

## GAIL BORDEN PUBLIC LIBRARY DISTRICT

### FUND BALANCE POLICY

The Fund Balance Policy is established to provide financial stability, cash flow for operations, and the assurance that the Library District will be able to respond to emergencies with fiscal strength.

It is the Library's philosophy to support long-term financial strategies, where fiscal sustainability is its first priority, while also building funds for future growth. It is important to maintain adequate levels of fund balance to mitigate current and future risks and to ensure tax rates. Fund balance levels are also considered for long-term financial planning. Credit rating agencies carefully monitor levels of fund balance/net assets and unassigned fund balance in the General Fund to evaluate the Library's continued creditworthiness.

The Library's fund balance will be composed of three primary categories:

1. Nonspendable Fund Balance is the portion of a Governmental Fund's fund balance that are not available to be spent, either in the short term or long term, or through legal restrictions (e.g. inventories, prepaid items, land held for resale, and endowments).
2. Restricted Fund Balance is the portion of a Governmental Fund's fund balance that is subject to external enforceable legal restrictions (e.g. grantor, contributor, and property tax levies).
3. Unrestricted Fund Balance is made up of three components
  - a. Committed Fund Balance is the portion of a Governmental Fund's fund balance with self-imposed constraints or limitations that have been placed at the highest level of decision-making through formal Board action. The same action is required to remove the commitment of fund balance.
  - b. Assigned Fund Balance is the portion of a Governmental Fund's balance that denotes and intended use of resources but with no formal Board action.
  - c. Unassigned Fund Balance consists of the available expendable financial resources in the General Fund that are not the object of a tentative management plan.

Some funds are funded by a variety of resources, including both restricted and unrestricted (committed, assigned, and unassigned). The Library assumes that the order of spending fund balance is as follows: restricted, committed, assigned, unassigned.

In order for the Library to maintain adequate fund balances for operational purposes and to provide residents throughout the service area with continuous, sustained library service, the Library maintains two major funds and five special revenue funds. The two major funds are used as follows:

- The General Fund is the library's primary operating fund. It is used to account for administrative, maintenance, library, and all financial resources except those accounted for in another fund. Unrestricted fund balance targets should represent no less than three months and no more than six months of operating expenditures.
- The Special Reserve Fund has been established by ordinance and is used in accordance with 75 ILCS 16/40-50.

Five special revenue funds are used to account for and report the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. Fund balances are derived from specific line items in the annual property tax levy and are therefore legally restricted to the purpose of the fund.

- The Audit Fund is used for the sole purpose of paying for the Library's annual audit.
- The Building & Equipment Fund is used for ongoing repair and maintenance of buildings and grounds including purchasing necessary equipment.
- The IMRF Fund is used for expenditures resulting from the Library's participation in the Illinois Municipal Retirement Fund.
- The Liability Insurance Fund is used for expenditures associated with risk management, protecting the Library and its employees and board against liability, property damage, or loss, as well as unemployment and workers compensation insurance.
- The Social Security Fund is used for expenditures for payroll taxes required by the Federal Insurance Contributions Act.

Funds are held in reserve to avoid, insofar as possible, the need for short-term borrowing due to the known unpredictability of the timing of receipt of tax levy payouts.

The Board will seek to retain a reserve balance in the General Fund equal to an amount needed to continue library operations for a period of three to six months. At the end of each fiscal year (June 30), the Chief Executive Officer and the Director of Finance will project the minimum amount needed to operate the library for a six-month period and an assessment of the fund balance will be made at that time.

If the General Fund balance falls below the amount needed to operate the library for at least three months up to six months, any unexpended balance of the proceeds received from the previous fiscal year's public library taxes up to the amount needed to reach the required operating figure will generally remain in the General Fund balance.

If the General Fund balance exceeds the amount needed to operate the Library for six months, any additional amount of unexpended funds from the previous fiscal year may be transferred to the Library's Special Reserve Fund. The Board will consider any anticipated need for capital expenditures in the upcoming fiscal year when making a decision about retaining funds in the General Fund balance or transferring allowable funds to the Special Reserve Fund [75 ILCS 16/40-50].

In any case of reduction in the amount of funding available to the Library funds will be allocated to cover operational expenses in order to make every attempt to fulfill the Library's mission as stated in the Board-adopted mission statement. While the Library seeks to maintain at least a three month or greater General Fund balance, unforeseeable expense increases may prevent attainment of that goal.