GENERAL FUND FINANCE POLICY

Code No. 704.2

5-year Budget

The District shall prepare an annual 5-year general fund budget forecast that includes estimates of restricted and unassigned fund balance, as well as unspent balance available at the end of each year. This exercise shall include reasonable estimates of enrollment, by grade level, as well as staffing levels required.

Monthly Budget Update

The Treasurer shall report monthly to the Board as to expenditures for the month and year to date, both on dollar amount and percentages, compared to historic expenditures (percentages). The Treasurer shall estimate each month the Treasurer's expectations with respect to budget year revenues and expenditures.

Budget Amendments

The District shall amend the budget, when necessary, at the earliest possible date after receipt of knowledge indicating that the budget must be amended.

Fund Balance Restricted for Cash Flow Purposes

The District shall create a restricted general fund cash flow reserve. Cash in this fund shall be restricted in its use and may only be used to address cash flow needs during a fiscal year caused by the timing difference between receipt of revenue and operating expenditures. This restricted reserve, at the end of each fiscal year, shall be not less than 8% of the general fund expenditures for the upcoming fiscal year (for example, the reserve on 6/30/13 shall be not less than 8% of the expected FY2013-14 expenditures).

It is expressly stated that the restricted cash flow reserve balance shall not be reduced in the event that the unassigned general fund balance does not have sufficient cash available to fund the restricted cash flow balance. In the event that there is insufficient cash in the general fund to fund the restricted cash flow reserve, then the unassigned general fund balance shall become a negative balance, subject to the actions required herein.

Unassigned general fund balance

The District shall target an unassigned general fund balance, prepared on a GAAP basis, of not less than 7% of the general fund expenditures for each fiscal year. In the event that the unassigned general fund balance appears as though it will be below the targeted level at the end of the fiscal year, the Treasurer shall include, in the immediately following budget process, a cash reserve levy sufficient in size to (a) bring the unassigned general fund balance to not less than 7% of the general fund expenditures for the fiscal year for which the cash reserve levy is being levied, and (b) fund any reasonably expected unfunded items such as (but not limited to) special education deficit.

Unspent Balance and Unassigned general fund balance

Beginning June 30th of each year, the District shall maintain an general fund balance, prepared on a GAAP basis, combining (a) restricted reserve for cash flow with (b) unassigned cash balance, equal to or greater than the District's year-end unspent balance (unspent spending authority). The District shall use its reasonable projections, where actual numbers are not available, in calculating its compliance with this test.

Allowable growth

The District shall solicit (from the School Budget Review Committee) additional allowable growth where it may be available for items such as (but not limited to) special education deficit, increasing enrollment, initial costs associated with opening school buildings, TAG and any other lawful purpose. Any award of allowable growth will be levied as a cash reserve levy, in full, in the next available budget year.

Actual Budget with Contingency

The District shall prepare a budget with expenditures that are not greater than actual expected revenues (including, the previous year's ending unassigned balance). The budget shall include a contingency of at least 2% of the budgeted expenditures. The District shall not prepare a budget based on total unspent spending authority remaining, with a goal of avoiding a budget amendment during the fiscal year.

GAAP-based Budget

The District shall prepare, on an annual basis, a GAAP-basis budget.

DEBT FUND POLICIES

General

The District seeks to maintain the highest possible credit ratings for all categories of short- and long-term general obligation and revenue bond debt that can be achieved. Sound fiscal management practices of all management and timely reporting to the board of directors are required in order to achieve the highest possible credit rating.

The District is committed to systematic capital planning in order to meet the needs of the enrollment of the district. The district maintains and annually updates a ten-year facility plan and holds regular meetings of the facility committee to keep this plan updated.

Debts issued by the District shall fund capital improvement projects. The District shall include in the financing budget the sum of all expected costs necessary to complete the capital improvement project plus all bonding related costs, offset by any cash on hand in the Capital Projects Fund. All costs necessary to complete the capital improvements project includes, but is not limited to, actual cost of construction, engineering, architectural, construction management and similar services, site and right of way acquisition, site replacement and landscaping, parking facilities as necessary, and all furnishings, fixtures & equipment necessary to occupy and use the capital improvement as intended.

Disclosure and Ongoing continuing disclosure

The District is committed to full and complete financial disclosure, and to fully cooperate with ratings agencies, institutional and individual investors, other levels of government, and the general public to share comprehensive and accurate financial information. The district is also committed to meet secondary or continuing disclosure requirements on a timely and comprehensive basis, as promulgated by the Securities Exchange Commission.

