

6.12 Fund Balance Policy

Purpose

Adequacy of general fund balance is an indicative measure of financial health, and an important consideration in long-term financial planning for the Richland Community Library.

The Library's general fund balance is the accumulated net assets (the excess of revenues over expenses over the Library's lifetime), and consists of cash and other investments.

It is the Richland Community Library's policy to allocate accumulated public funds in our General Fund in a manner which will further the Library's long-term objectives, while meeting cash flow needs of the Library, in conformance to all state statutes, local ordinances, and governmental accounting standards regarding the management of public funds.

Scope

The Richland Community Library's fund balance policy applies to the accumulated general fund financial assets of the Richland Community Library.

Objectives

The objective to be addressed by adopting a policy is to guide fund balance decision-making by the Board of Richland Community Library, and to encourage long-term planning and stewardship of the Library's accumulated fund balance:

- A. Maintain the unassigned fund balance in a suitable range to enable short-term buffer against unforeseen revenue or expense issues.
- B. Facilitate deliberate decisions by the Board regarding future application of available funds, i.e. special programs, service enhancements, planned capital expenditures and facility improvements.
- C. Define a robust process for documenting Board decisions and recording fund assignments.
- D. Align Library financial practice with Government Accounting Standards Board Statement 54.

Fund Balance Categories Defined:

Government Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Definitions*, defines fund balance categories as follows. Categories below are listed in descending order of restriction:

- A. **Non-spendable:** permanently precluded from conversion to cash.
- B. **Restricted:** constrained to specific use or purpose by external enforceable means, for example, legislation, constitutional provisions, or as a condition of the source of funds. An example may include the principal of donated funds being held in trust by an institution such as the Kalamazoo Foundation as

nonspendable, with the stipulation that investment proceeds from that principal would be available for use by the Library.

- C. **Committed:** imposed by 'highest decision-making authority, and can only be modified or removed by action of that same body. In the Library's case, the Board of Trustees is the highest decision-making authority.
- D. **Assigned:** a fund balance amount may be *assigned* if intended for specific purpose by RCL management, for example the RCL Board of Trustees or Director.
- E. **Unassigned:** available for any purpose.

Fund Use Categories

This policy encourages the Board to regularly consider the Library's needs to allocate accumulated net assets over multiple years for key purposes:

- A. special programs, i.e. special uses of proceeds from donated funds
- B. service enhancements, i.e. extended hours of operation
- C. planned capital expenditures, i.e. elevator maintenance/upgrade or IT infrastructure improvements
- D. facility improvements, i.e. new roof, sidewalk repairs, egress stairs

Operational Elements for Policy Implementation

The following are operational elements to be implemented by the Board of Trustees for fund balance management in accordance with this Policy:

- A. The Board will document a review of fund balances not less than once per year, and more frequently as needed.
- B. The Board should determine and manage to the appropriate level of unassigned fund balance per the guidance below:
 - a. Unassigned fund balance should be managed within a range, based on the level of annual operating expenses.
 - b. Minimum unassigned fund balance is **50%** of annual operating expenses.
 - c. Maximum unassigned fund balance is **75%** of annual operating expenses.
- C. Decisions to designate general fund amounts to GASB categories and associated purposes shall require a vote of the Board of Trustees in open session, and are to be documented in Board minutes and in accounting journal entries for annotation in annual financial audits.
- D. Use of funds classified as restricted, committed or assigned requires the following:
 - a. Funds from these categories should be budgeted as unique revenue and expense categories for the year(s) in which they are intended to be spent.
 - b. Reconciliation should be documented to confirm actual spending of fund amounts vs. the allocated/planned fund amounts, and any disparity should be noted appropriately in Board minutes and financial records.

Effective Date

This policy shall become effective on Month xx, 2015, as adopted by the Richland Community Library Board of Trustees.