

## Fund Balance Policy

### **Purpose**

The Library recognizes that the maintenance of a fund balance is essential to the preservation of the financial health of the 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.

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### **Regulations**

1. The library shall maintain a fund balance in order to:
  - A. Provide sufficient cash flow for daily financial needs.
  - B. Offset significant economic downturns or temporary revenue shortfalls.
  - C. Provide funds for unforeseen expenditures related to emergencies.
  - D. Accumulate sufficient funds for major future capital improvements.
2. The following definitions shall be used in reporting activity in governmental funds. The library may or may not report all fund types in any given reporting period, based on actual circumstances and activity.
  - A. General Fund - for all financial resources not accounted for and reported in another fund.
  - B. 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.
  - C. Debt Service Fund - for all financial resources restricted, committed or assigned to expenditure for principal and interest.
  - D. Capital Projects/Bond Fund - for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.
  - E. Permanent Fund - for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support library purposes.
3. The 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: 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

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related assets are required to be maintained intact (e.g. the corpus of an endowment).

- B. Restricted Fund Balance: amount that is restricted to use for a specific purpose by externally imposed requirement or enable legislation.
  - C. Committed Fund Balance: amount that is designated to be used for specific purposes as determined by formal action of the library board.
  - D. 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 which may be subject to final approval by the library board.
  - E. Unrestricted Fund Balance: all residual amounts, after the assignment of all the foregoing categories, in the General Fund.
4. As required by GASB 54, the library board establishes that when multiple classifications are available and appropriate for particular expenditures, fund balance will be “spent” first from the most restrictive category working toward unassigned fund balance. Relative “restrictiveness” of fund balance shall proceed from most to least in order of the five classifications listed in this policy, from A to E above.
  5. The library will strive to maintain an Unrestricted Fund Balance that will be no less than 17% of the General Fund expenditures, except in the case of emergency or financial distress.
  6. The Library Director shall present the Library Board with a report on the fund balance in conjunction with the annual budget recommendation and in conjunction with the annual financial audit. Furthermore, at regular Board meetings, library staff will present a financial statement that shows fluctuations in fund balance during the fiscal year.

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Approved: October 9, 2023

Rochester Hills Public Library Board of Trustees