




ADMINISTRATIVE DIRECTIVE

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ISSUED BY: D. McClary	SIGNATURE: 
VILLAGE COUNCIL APPROVAL DATE: 00/00/2026	
REVISION DATES:	
RESCINDS/REPLACES:	
CATEGORY: FINANCIAL MANAGEMENT	
SUBJECT: Fund Balance Reserve Policy	

LEGAL AUTHORITY CITATION

This administrative directive is issued by the Village Manager pursuant to the following legal authority:

- Village Charter – Sec. 3.12 – Duties of administrative officers; performing such duties as are provided for such officers by state law, this Charter, the village ordinances, and the administrative directives of the Village Manager
- Governmental Accounting Standards Board (GASB) Statement No. 54
- Village Council Resolution adopted on _____.

PURPOSE

The Village of Lake Orion recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the Village and is fiscally advantageous for both the Village and the public. This policy will ensure that the Village maintains adequate fund balances and reserves in order to:

- Provide sufficient cash flow for daily financial needs,
- Secure and maintain investment grade bond ratings (if necessary),
- Offset significant economic downturns or revenue shortfalls, and
- Provide funds for unforeseen expenditures related to emergencies.

POLICY

Section 1. Definitions.

Fund balance is a measurement of available financial resources and is the difference between total assets and total liabilities in each fund. The following definitions will be used in reporting activity in governmental funds. The Village may or may not report all fund types in any given reporting period based on actual circumstances and activity.

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

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.

GASB Statement No. 54 distinguishes fund balance classified based on the relative strength of the constraints that control the purposes for which specified amounts can be spent. Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

- 1) **Nonspendable fund balance** – amounts that are not in a spendable form (e.g., inventory) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).
- 2) **Restricted fund balance** – amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation (e.g., grants or donations).
- 3) **Committed fund balance** – amounts that can be used only for the specific purposes determined by a formal action of the Village Council. Commitments may be changed or lifted only by referring to the formal action that imposed the constraint originally (e.g., the board's commitment in connection with future construction projects).
- 4) **Assigned fund balance** – amounts intended to be used by the government for specific purposes. Intent can be expressed by the Village Council or by a designee to whom the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance Fund Balance Policy – Village of Brightwaters Adopted July 6, 2015 represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- 5) **Unassigned fund balance** – includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

Section 2. Designation of Funds to Specific Classifications.

The responsibility for designating funds to specific classifications shall be as follows:

Committed Fund Balance – The Village Council is the Village’s highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council.

Assigned Fund Balance – The Village Council hereby designates the Village Manager and the Clerk/Treasurer as officials authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

Section 3. Minimum Unassigned Fund Balance.

It is the goal of the Village to achieve and maintain an unassigned fund balance in the General Fund at fiscal year-end of not less than 20% nor more than 35% of budgeted expenditures. If the unassigned fund balance at fiscal year-end falls below the goal, the Village shall develop a restoration plan to achieve and maintain the minimum fund balance. Should unassigned fund balance of the General Fund ever exceed the maximum 35% range, the Village will consider such fund balance surpluses for one-time expenditures that are non-recurring in nature.

Section 4. Order of Expenditure of Funds.

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