The official statements accompanying debt issues, certified annual financial reports, annual fiscal audits, and continuing disclosure statements will meet the standards articulated by the appropriate regulatory body, including but not limited to, Government Accounting Standards Board (GASB), Generally Accepted Accounting Principles (GAAP), the Securities Exchange Commission (SEC), and Internal Revenue Service (IRS). The District may hire a consultant firm to assist with continuing disclosure statements as required by the state and federal regulatory bodies. Any significant financial reports affecting or commenting upon the District will be forwarded to rating agencies and any material events will be reported.

The issuance of securities subjects the District to regulation and risk regarding disclosure provided to investors. The District is committed to providing timely, accurate and complete disclosure. The District shall assess the risk based on the type of security being issued and the type of offering contemplated, and shall hire third-party professionals, experts in their field, to assist the District with the bond sale process and assist with risk mitigation. In the event that the District is selling securities in a full public offering, the District shall engage legal counsel (whether Bond Counsel, Disclosure Counsel or both) whose engagement shall include an opinion (often called a 10b-5 opinion) regarding the accuracy and completeness of the offering materials (often called the bond official statement). Bond Counsel's legal opinion shall cover all material legal and tax-related representations of the District.

The District shall weigh the merits and costs of hiring other third party professionals, including financial advisors, underwriters, bank trustees, registrar & paying agent and continuing disclosure dissemination agents on a case by case basis. The District notes that each potential professional offers specific skill set not generally available to the District that may be advantageous to the District with respect to the specific offering being contemplated.

<u>Annual Audit</u>
The District notes that the dissemination of timely audited financial statements is a critical factor in developing and maintaining relationship of trust with investors and rating agencies. To that end, the Treasurer shall take all steps necessary to procure an audited financial statement that can be made publicly available to investors, regulators and the Auditor of the State of Iowa, within 180 days of the end of each fiscal year. Requests for waivers of this timeline by auditor firms shall be rejected unless it can be determined that the reason for the request for timeline extension is (a) a result of actions taken by the District, (b) failure of the District to provide timely information to the auditor, or (c) events outside of the control of the auditor or the District, such as acts of God, labor disruption, declaration of war etc.

<u>Method of Sale of Securities</u>
The District may consider financings that include: sealed bid public offerings, negotiated public offerings, private placements and direct bank loans. With each financing, the Treasurer shall evaluate, for each potential financing structure, the costs associated, the likely interest rates, the likelihood of success, the time required for completion, the amount of staff and Board of Directors time required for completion, and the risk if interest rates move. Based on this evaluation, the Treasurer shall prepare a recommendation regarding the offering structure to be pursued, and shall retain professionals sufficient to ensure that said offering structure can be pursued as efficiently as possible, with as little risk to the District as can be reasonably incurred. The Treasurer shall have the authority to execute agreements on behalf of the District to retain third party professionals, as necessary, in order to execute the sale of securities, other than the Board of Directors shall approve all resolutions and related documents committing the District to sell and issue securities.

<u>Restrictions surrounding all indebtedness of the District</u>
No zero-coupon bonds shall be authorized or issued.

No capitalized interest shall be used other than to capitalize the interest cost between the date of issuance of the bonds and the beginning of the following fiscal year, if a levy has not been put in place at the time of bond issuance sufficient to fund interest cost on bonds prior to the start of the following fiscal year.

All bonds shall be fixed-rate. Draw-down bond anticipation project notes, maturing not later than six months after completion of construction of the Project for which the note was incurred, may be issued with a variable interest rate tied to an index that is regularly reported that can be independently verified.

No variable rate, auction rate or other short-term obligations (other than bond anticipation notes).

No swaps or interest rate lock agreements may be entered into.

The District notes that there may be instances where it is in the District's advantage to lock an interest rate on one particular date for an obligation that will occur on another date, more than 90 days later (a "forward purchase bond"). A forward purchase bond may be issued with a fixed interest rate, so long as the forward purchase obligation cannot be terminated by either party. No collateral or cash investment shall be available to be provided as security toward any forward purchase bond.

No obligation may be issued that could be interpreted to be an investment and that is not permitted under Iowa Code Chapter 12B or 12C.

No derivative bond structures shall be considered.

<u>General Obligation Bonds</u>
General Obligation debt shall mature in not more than 20 years from original issuance.

