

Village of Three Oaks Fund Balance Policy

Purpose of Fund Balance

The purpose of this policy is to establish a key element of the financial stability of the Village by setting guidelines for the General Fund balance. The unreserved fund balance is an important measure of economic stability. It is essential that the Village maintain adequate levels of unreserved fund balance to mitigate financial risk that can occur for unforeseen revenue shortfalls, economic downturns, emergencies, unanticipated expenditures and similar circumstances. The fund balance will also provide cash flow liquidity for the Village's general operations.

Definitions

Fund Equity- A fund's equity is generally the difference between its assets and its liabilities. In the case of the Village's general fund, only cash and certain liquid assets and certain liabilities are considered in the calculating of the general fund balance. Non-financial fixed assets, such as the streets and long term liabilities are not taken into consideration in the calculation.

Fund Balance- Net assets, or the difference between assets and liabilities in a governmental fund, is considered Fund Balance.

Core Revenue- The average annual revenue. Core Revenue does not include onetime income from grants or other onetime funding sources.

The Governmental Accounting Standards Board (GASB), who establishes financial reporting rules for governments, separates fund balance into five categories based on restrictions in place.

1. **Non spendable-** This classification represents funds that are inherently non spendable. They must be maintained intact due to legal or contractual requirements. This can include capital in a revolving loan fund, assets that will never be converted to cash or assets that will not be converted to cash in this fiscal year.

2. **Restricted-** These funds are limited by externally enforceable limitations on use. This includes limitations from the entity providing the money, such as grantors. This classification also includes funds with limitations placed by law or legislation.
3. **Committed-** The funds have limitations imposed by the Village. The purpose of these funds are decided by the Village Council and requires Council action to change the designated purpose.
4. **Assigned-** Assigned fund balance has limitations based on intended use of the funds. The assigned use can be established by the Council in the financial statements such as fund balance being used in subsequent year's budget.
5. **Unassigned-** Residual net resources, or the balance after all other categories of fund balance. Unassigned fund balance is intended to cover emergencies and provide fiscal stability.

Considerations

The Government Finance Officers Association (GFOA) recommends maintaining a total fund balance of 25% of annual general fund expenditures. This amount varies based on community situations and various risks. GFOA also recommends that communities maintain a minimum of at least two months of regular general fund operating revenues.

Policy

It is the goal of the Village of Three Oaks to maintain an unassigned General Fund balance equal to 30% of core revenue. The Village will consider a balance of less than 25% to be cause for concern and will make appropriate annual cuts to restore the fund balance to the required 30%.

Further, it is the goal of the Village of Three Oaks to maintain a minimum committed General Fund balance of 10% to be used for grant matches and future leveraging opportunities.