

Approved April 2024

## Fund Balance Policy

**Purpose:** The following policy has been adopted by Elk Rapids District Library in order 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 Elk Rapids 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.

### **Fund Type definitions:**

The following definitions will be used in reporting activity in governmental funds across Elk Rapids District Library when applicable.

**The general fund** is used to account for all financial resources not accounted for and reported in another fund.

**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.

**Debt service funds** are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

**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.

**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 Elk Rapids District Library.

### **Fund Balance Categories:**

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

#### **Non-spendable fund balance**

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.

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Classification — Non-spendable amounts will be determined before all other classifications and consist of the following items:

- The balance of any long-term outstanding balances due from others (including other internal funds).
- The value of prepaid items and any inventory balances.
- The principal of any permanent funds held legally or contractually required to be maintained intact.
- The balance of any nonfinancial assets held for sale.

### **Restricted fund balance**

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

### **Committed fund balance**

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

### **Authority to commit**

Definition — Commitments will only be used for specific purposes pursuant to a formal action of the board of trustees of Elk Rapids District Library. A majority vote is required to approve a commitment and a two-thirds majority vote is required to remove a commitment.

### **Assigned fund balance**

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.

### **Authority to assign**

Definition — 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.

### **Unassigned fund balance**

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.

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### **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.

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

### **Minimum committed fund balance for cash flow**

Elk Rapids District Library will maintain unrestricted fund balance equivalent to a minimum of 3 months of revenues in its General Fund. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts.

### **Replenishing deficiencies**

Definition— when fund balance falls below the minimum necessary to ensure sufficient cash flow for operations, the library will address this deficiency.

### **Surplus fund balance**

Definition— should there be surplus unassigned fund balance, the library will use such fund balance surpluses for one-time expenditures that are nonrecurring in nature or to supplement the operational transfers to the Capital Improvement Plan.

### **Implementation and review**

Upon adoption of this policy, the board of trustees authorizes the Director to establish any standards and procedures which may be necessary for its implementation. The Director shall review this policy at least annually and make any recommendation for changes to the Finance and Budget Committee.