5.20 FUND BALANCE POLICY

Richland Community Library

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. This policy provides guidance concerning the desired level of fund balance maintained by the Library to manage financial risk that can occur from unforeseen cash flow shortages, unanticipated expenditures, and provide a minimum level of cash flow reserves for day-to-day operations. This policy complies with Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Definitions. The fund balance serves as a financial stabilization reserve to ensure continuity of library services during periods of revenue volatility or unexpected expenditure needs.

The library shall maintain a fund balance in order to:

- Provide sufficient cash flow for daily financial needs.
- Offset significant economic downturns or temporary revenue shortfalls.
- Provide funds for unforeseen expenditures related to emergencies.
- Accumulate sufficient funds for major future capital improvements.

Fund Type Definitions

The following definitions will be used in reporting activity in governmental funds across the library. The library may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

- General Fund - for all financial resources not accounted for and reported in another fund.
- Special Revenue Fund - for proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.
- Debt Service Fund - for all financial resources restricted, committed or assigned to expenditure for principal and interest.
- Capital Projects Fund - for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.
- Permanent Fund - for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support library purposes.

Fund Balance Categories

Fund balance will be reported in government funds under the following categories using the definitions provided by GASB Statement No. 54:

- Non-Spendable Fund Balance - resources that cannot be used to liquidate current liabilities because the related assets are either not in spendable form (e.g. prepaids, inventory, and long-term receivables) or because the related assets are required to be maintained intact (e.g. the corpus of an endowment).
- Restricted Fund Balance - amount that is restricted to use for a specific purpose by externally imposed requirement or enabling legislation.
- Committed Fund Balance - amount that is designated to be used for specific purposes as determined by formal action of the Library Board.
- Assigned Fund Balance - in the General Fund represents amounts that are intended to be used for specific purposes as designated by the Library Director and is subject to Board review and approval in accordance with Library policy.
- Unassigned Fund Balance - residual amounts not classified as non-spendable, restricted, committed, or assigned.

Prioritization of Fund Balance Use

The Library applies restricted resources first when expenditures are incurred for purposes for which both restricted and unrestricted resources are available. Within unrestricted fund balances, committed resources are reduced first, followed by assigned, and then unassigned fund balances.

Operating budget surpluses may be assigned to long-term capital needs, capital replacement planning, or other Board-designated priorities. In the event an unassigned fund balance exceeds 100% of annual operating expenditures, the Library Board will review and may develop a plan for the use of excess funds consistent with long-term strategic and capital planning priorities.

Minimum Balance

- The Library is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. This policy requires a reserve for economic uncertainties, consisting of unassigned amounts, equal to no less than three (3) months of general fund operating expenditures (approximately 25%).

- Unassigned Fund Balance may be accessed for unexpected expenditures, provided that the balance does not fall below the established minimum level, upon approval of a budget amendment by the Board of Trustees.
- Use of fund balance below the established minimum level requires approval by the Library Board through formal budget amendment or resolution. Such use shall be limited to extraordinary circumstances including, but not limited to, emergency operating needs or Board-approved financial stabilization purposes. Any drawdown below the minimum threshold shall include a plan for replenishment within a reasonable timeframe consistent with this policy and approved by the Library Board.

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