% which in 2023 with forecasted revenue of \$1,533,000 would be \$460K. The \$500K we built into the 5-year forecast would be 33%.

Commented [PM2]: Draft had 2021 but I've changed it to match our 5 year forecast.

3.4. Reserve Usage. The District will avoid utilizing reserves to fund recurring operating expenditures. The Superintendent is responsible for monitoring reserve levels and reporting to the Board on a quarterly basis. If, at any time, the utilization of reserves to pay for operating expenditures is necessary to maintain the quality or level of existing services, the Superintendent will provide the Finance Committee with an explanation of the circumstances. After review, the Superintendent will bring a recommendation to the Board, including a strategy to mitigate the future use of the reserves and provide for the restoration of the reserve balance.

All expenditures drawn from the reserve fund shall require prior approval from the Board unless previously authorized for expenditure within the annual budget development process. If a decision is made to utilize reserves, or if reserves fall below the required minimum level as set by this policy, the fund balance shall be restored to the minimum target in the following fiscal year. If significantly or fully depleted, restoring the reserve fund to the target reserve fund balance will be accomplished within three (3) years of use.