

# VILLAGE OF ONTONAGON

## Fund Balance Policy

### **Purpose**

The purpose of this policy is to specify the size and composition of the Village's desired fund balance and to identify certain requirements for classifying fund balance in accordance with GASB Statement No. 54. It is essential that the Village maintain adequate levels of unreserved fund balance to mitigate risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures and similar circumstances. The fund balance also provides cash flow liquidity for the Village's general operations and working capital for community development and improvement projects.

### **Policy**

Fund balance is created from excess revenues over expenditures. It is a fund's net assets, mostly made up of cash and investments and, unless otherwise restricted, available for investment spending such as real estate or may be used for interfund loans. There are five components of fund balance, namely:

1. **Non-spendable Fund Balance (Assets & Inventory).** This portion of fund balance is *nonspendable* because of its form, for example inventory and non-financial assets, or because of legal or contractual requirements.
2. **Restricted Fund Balance (Bond Redemption Funds).** This portion of fund balance is *restricted* due to external limitations placed on the use of the funds. The restriction typically comes from outside the local government as a condition of the revenue source.
3. **Committed Fund Balance (Matching Funds).** Fund balance is *committed* if a limitation is set in place by formal action of the Village Council prior to the end of the fiscal year. The limitation remains binding until the Village Council takes formal action to remove it.
4. **Assigned Fund Balance (Special Revenue and Proprietary Fund Reserves).** Fund balance may be *assigned* to reflect the intended use of the resource. The assignment of funds may come from the Village Council or from a designee of the Village Council. Less formality is needed to impose, remove, or modify a constraint reflected in *Assigned Fund Balance*. No funds other than the General Fund may have Unassigned Fund Balance, therefore any amounts remaining in excess of Nonspendable, Restricted, or Committed funds in funds other than the General Fund will automatically be reported as *Assigned Fund Balance*. If any portion of existing fund balance will be used to eliminate a

projected deficit in the subsequent year's budget, this amount will also be categorized as *Assigned Fund Balance*.

5. **Unassigned Fund Balance (General Fund Reserves).** The General Fund, and no other governmental fund, may have resources that cannot be classified in one of the four categories described above. Only the General Fund can report a surplus, an *Unassigned Fund Balance*.

Because Nonspendable and Restricted fund balances are not available for spending due to external enforceable conditions, this fund balance policy is focused on the appropriate level of General Fund Unrestricted fund balances, those classified as Committed, Assigned and Unassigned.

Proceeds of any real estate sales must be returned to fund balance to be recorded in the fund income statement (this could be a net against the general fund expenditure should the sale occur during the year of a deficit budget).

### **Utilization of Fund Balance**

The policy regarding fund balance shall be that when multiple classifications are available and appropriate for particular expenditures, fund balance will be utilized first from the most restrictive category working toward unassigned fund balance. Relative "restrictiveness" of fund balance shall proceed from the most to least in order of the five classifications listed in this policy, from one to five above.

### **Minimum Fund Balance**

For the General Fund, the budget shall be prepared and activities managed to result in an ending unassigned fund balance of at least **20%** of the average of the past two (2) audited fiscal years of General Fund revenues from property tax collections and State revenue sharing, except in the case of emergency or financial distress. Circumstances of emergency or financial distress shall be reported to the Village Council at the earliest practical time.

### **Maintaining Fund Balance**

Within thirty (30) days of receipt of the annual financial audit, the Clerk/Treasurer shall report the minimum fund balance to the Finance Committee. When fund balance approaches its minimum threshold the following measures, in priority order, shall be used to build up fund balance:

1. Cut or delay pay-as-you-go capital improvements.
2. Cut general operating expenses.
3. Increase rates and charges funding specific services to make them self-sufficient where possible.
4. Increase millage.

### **Restoring Fund Balance**

In the event the unassigned general fund balance is so calculated to be less than the policy anticipates, the Village shall plan to adjust the budget resources in the subsequent fiscal years to restore the balance. The Village Council shall appropriate monies to restore the Fund Balance, in full, the next fiscal year. In the event the minimum Fund Balance deficit exceeds \$10,000, the appropriation to restore the Fund Balance shall be not less than 20% of the minimum fund balance shortfall or \$10,000, whichever is greater. The minimum Fund Balance shall be restored within five years. Except in extraordinary circumstances, unassigned fund balance should not be used to fund any portion of the ongoing and routine year-to-year operating expenditures of the Village. It should be used to primarily insure adequate assigned balances, to respond to unforeseen emergencies, to provide cash flow and overall financial stability.

### **Maximum Fund Balance**

In the event that Unassigned Fund Balance exceeds the maximum of 100% of the general fund expenses, the excess shall be transferred, in order of preference, into a Capital Projects Fund (401), a Budget Stabilization Fund (102) or the Council may consider a reduction to the millage rate.

### **Other Provisions**

***Administrative Responsibilities.*** The Clerk/Treasurer shall be responsible for monitoring and reporting the Village's various assignments. The Village Manager is directed to make recommendations to the Finance Committee of the Village Council on use of the unassigned funds both as an element of the annual budget submission and from time to time throughout the year as needs may arise.

***Annual Report.*** The Clerk/Treasurer shall annually submit a report to the Finance Committee of the Village Council outlining the status of the Village's various components of the fund balance. This report shall be submitted within thirty days of receipt of the annual financial audit. The Clerk/Treasurer shall also provide status reports at other times to the Finance Committee or the Village Council as may be requested.

**MINIMUM FUND BALANCE WORKSHEET: FY 21-22**

Minimum Unassigned Fund Balance shall equal 20% of the average General Fund revenues for tax collections and revenue sharing from FY 18-19 and 19-20 as reported in the most recent Audit.

	<u>FY 19-20</u>	<u>FY 18-19</u>
Tax Collections	\$313,988	\$303,974
Revenue Sharing	\$141,554	\$158,304
Totals	\$455,554	\$489,278

2 Year Average Revenues = \$472,410

Minimum Unassigned Fund Balance (20%) = \$94,482

Audited Unassigned Fund Balance = \$646

Unassigned Fund Balance Deficit = \$93,836

**MINIMUM BUDGET APPROPRIATION;**

For an Unassigned Fund Balance Deficit of less than \$10,000, the required Budget Appropriation shall be equal to the Unassigned Fund Balance Deficit.

For an Unassigned Fund Balance Deficit of greater than \$10,000, the required Budget Appropriation shall be not less than 20% of the Deficit or \$10,000 whichever is greater.

**Minimum Required Budget Appropriation (<20% of Deficit) = \$18,767**