

**Village of Johnsburg
Fund Balance Policy
Adopted: September 19, 2017**

A. Purpose and Goals

The purpose of this Fund Balance Policy is to define fund balance classifications that establish a hierarchy based on the extent to which the Village must observe constraints imposed upon use of the resources that are reported by the governmental funds. More detailed fund balance financial reporting and the increased disclosures will aid the user of the financial statements in understanding the availability of resources.

This policy establishes a minimum level (target range) at which the projected end-of-year fund balance should be maintained to provide financial stability, cash flow for operations, and the assurance that the Village will be able to respond to emergencies with fiscal strength.

Fund Balance is defined as the excess of assets over liabilities. The fund balance will be composed of four primary categories: 1) Nonspendable Fund Balance, 2) Restricted Fund Balance, 3) Assigned Fund Balance and 4) Unassigned Fund Balance.

B. Definitions

1. *Governmental Funds* - are used to account for all or most of the Village's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general capital assets (capital projects funds) and the servicing of general long-term debt (debt service funds). The General Fund is used to account for all activities of the Village not accounted for in another fund.

2. *Fund Balance* – the difference between assets and liabilities in a Governmental Fund.

3. *Nonspendable 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 (e.g, prepaid items)

4. *Restricted Fund Balance* – the portion of Governmental Fund's net assets that are subject to external enforceable legal restrictions (e.g., motor fuel tax revenue).

5. *Assigned Fund Balance* – the portion of Governmental Fund's net assets that are constrained by the Village management's intent to be used for specific purposes, but are not restricted.

6. *Unassigned Fund Balance* – available expendable financial resources in a governmental fund that are not the object of tentative management plan (i.e., assignments). Positive unassigned fund balance can only be reported in the general fund. Any residual fund balance in all other governmental funds is assumed at a minimum to be assigned for the purpose of the fund.

C. Minimum Unassigned Fund Balance Levels

This policy applies to the Village's governmental funds as follows:

1. General Fund – The General Fund is a major fund and the general operating fund of the Village. It is used to account for all financial resources except those that are accounted for in another fund. Each year a portion of the spendable fund balance will be determined as follows:

- a.) Restricted - A portion of the fund balance may be restricted through external legal requirements.
- b.) Assigned - A portion of the fund balance may be assigned through formal action of the Village's Board of Trustees through a resolution or ordinance adopted before the end of the fiscal year or by action of the Village Administrator. The amount will represent the funds the Village intends to use for a specific purpose. This will be adjusted annually.
- d.) Unassigned - The unassigned fund balance will be reviewed annually during the budget process. This unassigned fund balance will be maintained at a target level of 25% to 34% (3 – 4 months) of annual budgeted operating expenditures, categorized as follows:
 - i.) 10-14% - Economic Uncertainty. This represents the amount intended to finance swings in revenues and costs due to changing economic conditions.
 - ii.) 10-14% - Extreme Events. This amount allows the Village to respond quickly and decisively to unexpected events such as natural disasters.
 - iii.) 5-6% - Working Capital. This represents the amount used to cushion the Village against gaps in the revenue cycle or expenditure spikes associated with routine Village operations.

Balances in excess of 34% of annual budgeted expenditures may be transferred to the Capital Improvement Plan Reserve to support future capital projects.

2. Special Revenue Funds – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes other than debt services or capital projects.

Financing for most special revenue funds is provided by a specific annual property tax levy. In some cases, financing is received from a motor fuel tax imposed by the state. These proceeds are devoted exclusively to the purposes for which the special tax was authorized.

a.) Motor Fuel Tax Fund – this is a fund established to account for revenues derived from a specific motor fuel allotment and expenses of these monies for the highways and streets throughout the Village. Per state statute, Motor Fuel Tax Fund program revenue is legally restricted to the purpose of the fund. Therefore, the entire balance of the fund will be restricted. Furthermore, the fund balance of the Motor Fuel Tax Fund is 100% committed for maintenance and construction. Increases and decreases in fund balances are associated with the specific projects planned. Therefore, no specific target range is established for this fund.

3. Capital Project Funds – This fund is established to account for and report the financial resources that are restricted or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, excluding those types of capital related outflows financed by proprietary funds.

Capital Project Fund balances will be considered restricted or assigned depending on the intended source/use of the funds.

D. Flow Assumptions

Some projects (funds) are funded by a variety of resources, including both restricted and unrestricted (assigned and unassigned). When restricted funds exist, those funds are used first, then unrestricted. For unrestricted funds, assigned funds are used first, then unassigned.

E. Authority

Assigned Fund Balance – A self-imposed constraint on spending the fund balance must be approved by the Village Board based on the Village’s intent to use fund balance for a specific purpose.

F. Minimum Targets

Management will monitor the major revenue collections and the amount of cash available by reviewing the monthly financial reports. During the year, if revenue projections suggest that revenue will not meet expectations and the fund targets will not be met by the end of the year, the Village Administrator will take the following actions to reach the goals established in the adopted budget:

- Review expenses with the Village Board,
- Reduce capital asset expenditures,

- Reduce operational expenditures, where appropriate, while maintaining the adopted budget goals,
- Present to the Village Board other expenditure control options, including those that may modify the goals established in the adopted budget.

G. Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. Proprietary funds do not report fund balance, but rather net assets which are comprised of the following categories:

1. Net Investment in Capital Assets – the portion of a proprietary fund’s net assets that reflects the fund’s net investment in capital assets less any amount of outstanding debt related to the purchase/acquisition of capital assets. Related debt, for this purpose, includes the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of capital assets.
2. Restricted Net Assets – the portion of a proprietary fund’s net assets that is subject to external enforceable legal restrictions (grantor, contributor or bond covenants).
3. Unrestricted Net Assets – the portion of a proprietary fund’s net assets that is neither restricted nor invested in capital assets (net of related debt).

The Village currently operates the following proprietary funds:

Water and Sewer Fund - this fund is used to account for the provision of potable water and wastewater treatment services to the residents of the Village. The unrestricted net assets will be maintained at a level of 25% to 34% of budgeted annual operating expenditures.

H. Exceptions to the Policy

If the Village Board adopts a budget that does not meet the parameters of this policy, then the budget will include a plan for adhering to this Policy within a ten-year period.