

**VILLAGE OF HOMEWOOD
FUND BALANCE POLICY
General Fund**



THE VILLAGE OF
HOMewood

1893

1.0 INTRODUCTION AND OBJECTIVES

Financial management policies for the Village of Homewood are established by the Village Board. These policies are designed to provide guidance to all external and internal stakeholders that are involved or impacted by financial processes, internal control oversight, or financial transactions. Financial management policies are intended to serve as a blueprint to achieve sustainable fiscal stability required to accomplish the goals and objectives set by the Village Board. The Village Board sets forth the authorities, responsibilities, and accountability requirements of those participating in the operations of the Village of Homewood government at all levels of the organization and endeavors to:

- Establish and abide by sound financial principles
- Reduce financial risks to withstand the ups and downs of local and regional economic conditions and environments
- Maintain appropriate financial capacity to sustain present and future levels of quality municipal services
- Ensure the legal use of financial resources through an effective system of transparent internal controls
- Establish a high level of public accountability of financial processes and decisions

2.0 PURPOSE

It is the intent of the Village of Homewood to provide a stable financial environment for which its citizens can depend on consistent and quality level of services and for planned and unplanned future expenditures. The Finance Director is responsible for monitoring fund balance levels and reporting current and projected reserves during each budget cycle.

2.1 FUND BALANCE

Fund balance is an approximate measure of liquidity. Fund balance is a cornerstone of municipal financial flexibility and provides the Village of Homewood with options to respond to unexpected demands and issues. Fund balance attempts to buffer against short-term fiscal challenges with the use of General Fund and unrestricted fund balance.

2.2 FUND BALANCE POLICY

A fund balance policy gives the Village of Homewood the ability to maintain a set level of financial stability while protecting the Village's core services during lean financial times. The fund balance policy also seeks to provide cash flow for operations, and to provide assurance that the Village will be able to respond to emergencies with fiscal confidence.

It is essential to maintain adequate levels of fund balance to mitigate current and future risks and to ensure stable tax rates. Fund balance levels are a crucial consideration in long-term financial planning. Credit rating agencies carefully monitor levels of unassigned fund balance in the General Fund to evaluate the Village's continued creditworthiness.

3.0 FUND BALANCE DEFINITIONS

As defined by Governmental Accounting Standards Board (GASB) Number 54, Fund Balance Reporting and Governmental Fund Type Definitions, the fund balance will be composed of three primary categories:

3.0.1 Nonspendable Fund Balance

This is the portion of fund balance that is 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).

3.0.2 Restricted

This is the portion of fund balance that is subject to external enforceable legal restrictions (e.g., grantor, contributor, and property tax levies).

3.0.3 Unrestricted is the portion of fund balance that reflects expendable available financial resources. It is made up of three components:

- a. Committed fund balance occurs when the Village Board takes a formal action such as adopting an ordinance or resolution or entering into a contract. The same action is required to remove the commitment of fund balance.
- b. Assigned fund balance denotes a self-imposed constraint with the intent to use fund balance for a specific purpose. No formal Village Board action is required.
- c. Unassigned fund balance is the residual portion of fund balance that does not meet any of the criteria described above.

4.0 MINIMUM UNASSIGNED FUND BALANCE LEVELS FOR THE GENERAL FUND

The General Fund is a major fund and the general operating fund of the Village. A healthy unassigned fund balance is needed to provide cash flow to pay expenditures when due. A fund balance's minimum level allows for cash flow while the Village waits to receive its tax collections and shared revenues. The unassigned fund balance is also a security against unforeseen changes or needs, i.e. natural disasters, loss of state shared revenues, etc.

Unassigned fund balance should represent no less than five (5) months of budgetary operating expenditures. The unassigned fund balance of the General Fund should never fall below five (5) months of budgeted operating expenditures unless authorized by the Village Board.

4.1 FUNDING AMOUNTS ABOVE THE MINIMUM FUND BALANCE

There may be occasions when the minimum fund balance is met and there are additional funds remaining in the fund balance as unrestricted funds.

4.2 PRIORITIZED USE OF UNRESTRICTED FUNDS ABOVE MINIMUM FUND BALANCE

The Village Board may decide to use unrestricted funds available above the minimum fund balance policy following the spending priorities below:

1. Fund capital projects
2. Fund Non-TIF and Economic Development Incentives
3. Increase unassigned fund balance up to a maximum of six (6) months; Develop a rainy day or contingency fund
4. Contribute funding to pensions

The Village shall endeavor to avoid the appropriation of fund balance for recurring operating expenditures. If at any time the utilization of a fund balance to pay for operating expenditures is necessary to maintain the quality or a defined level of services, a detailed and written explanation of the circumstances for the utilization of fund balance will be presented by the Village Manager to the Village Board of Trustees prior to the deliberation and consideration by the Village Board of Trustees.

4.3 UNASSIGNED FUND BALANCE FALLING BELOW MINIMUM

In the event that unassigned fund balance falls below four (4) months of budgeted operating expenses, staff will prepare and the Village Board will consider adopting a plan during the next budget process to replenish the unassigned fund balance to the minimum level over a period not to exceed twenty-four (24) months. The plan shall include how the Village's expenditures and/or revenue levels will be adjusted to match any new economic realities that are behind the use of unrestricted fund balance as a financing bridge.

In establishing the minimum unassigned fund balance level of no less than five months of operating expense, the Village will consider the following factors:

1. The predictability of the Village's revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
2. The Village's exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
3. The potential drain upon General Fund resources from other funds, as well as the availability of resources in other funds;
4. The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds.

Should any of the above factors change, the Village should readdress current unrestricted fund balance levels to ensure amounts are appropriate.