

**THE PRESIDIO TRUST**  
**FINANCIAL RESERVES POLICY**

1. Purpose. The Board of Directors has determined that it is necessary and in the best interest of the Presidio Trust to establish four types of financial reserves: an operating reserve, a replacement reserve, a capital improvement projects reserve, and a technology and operations improvement reserve. These reserves are critical to operating the Presidio as a financially self-sustaining agency. This policy shall be effective immediately upon approval by the Board.

2. Operating Reserve. The Trust shall have an operating reserve for use in emergencies. The purpose of the operating reserve is to sustain the Trust's financial operations in the event of significant unexpected increases in operating expenses or reductions in operating revenues.

2.1. The target for the operating reserve is three months of average monthly operating costs. Operating costs include all recurring, predictable expenses that are used to calculate net operating income. Depreciation, in-kind, non-cash expenses, technology and operational improvement projects, capital improvement projects and replacement projects are not included in the calculation.

2.2. Operating reserves are intended only for unexpected or unusual circumstances and may be used only with the approval of the Board.

3. Replacement Reserve. The Trust shall have a reserve to fund the replacement of its existing physical assets at or near the end of their expected useful life and the investment needed to maintain or improve the facility condition index required to generate market-rate revenue.

3.1. The amount of funds to be set aside in a replacement reserve shall be based upon the age and condition of the Trust's physical assets.

3.2 The replacement reserve amount for revenue-generating buildings is determined by the amount of replacement investment required to achieve or preserve a stable condition index that supports market-rate revenue generation from the assets.

3.3 At the end of each fiscal year, all surplus net operating income shall be placed in the replacement reserve to address the deferred maintenance backlog.

4. Capital Improvement Projects Reserve. The Trust shall have a reserve to fund the capital improvement projects in the Investment Budget.

5. Technology and Operational Improvements Reserve. The Trust shall have a reserve to replace outdated or end-of-life hardware or software and to fund projects that will improve the operations of the Trust.

5.1. The target amount of funds to be set aside in the Technology and Operational Improvements reserve will be 2% of annual operating revenue. However, this reserve shall be last in priority, meaning that it is funded only after the Operating, Replacement and Capital Improvement reserves are funded.

6. Use of Reserve Funds. Funds in the Replacement Reserve, Capital Improvement Projects Reserve, and Technology and Operational Improvements Reserve may be used after approval by the Board of the annual Investment Budget.

7. Implementation. Management shall develop procedures to implement this policy.

Definitions:

Surplus net operating income: Year-end net operating income after reserves that is above that year's Board approved budget.