

RE: FUND BALANCE POLICY

POLICY : #204

ORIGINAL DATE: 05/08/2012

APPROVED BY: Board of Trustees Resolution

REVISION DATE: 04/05/2022

1. **Purpose**

1.1 The Village Board of Trustees recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the Village and is strategically important for both the Village and the taxpayer. A prudent fund balance helps mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and assists in stabilizing future tax rate increases. This policy establishes goals and provides guidance concerning the desired level of fund balance to be maintained by the Village.

2. **Background**

2.1 The Governmental Accounting Standards Board (GASB) issued GASB Statement Number 54, Fund Balance Reporting and Governmental Fund Type Definitions. Statement 54 abandons the reserved and unreserved classifications of fund balance and replaces them with five new classifications for Governmental Funds: (i) non-spendable, (ii) restricted, (iii) committed, (iv) assigned and (v) unassigned. The requirements of GASB Statement Number 54 will be reflected in Village Financial Statements beginning May 2012.

3. **Definitions**

3.1 Fund balance is a measurement of available financial resources and represents the difference between total assets and total liabilities in each fund.

3.2 GASB Statement Number 54 distinguishes fund balance classifications based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts will be reported by the following classifications:

- (i) Non-spendable – amounts that cannot be spent because they are in a non-spendable form (e.g. prepaid insurance) or legally or

contractually required to be maintained intact (e.g. funds encumbered by purchase order).

- (ii) Restricted – amounts limited by external parties, or legislation (e.g. grants or donations).
- (iii) Committed – amounts intended to be used for a specific purpose; intent must be expressed by the Board of Trustees by resolution and cannot be changed except by formal action of the Board.
- (iv) Assigned – amounts intended to be used for a specific purpose; intent can be expressed by the Board of Trustees or by the Budget Officer.
- (v) Unassigned – amounts available for use or not restricted in any manner. These amounts are reported only in the General Fund.

4. **Guidelines**

- 4.1 The maintenance of a Fund Balance in the Village's General Fund is to provide stability and flexibility and to respond to unexpected circumstances or events requiring the appropriation of funding.
- 4.2 the Village's unassigned General Fund balance shall be 15-20 percent of the budgeted expenditures for the ensuing fiscal year. An unassigned fund balance of 15-20 percent of the expected expenditures is deemed to be reasonable to support normal operating costs, provide fiscal stability, react to unplanned situations, and to help to maintain the Village's bond rating.
- 4.3 Provided the unassigned portion of the General Fund balance remains within or above the 15-20 percent policy, the Board of Trustees may consider applying certain amounts for a current year supplemental appropriation to the General Fund operating budget, appropriating amounts for capital expenses, and applying amounts to mitigate tax rate increases.

5. **Fund Balance Classifications – Governmental Funds**

- (i) Non-spendable Fund Balance:
 - Balances in the Prepaid expenses – funds committed to for future accounting periods.
- (ii) Restricted Fund Balance:

- Reserve for Debt Service – is used to establish a reserve for the purpose of retiring the outstanding obligations of the capital improvement or project that was financed by obligations that remain outstanding..

(iii) Committed Fund Balance:

Consists of amounts that are subject to a purpose constraint imposed by a formal action of the government’s highest level of decision-making authority before the end of the fiscal year, and that require the same level of formal action to remove the constraint.

(iv) Assigned Fund Balance:

Consists of amounts that are subject to a purpose constraint that represents an intended use established by the government’s highest level of decision-making authority, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance. Explanations of our assigned fund balance categories include:

- Assigned for Subsequent Year’s Expenditures – the planned use of resources in the subsequent year’s budget.
- Assigned for Encumbrances – represent the amount of outstanding encumbrances at the end of the fiscal year.
- Assigned for Contractual Obligations – represents the planned use of resources for intended contracts or for emergency expenditures.
- Assigned for Capital Projects – represents the planned use of resources, generally from the closeout of the prior year’s budget, for capital projects.
- Assigned for Retirement Obligations – represents the planned use of resources for payments to the pension system.
- Assigned for OPEB obligations – represents the planned use of resources for payments which would be transferred to a trust for future post-employment benefits.
- Assigned for Tax Stabilization – reserve to provide stability of changes in tax levy.

(v) Unassigned Fund Balance:

- Unreserved and Undesignated Fund Balance – remaining fund balance that is available for appropriation.

6. **Delegation of Responsibility**

- 6.1 The Board of Trustees of the Village of Scarsdale delegates to the Village Manager or the Village Manager's designee the authority to assign amounts to be used for specific purposes. Such assignments shall not exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.