

**EXHIBIT A**  
**Section 28-20: Fund Balance Policy**

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## **FUND BALANCE POLICY**

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### **PURPOSE:**

The Board of Trustees (the “Village Board”) of the Village of Bannockburn (the “Village”) believes that sound financial management requires sufficient funds be maintained by the Village for unanticipated expenditures and revenue shortfalls during the course of the fiscal year. Generally, fund balances should be maintained at levels that provide adequate cushioning in the event of economic downturns, emergencies or unanticipated revenue shortfalls. Low fund balances will permanently reduce investment income and have a negative impact on the Village’s credit rating. Excessive fund balances may reflect stockpiling by management or a lack of financial planning.

The Fund Balance Policy is created to enhance the usefulness of fund balance information by providing clearer fund balance classification that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Village has created this fund balance policy to provide a reserve for the following funds: General Fund, Water Fund and Sewer Fund. The Fund Balance Policy follows generally accepted accounting principles (GAAP) and has been developed to:

- Ensure stable service delivery
- Provide reserves to meet unanticipated nonemergency expenditures
- Smooth the effects of annual changes in tax rates and/or structure
- Provide sufficient cash flow for financial needs
- Demonstrate financial stability and to preserve the Village’s bond rating.

### **RATIONALE**

The Fund Balance Policy is intended to provide guidelines during the preparation and execution of the annual budget to ensure that sufficient reserves are maintained for unanticipated expenditures or revenue shortfalls. It also is intended to preserve flexibility throughout the fiscal year to make adjustments in funding for programs approved in connection with the annual budget.

The Fund Balance Policy should be established based upon a long-term perspective recognizing that stated thresholds are considered minimum balances. The main objective of establishing and maintaining a Fund Balance Policy is for the Village to be in a strong fiscal position that will allow for better position to weather negative economic trends.

### **POLICY STATEMENT**

The fund balance is the difference between assets and liabilities reported in a governmental fund. Fund balance measures the net current financial resources available to finance expenditures of future periods. A sufficient fund balance allows the Village to meet its contractual obligations, mitigate negative revenue implications of federal or state budget actions, mitigate the effects of economic downturns, fund disaster or emergency costs, provide funds for cash flow timing discrepancies and fund non-recurring expenses identified as necessary by the Village Board of Trustees.

The Governmental Accounting Standards Board (GASB) issued Statement Number 54, "Fund Balance Reporting and Governmental Fund Type Definitions" effective for periods after June 15, 2010. The objective of this Statement was to enhance the usefulness of fund balance information by providing clearer fund balance classification that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes limitations on the purpose for which the Fund balance can be used. Fund balance reporting will be in accordance with the authoritative pronouncements and may include the following categories:

- I. **Non-spendable Fund Balance.** The portion of a Governmental Fund's net assets that are not available to be spent, either short term or long term, in either form or through legal restrictions. An example of these funds include assets that cannot be spent due to their form (inventory, prepaid items, and long term receivables) or funds that legally or contractually must be maintained intact (endowment principal).
- II. **Restricted Fund Balance.** A restricted fund balance consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation. Special revenue funds are by definition restricted or committed for those specified purposes. Additionally, this would include, but not limited to, bond capital project funds and debt service funds. These limitations are typically imposed by parties altogether outside of the Village, such as creditors, grantors, contributors or through laws and regulations. Limitations can also be imposed when revenue being raised for a particular purpose (i.e., a gas tax imposed for road repair and construction) pursuant to enabling legislation.
- III. **Committed Fund Balance.** The committed fund balance consists of funds that are set aside for a specific purpose by the Village Board as the Village's ultimate decision-making authority. The Village Board commits fund balances by passing an ordinance or resolution. The same formal action must be taken to remove or change the limitations placed on the funds. Committed fund balances are often used with "stabilization funds" or rainy day funds. In addition, the limitations imposed by the Village Board can only be removed by the Village Board.
- IV. **Assigned Fund Balance.** Assigned fund balances are used to describe the portion of the fund balance that is intended for a particular use. Assigned fund balances can be imposed by the Village Board, a finance committee or an official designated for that purpose. As a practical matter, existing resources that are expected to be used in connection with open contracts and purchase orders would be classified in this category. Assigned fund balances may be used to offset a gap in the budget stemming from a decline in revenue. Assigned funds cannot cause a deficit in the unassigned fund balance.

- V. **Unassigned Fund Balance.** The final component of a fund balance is its unassigned fund balance. This is the net balance after consideration of the other four above referenced categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

The last three categories (committed, assigned and unassigned), noted above, together comprise the *unrestricted fund balance*. The unrestricted fund balance is typically the Village's "reserves."

### **Responsibility**

It is the responsibility of the Finance Director to report all non-spendable and restricted funds appropriately on the Village's Financial Statements.

