Policy 5.2: Fund Balance

Approved and Adopted at the Regular Board Meeting of
The Iosco-Arenac District Library Board of Trustees 10/13/2011
Updated: 8/11/2022
Reaffirmed December 11, 2025

Purpose

This policy has been adopted by the Iosco-Arenac District Library to establish an appropriate level of fund balance in the General Fund, define the components of fund balance, and direct officials in the methods to be used for increasing or decreasing fund balance when trends indicate fund balance will fall outside the minimum/maximum levels in compliance with Government Accounting Standards Board (GASB) Statement No. 54.

The Library Board ("Board") recognizes that the maintenance of a fund balance (a/k/a reserve funds and contingency fund) is essential to the preservation of the financial health of the Library. The Library maintains reserves in a Fund Balance o support and ensure its operational viability, service provision and financial stability.

This policy provides guidance concerning the desired level of Fund Balance maintained by the Library to provide financial stability, cash flow for operations, resources for future capital projects, and the assurance that the Library will be able to respond to emergencies with fiscal strength.

The Fund Balance can be used for purposes approved by the Board of Trustees, including, but not limited to:

A. Provide cash flow for operational needs;
B. Offset significant economic downturns or revenue shortfalls including loss of state aid or reduction of penal fines;
C. Provide for contingent liabilities (tax tribunal reductions);
D. Provide funds for emergency or other unanticipated needs;
E. Provide for future capital needs, including building repairs and maintenance, technology and special projects; and,
F. Maintain Investment grade bond ratings.

Policy

Fund balance is created from excess revenues over expenditures. It is a fund's net assets, mostly made up of cash and investments and, unless otherwise restricted, available for spending. There are five components of fund balance:

A. *Non-spendable Fund Balance.* This portion of fund balance is non-spendable because of its form, for example inventory and non-financial assets, or because of legal or contractual requirements. Non-spendable amouns will be determined before all other classifications and consist of the following items:
    a. The balance of any long-term outstanding balances due from others (including other internal funds);
    b. The value of prepaid items and any inventory balances;

    c. The principal of any permanent funds held legally or contractually required to be maintained intact; and,
    d. The balance of any nonfinancial assets held for sale.
B. *Restricted Fund Balance.* This portion of fund balance is restricted due to external limitations (grantors, donors) placed on the use of the funds. The restriction typically comes from outside the local government as a condition of the revenue source.
C. *Committed Fund Balance.* Fund balance is committed if a limitation is set in place by formal action (a motion is moved, seconded and approved) of the Board of Trustees prior to the end of the fiscal year. The limitation remains binding until the Board of Trustees takes formal action (a motion is moved, seconded and approved) to remove it.
D. *Assigned Fund Balance.* Fund balance may be assigned to reflect the intended use of the resource. The assignment of funds may come from the Board of Trustees or its designee, the District Director. Less formality is needed to impose, remove, or modify a constraint reflected in Assigned Fund Balance. No funds other than the General Fund may have Unassigned Fund Balance, therefore any amounts remaining in excess of Non-spendable, Restricted, or Committed funds in funds other than the General Fund will automatically be reported as Assigned Fund Balance. If any portion of existing fund balance will be used to eliminate a projected deficit in the subsequent year's budget, this amount will also be categorized as Assigned Fund Balance.
E. *Unassigned Fund Balance.* The General Fund, and no other governmental fund, may have resources that cannot be classified in one of the four categories described above. Only the General Fund can report a surplus, an Unassigned Fund Balance.

When multiple categories of fund balances are available for expenditure (e.g., a project is being funded partly by a grant, funds set aside by the Board, and unassigned fund balance), the Library will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

Recommended Amount of Fund Balance

While it is prudent and necessary to maintain adequate reserves in support of the Library's operations and viability, it is not appropriate or intended that excessive amounts of public moneys be held in reserve. A reasonable, stable, fund balance is recognized as an element of effective long-range planning.

The Library's primary objectives for establishing a reasonable fund balance are to maintain an adequate level of financial resources to protect against reducing service levels, avoid borrowings to meet cash flow needs due to revenue shortfalls or unanticipated emergencies, or other necessary expenditures that may tend to impair the fiscal integrity of the Library.

A. *Unassigned (Contingency) Fund Category.* It is the goal of the Library to maintain no less than three (3) and no more than six (6) months of annual operating expenses in the Contingency Fund.

   Contingency Fund balances over the maximum at the end of the fiscal year may be transferred by the Board through Board resolution to the Committed or Assigned fund categories, to be used for maintenance and repair, construction, or other special projects/programs.

B. *Committed Fund Category.* The Committed Fund category will be funded, as noted above, by Board resolution to support commitments to future capital projects determined by the Library's Strategic Plan. Capital Projects will include expenditures more than $1,000 with a useful life of at least two (2) years.
C. *Other Fund Categories.* Other fund balances will be determined by stipulated restrictions or Board or management decision, as defined.

Maintaining Fund Balance
Fund balances may fall occasionally outside of the target ranges because of special projects, emergencies, and other extenuating circumstances. The Library will reduce recurring expenditures or pursue other funding sources to replenish the funds to the minimum level within a reasonable time frame, typically two (2) years.

Annual Review of Fund Balance
As an integral part of the annual budgeting process, consistent with prudent budgeting practices necessary for the continued services of the Library, the Board will fully review, consider, and determine the appropriate level of Fund Balance.