

## **FUND BALANCE POLICY**

### **I. Purpose.**

The Board of Trustees seeks to assure that the fiscal integrity of the Clarkston-Independence District Library (“Library”), a community resource, can be maintained currently and well into the future. The Board recognizes that the maintenance of a fund balance (aka reserve funds and contingency fund) is essential to the preservation of the financial health of the Library. The Library maintains reserves in a Fund Balance to support and ensure its operational viability, service provision and financial stability.

This policy provides guidance concerning the desired level of Fund Balance maintained by the Library to provide financial stability, cash flow for operations, resources for future capital projects, and, the assurance that the Library will be able to respond to emergencies with fiscal strength.

The Fund Balance can be used for purposes approved by the Board of Trustees, including, but not limited to:

- A. Provide cash flow for operational needs;
- B. Offset significant economic downturns or revenue shortfalls including loss of state aid or reduction of penal fines;
- C. Provide for contingent liabilities (tax tribunal reductions);
- D. Provide funds for emergency or other unanticipated needs;
- E. Provide for future capital needs, including building repairs and maintenance, technology and special projects; and,
- F. Maintain Investment grade bond ratings.

### **II. Definitions.**

Fund Balance refers to the difference between assets and liabilities in governmental entities. It serves as a measure of the financial resources available to the Library to budget or spend in the future.

A Fund Balance policy establishes a minimum and/or maximum level (target range) at which the projected end-of-year Fund Balance should be maintained.

### **III. Categories of Fund Balance.**

The Fund Balance will be reported in the following categories based on the definitions and criteria set forth in GASB Statement No. 54:

A. *Non-Spendable* – includes amounts that cannot be spent because they are either (a) not in a spendable form (i.e., Prepaid Expenses) or (b) legally or contractually required to be maintained intact (i.e., principal balance of an endowment). Non-spendable amounts will be determined before all other classifications and consist of the following items:

1. The balance of any long-term outstanding balances due from others (including other internal funds);
2. The value of prepaid items and any inventory balances;
3. The principal of any permanent funds held legally or contractually required to be maintained intact; and,
4. The balance of any nonfinancial assets held for sale.

B. *Restricted* – includes amounts that can be spent only for the specific purpose stipulated by external resource providers (grantors, donors) or through enabling legislation.

C. *Committed* – includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Trustees. Amounts can only be moved from the category by formal action of the Board.

D. *Assigned* – includes amounts intended to be used for a specific purpose but do not meet the criteria to be classified as restricted or committed.

E. *Unassigned* – includes the residual amount not allocated to other classifications and are available and expendable for any Library purpose; also known as Contingency Fund.

When multiple categories of fund balances are available for expenditure (e.g., a project is being funded partly by a grant, funds set aside by the Board, and unassigned fund balance), the Library will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

### **IV. Recommended Amount of Fund Balance.**

While it is prudent and necessary to maintain adequate reserves in support of the Library's operations and viability, it is not appropriate or intended that excessive amounts of taxpayer moneys be held in reserve. A reasonable, stable, fund balance is recognized as an element of effective long range planning.

The Library's primary objectives for establishing a reasonable fund balance are to maintain an adequate level of financial resources to protect against reducing service levels, avoid borrowings

to meet cash flow needs due to revenue shortfalls or unanticipated emergencies, or, other necessary expenditures that may tend to impair the fiscal integrity of the Library.

A. *Unassigned (Contingency) Fund Category* – It is the goal of the Library to maintain no less than three (3) and no more than six (6) months of annual operating expenses in the Contingency Fund.

Contingency Fund balances over the maximum at the end of the fiscal year may be transferred by the Board through Board resolution to the Committed or Assigned fund categories, to be used for maintenance and repair, construction, or other special projects/programs.

B. *Committed Fund Category* – The Committed Fund category will be funded, as noted above, by Board resolution to support commitments to future capital projects determined by the Library’s Strategic Plan. Capital Projects will include expenditures in excess of \$5,000 with a useful life of at least two (2) years.

C. *Other Fund Categories* – Other fund balances will be determined by stipulated restrictions or Board or management decision, as defined.

**V. Maintaining Fund Balance.**

Fund balances may fall occasionally outside of the target ranges because of special projects, emergencies, and other extenuating circumstances. The Library will reduce recurring expenditures or pursue other funding sources to replenish the funds to the minimum level within a reasonable time frame, typically two (2) years.

**VI. Annual Review of Fund Balance.**

As an integral part of the annual budgeting process, consistent with prudent budgeting practices necessary for the continued services of the Library, the Board of Trustees will fully review, consider and determine the appropriate level of Fund Balance.

*Library Board Approved February 10, 2020*