### **Classifying Fund Balance Amounts**

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it. When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second, and unassigned funds last; unless the Village Board has provided otherwise in its commitment or assignment actions.

### **Authority to Commit Funds**

The Village Board has the authority to set aside funds for a specific purpose. Any funds set aside as Committed Fund Balance requires the passage of an ordinance or resolution. The passage of an ordinance or resolution must take place prior to April 30th of the applicable fiscal year. If the actual amount of the commitment is not available by April 30th, the ordinance or resolution must state the process or formula necessary to calculate the actual amount as soon as information is available.

### **Authority to Assign Funds**

Upon passage of the Fund Balance Policy, direction is given to the Village's Manager or Finance Director to assign funds for specific purposes. Any funds set aside as Assigned Fund Balance must be reported to the Village Board at their next regular meeting. The governing board has the authority to remove or change the assignment of the funds with a simple majority vote.

The Village Board has the authority to set aside funds for the intended use of a specific purpose. Any funds set aside as Assigned Fund Balance requires a simple majority vote and must be recorded in the minutes. The same action is required to change or remove the assignment.

## **TARGET FUND BALANCE POLICIES**

### **Unassigned Fund Balance**

Unassigned Fund Balance is the residual amount of Fund Balance in the General Fund. It represents the resources available for future spending. An appropriate level of Unassigned Fund Balance should be maintained in the General Fund in order to cover unexpected expenditures and revenue shortfalls.

Unassigned Fund Balance may be accessed in the event of unexpected expenditures up to the minimum established level upon approval of a budget revision by the Village Board.

In the event of projected revenue shortfalls, it is the responsibility of the Finance Director to report the projections to the Village Board on a quarterly basis and shall be recorded in the minutes.

Any budget revision that will result in the Unassigned Fund Balance dropping below the minimum level will require the approval of 2/3 vote of the Village Board.

### **Emergency Reserve**

Maintaining an Emergency Reserve is a necessity for sound financial management and fiscal accountability. The Village Board has the authority to establish an Emergency Reserve that will be a Committed Fund Balance. An Emergency Reserve is established for the purpose of providing funds for an urgent event that affects the health and safety residents (e.g. floods, fires, storm damage, etc.). The minimum level for the Emergency Reserve is [REDACTED] % of General Fund operating budget which includes the annual debt service and excludes capital expenditures. The recognition of an urgent event must be established by the Village Board or their designee (e.g. Village Manager). If established by the governing board's designee, the specific urgent event must be reported to the Village Board at their next meeting. A budget revision must be approved by the Village Board. In the event that the balance drops below the established minimum level, the Village Board will develop a plan to replenish the Emergency Reserve balance to the established minimum level within two years.

### **Operating Reserve**

The Village will maintain an additional General Fund "Operating Reserve" with an upper goal of an additional [REDACTED] % of the annual General Fund Operating Budget which includes the annual debt service and excludes capital expenditures. This amount approximates [REDACTED] months of working capital. The Operating Reserve is intended to be a reserve for unexpected events whose impact exceeds \$500,000 such as failure of the State to remit revenues to the Village, unexpected mandates, unexpected loss of State Shared revenues, continuance of critical Village services due to unanticipated events, or to offset the unexpected loss of a significant funding source for the remainder of the fiscal year.

Any use of the Operating Reserve funds must be approved by the Village Board and include a repayment plan that projects to restore the Operating Reserve to the [REDACTED] % level within two fiscal years following the fiscal year in which the event occurred.

### Enterprise Water Operating Reserve

The Village of Bannockburn's Enterprise Operating Reserve working capital will be maintained to provide the Village with a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing. The cash reserve balance (working capital) goal for the water enterprise operating funds will be at least       % of the actual operating expenditures for the fiscal year.

### Enterprise Water Debt Stabilization Reserve

The Village will maintain a "Debt Stabilization Reserve" with an upper goal of approximately one hundred       % of the maximum annual average debt service payment, principal and interest, for the current year. The Debt Stabilization Reserve is intended to provide additional security to insure the Village's ability to meet debt service obligations. In the event the Debt Stabilization Reserve is used, the Village shall strive to restore the fund to the defined level within the next three fiscal years following the fiscal year in which the fund was used.

### Water Asset Maintenance Reserve

The Village will maintain an additional "Asset Maintenance Reserve" with an upper goal equal to two percent       % of the enterprise fund infrastructure assets. The Asset Maintenance Reserve may be used to provide funding for the repair and maintenance of critical infrastructure. In the event the Asset Maintenance Reserve is used, the Village shall strive to restore the fund to the defined level within the next three fiscal years following the fiscal year in which the fund was used.

### Sewer Fund Reserve

The Village's goal for the sewer fund is to remain self-sufficient. A reserve cash balance policy is recommended to ensure positive cash flow for operations. The minimum goal is to maintain a positive fund reserve balance and work towards 30 days of operating expenditures, excluding capital and debt service.