All outstanding general obligation debt shall have an average maturity at all times of not greater than 12 years. In the event where bonds from one election are to be sold in multiple sales over multiple years, the weighted average maturity shall be calculated based on the entire principal amount outstanding upon completion of the bond sales associated with the referendum.

Debt issued wrapped around existing debt shall be permitted.

<u>Working Capital Financings</u>
No working capital financing should be required so long as the District is in compliance with its unassigned general fund and restricted cash flow reserve policies herein. In the extreme instance where (a) changes in resources occur during a year in which levies are previously certified and cannot be amended, and (b) changes in budgetary expenditure practices cannot be made due to the previous commitment to employee contracts and supplies purchases, a cash flow borrowing may be incurred, with the final maturity not longer than the expected date on which all revenues due to the District for said budget year are in hand. Working capital financing may not be used as a means of funding structural deficits in the general operating fund. Interest expenses of the cash flow borrowing are a cost to the general fund. SBRC spending authority shall be sought to reimburse the District for any cash flow borrowing costs associated with the working capital borrowing.

<u>Sales Tax Revenue Bonds</u>
Revenue Bonds may be issued secured by the Secure an Advanced Vision for Education ("SAVE") sales tax (the "Tax")

Prior to issuing revenue bonds, the District shall prepare a comprehensive cash-flow estimate of the Tax that includes reasonable assumptions regarding enrollment and statewide available revenue per student (RevPS). If enrollment declines are reasonably expected, the collections from the sales tax shall be adjusted downward to reflect the decline, and coverage shall be based on the adjusted income. The cash flow must ensure that, with the proposed bonds to be issued, cash balances of the Tax fund remain positive over the life of the proposed bonds using a no-growth RevPS assumption. If cash flows cannot remain positive factoring in the proposed bonds and all other items to be funded from the Tax, then the proposed bonds shall not be issued.

Refundings
Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding or the refunding is essential in order to release restrictive bond covenants, which affect the operations and management of the District.

Advance refundings for economic savings will be undertaken either (a) when a net present value savings of at least four percent of the refunded debt can be achieved; or (b) if the escrow structure results in a material negative arbitrage (i.e., the cost of the escrow is more expensive than the permitted cost of the escrow using then-current IRS rules), the net present value savings must be at least 5% of the refunded debt. Current refundings, which produce a net present value savings of less than 3% will be considered on a case-by-case basis taking into consideration bond covenants and general conditions. Refundings with negative savings will not be considered unless there is a compelling public policy objective.

Arbitrage Compliance
The District will maintain a system of record-keeping, reporting, and compliance procedures, with respect to all federal tax requirements which are currently, or may become, applicable throughout the lifetime of all bonds in accordance with all arbitrage rules and rebate requirements.
Such issues of compliance to review should include, but are not limited to

- Consult with financial advisors and rebate analyst to identify bond proceeds or applicable debt service allocations that must be invested with a yield-restriction and shall monitor the investments of any yield-restricted funds to ensure that the yield on such investments does not exceed the yield to which such investments are restricted. These investments shall meet the requirements of the district's investment policy.
- Review with financial advisors that investment of bond proceeds is performed in compliance with arbitrage rules and rebates.
- Consult with financial advisors to determine whether the district is subject to rebate requirements of Section 148(f) of the Code and related Treasury Regulations with respect to each issue of bonds.
- Consult with rebate analyst to determine rebate liability.
- Consult with financial advisors and rebate analyst to determine whether the district is eligible for any temporary periods for unrestricted investments and is eligible for any of the spending exceptions to the rebate requirements.
- Consult with the rebate analyst, and if appropriate bond counsel, prior to the fifth anniversary date of issuance of each issue of bonds of the district and each fifth anniversary thereafter to arrange for calculations and reports of rebate requirements with respect to such bonds.
  - If a rebate payment is required to be paid by the district, the business manager shall request the Form 8038-T be prepared by bond counsel in order to be submitted to the Internal Revenue Service (IRS).
  - If the district is authorized to recover a rebate payment previously paid, the business manager shall consult with the trustee or bond counsel to prepare the appropriate form (Form 8038-R) with the Internal Revenue Service (IRS).

Legal Reference: Iowa Code §§ 74-76; 278.1; 298; 298A (1997).

Cross Reference: 701 Financial Accounting System
704 Revenue

Approved: December 18, 2013
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