



**Village of Buchanan
General Fund**

FUND BALANCE POLICY

Adopted _____

FUND BALANCE POLICY

A. Purpose:

For increased financial stability, the Village of Buchanan (Village) desires to manage its financial resources by establishing a fund balance policy for the General Fund. This will ensure the Village maintains a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls, unexpected one-time expenditures, emergencies and disasters.

B. Background:

The Governmental Accounting Standards Board (GASB) issued GASB Statement Number 54, Fund Balance Reporting and Governmental Fund Type Definitions. Statement 54 abandoned the “reserved” and “unreserved” classifications of fund balance and replaced them with five new classifications for Governmental Funds: non-spendable, restricted, committed, assigned and unassigned. The last three classifications comprise the unrestricted fund balance. The statement went into on June 30, 2011.

In April 2011 the Office of the State Comptroller (OSC) issued guidance on Fund Balance Reporting and Governmental Fund Type Definitions. The guidance addressed how the changes in GASB 54 were being implemented in the Annual Update Document and the effects on local government reporting.

C. Definitions:

1. Fund Balance – Consists of the measurement of available resources and represents the difference between total assets and total liabilities.
2. Non-spendable – Consists of the amounts that cannot be spent because they are in a non-spendable form.
3. Restricted – Consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by certain creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.
4. Committed (Unrestricted) – Consists of amounts constrained to specific purposes by a government itself using its highest-level decision-making authority (Village Board). The Village Board must take formal action before the end of the fiscal year to add or remove a constraint.
5. Assigned (Unrestricted) – Consists of amounts that are subject to a purpose constraint that represents an intended use established by the government’s highest-level decision-making authority (Village Board), or by the Board’s designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund. In funds other than the general fund, assigned fund balance will be the residual amount of fund balance.

6. Unassigned (Unrestricted) – This consists of all balances remaining after considering the other four categories for the general fund and could result in a surplus or a deficit. Use is least constrained in this category. In funds other than the general fund, the unassigned classification should only be used to report a deficit balance.

D. Classifications:

1. Non-spendable
 - Prepaid insurance
 - Inventory
2. Restricted (Reserves)
 - Capital Reserves
 - Tax Stabilization Reserves
 - Debt Reserves
 - Repair Reserves
 - Insurance Reserve, and
 - Other reserves allowed by State statutes.
3. Committed (Unrestricted)
 - OSC believes that in most cases, local governments will not have committed fund balance to report primarily due to the fact that reserves are allowed by State statutes.
4. Assigned (Unrestricted)
 - OSC believes that formal actions by the governing boards (resolutions, ordinances, and local laws) constitute a constraint of resources and will result in an assignment of resources.
 - Encumbrances will typically be considered an assignment of fund balance.
5. Unassigned (Unrestricted)
 - All other unassigned fund balances.

E. Policy:

1. **Reserves**
 - a. The Village shall strive to maintain a level of reserves to guard its citizens against a service disruption because reserves are essential to deal with unforeseen emergencies or changes in condition.
 - b. Funding of reserves can come from surplus funds (excess of revenues over expenditures or one-time revenues) or other sources as designated by the Village Board.
 - c. All expenditures from or uses of reserve will require prior Village Board approval by adoption of a Use of Reserve motion.
 - d. Reserves shall only be used for the purpose for which they are intended.

2. Unassigned (Unrestricted) Fund Balance

- a. The unrestricted unassigned fund balance range for the General Fund shall be not less than 15% of the total adopted budgeted expenditures of the General Fund.
- b. The Village Administrator shall annually calculate and verify the Village Board's compliance with this policy. In determining compliance, the following formula will be used: the audited balance available in the unrestricted unassigned fund balance of the Village's General Fund for the most recently audited fiscal year, divided by the adopted expenditure budget for the ensuing fiscal year for the Village's General Fund.
- c. The Village Administrator shall report annually to the Village Board the results of the calculation and make recommendations for the use of funds in the event of a surplus or the replenishment of funds in the event of a deficit.
- d. **Surplus:** In the event the unrestricted unassigned fund balance of the Village's general fund exceeds the 15% requirement, the excess may be utilized for any lawful purpose approved by the Village Board. In order to minimize the long-term effect of such use, the excess shall be appropriated to fund one-time expenditures or expenses which do not result in recurring operating costs, capital projects or other onetime costs including the establishment or increase in legitimate restrictions (reserves) of fund balance.
- e. **Deficit:** In the event the unrestricted unassigned fund balance for the Village's General Fund falls below the minimum requirement of 15% for any fiscal year, the Village Administrator shall prepare and submit to the Village Board a plan to restore the balance to the minimum target level in the next budget year or within three years.

3. Application of Funds:

In instances where expenditures are incurred that will require the funding sources to be comprised of two or more types of fund balance categories, the order of exhaustion of the fund will be as follows:

1. Restricted
2. Committed
3. Assigned
4. Unassigned

F. Review:

This policy will be presented by the Administrator annually for review and adoption by the Village Board of Trustees.