

Allegan District Library Fund Balance Policy

Purpose: The following policy is to address the implications of Governmental Accounting Standards Board (“GASB”) Statement No. 54, *Fund Balance Reporting and Governmental Fund Definitions*. The policy is created in consideration of unanticipated events that could adversely affect the financial condition of Allegan District Library and jeopardize the continuation of necessary public services. This policy will ensure that adequate fund balances and reserves are maintained in order to:

1. Provide sufficient cash flow for daily financial needs,
2. Offset significant economic downturns or revenue shortfalls,
3. Provide funds for unforeseen expenditures related to emergencies, and
4. Maintain investment grade bond ratings.

1. Fund Type definitions: The following definitions will be used in reporting activity in governmental funds across the Library when applicable.

- a. The general fund** is used to account for all financial resources not accounted for and reported in another fund.
- b. Special revenue funds** are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects.
- c. Debt service funds** are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.
- d. Capital projects funds** are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.
- e. Permanent funds** are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the purposes of the library.

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

a. Non-spendable fund balance

- i. Definition**— includes amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact.
- ii. Classification**— Non-spendable amounts will be determined before all other classifications and consist of the following items:
 1. The balance of any long-term outstanding balances due from others (including other internal funds).
 2. The value of prepaid items and any inventory balances.
 3. The principal of any permanent funds held legally or contractually required to be maintained intact.

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4. The balance of any non-financial assets held for sale.

b. Restricted fund balance

i. **Definition**— Includes amounts that can be spent only for the specific purposes stipulated by the bylaws, external resource providers, or through enabling legislation.

c. Committed fund balance

i. **Definition**— Includes amounts that can be used only for the specific purposes determined by a formal action of the board of trustees

ii. **Authority to commit**— Commitments will only be used for specific purposes pursuant to a formal action of the board of trustees. A majority vote is required to approve a commitment and a two-thirds majority vote is required to remove a commitment.

d. Assigned fund balance

i. **Definition**— includes amounts intended to be used by the library for a specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

ii. **Authority to assign**— the Board of Trustees delegates to the Director or their designee the authority to assign amounts to be used for specific purposes. Such assignments cannot exceed the available (*spendable, unrestricted, or uncommitted*) fund balance in any particular fund.

e. Unassigned fund balance

i. **Definition**— includes the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes for which amounts had been restricted, committed, or assigned. This balance shall be regulated under the Library's Investment Policy.

3. Encumbrance reporting

Encumbering amounts for specific purposes for which resources have already been restricted, committed or assigned should not result in separate display of encumbered amounts. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned, will be classified as committed or assigned, as appropriate, based on the definitions and criteria set forth in GASB Statement No. 54.

4. Prioritization of fund balance use

When expenditure is incurred for purposes for which both restricted and unrestricted amounts are available, it shall be the policy of the Library to consider restricted amounts to have been reduced first. When expenditure is incurred for purposed for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the Library that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

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5. Minimum unassigned fund balance for cash flow

The Library will maintain a minimum unassigned fund balance in its General Fund of 20 percent of the subsequent year's adopted General fund expenditure budget plus anticipated capital outlays through June 30. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

- a. Replenishing deficiencies** – When the fund balance falls below the minimum 20 percent, the library will replenish shortages/deficiencies by either reducing expenditures and/or increasing fees for services or other funding as soon as reasonably possible. The strategies and time frame to accomplish the replenishment shall be recommended by the Director to the Finance and Budget Committees for review and approval.

6. Review Period

This policy shall be reviewed every two years by the Finance and Budget Committee.

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