



Fund Balance Policy Village of Lakeview

Adopted April 08, 2019 by Village Council

Purpose

The purpose of this policy is to specify the size and composition of the Village's desired fund balance and to identify certain requirements for classifying fund balance in accordance with GASB Statement No. 54. It is essential that the Village maintain adequate levels of unreserved fund balance to mitigate risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures and similar circumstances. The fund balance also provides cash flow liquidity for the Village's general operations and working capital for community development and improvement projects.

Policy

Fund balance is created from excess revenues over expenditures. It is a fund's net assets, mostly made up of cash and investments and, unless otherwise restricted, available for spending. There are five components of fund balance, namely:

1. **Non-spendable Fund Balance:** This portion of fund balance is *non-spendable* because of its form, for example inventory and non-financial assets, or because of legal or contractual requirements.
2. **Restricted Fund Balance:** This portion of fund balance is *restricted* due to external limitation placed on the use of the funds. The restriction typically comes from outside the local government as a condition of the revenue source.
3. **Committed Fund Balance:** Fund balance is *committed* if a limitation is set in place by formal action of the Village Council prior to the end of the fiscal year. The limitation remains binding until the Village Council takes formal action to remove it.
4. **Assigned Fund Balance:** Fund balance may be assigned to reflect the intended use of the resource. The assignment of funds may come from the Village Council or from a designee of the Village Council, such as the Village Manager. Less formality is needed to impose, remove, or modify a constraint reflected in Assigned Fund Balance. No funds other than the General Fund may have Unassigned Fund Balance, therefore any amounts remaining in excess of Non-spendable, Restricted, or Committed funds in funds other than the General Fund will automatically be reported as Assigned Fund Balance. If any portion of existing fund balance will be used to eliminate a projected deficit in the subsequent year's budget, this amount also will be categorized as *Assigned Fund Balance*.

5. **Unassigned Fund Balance:** The General Fund, and no other governmental fund, may have resources that cannot be classified in one of the four categories described above. Only the General Fund can report a surplus, as *Unassigned Fund Balance*.

Because Non-spendable and Restricted fund balance are not available for spending due to external enforceable conditions this fund balance policy is focused on the appropriate level of General Fund Unrestricted fund balances, those classified as Committed, Assigned, and Unassigned.

Financial flexibility, provided by adequate fund balance, is needed to cushion the impact of unanticipated emergencies and revenue shortfalls. These include loss of major taxpayers, loss of state revenue sharing, infrastructure emergencies and other economic distresses that serve to impair the Village's ability to deliver essential community services. Without this cushion taxpayers would be subject to millage increases, cuts in services, and/or deferred investment in and maintenance of infrastructure.

Minimum/Maximum Unrestricted Fund Balance

For the General Fund, the budget shall be prepared, and activities managed to result in an ending Unassigned Fund Balance of at least 40% of the average of the past three (3) fiscal year general fund revenues, except in the case of emergency or financial distress. Circumstances of emergency or financial distress shall be reported to the Village Council at the earliest practical time.

When fund balance approached its minimum threshold the following measures, in priority order, shall be used to build up the fund balance.

1. Cut or delay pay-as-you go capital improvement
2. Cut general operating expenses
3. Increase rates and charges funding specific services to make them self-sufficient where possible
4. Increase millage

Maximum Fund Balance

If unassigned fund balance approaches a level that greatly exceeds the fund balance goal, the Village Council will consider using unassigned fund balance for one-time expenditures or expenses which do not result in reoccurring operating costs. The following are examples of such expenditures:

1. Assign funds for future capital improvements
2. Assign funds to other future obligations
3. Paydown future debt

Other Provisions

Maintenance – In the event the unassigned general fund balance is so calculated to be less than the policy anticipates, the Village shall plan to adjust the budget resources in the subsequent fiscal years to restore the balance. Except in extraordinary circumstances, unassigned fund balance should not be used to fund any portion of the ongoing and routine

year-to-year operating expenditures of the Village. It should be used to primarily insure adequate assigned balances, to respond to unforeseen emergencies, to provide cash flow and overall financial stability.

Administrative Responsibilities – The Finance Director shall be responsible for monitoring and reporting the Village's various assignments. The Village Manager is directed to make recommendations to the Village Council on use of the unassigned funds both as an element of the annual budget submission and from time to time throughout the year as needs may arise.