MEMORANDUM

TO: Village President and Village Board of Trustees

FROM: Katalina Kruckenberg, Treasurer

DATE: September 4, 2026

RE: Proposed Cash & Fund Balance Reserve Policy

PURPOSE

The purpose of this memo is to present a proposed **Cash & Fund Balance Reserve Policy** for consideration by the Village Board.

The proposed policy establishes clear reserve targets for the Village's major operating funds and provides guidelines for when reserves may be used, how they should be replenished, when reserve funds may be invested, and how decisions regarding reserves will be administered.

WHY A POLICY IS NEEDED

A formal reserve policy gives the Village a consistent longer term financial framework rather on a year-by-year basis.

The policy is intended to help the Village:

- Maintain sufficient cash to meet its financial obligations;
- Prepare for unexpected expenses or revenue shortfalls;
- Protect essential services during emergencies;
- Plan for infrastructure and equipment needs;
- Reduce reliance on short-term borrowing;
- Provide transparency to the Board and residents regarding the Village's financial position; and
- Establish a consistent process for maintaining, replenishing, investing, and using reserves.

The **Government Finance Officers Association (GFOA)** recommends that local governments formally establish fund-balance policies and maintain adequate unrestricted fund balance to address revenue shortfalls and unexpected expenditures. GFOA recommends, at a minimum, that general-purpose governments maintain unrestricted budgetary fund balance in the General Fund equal to **no less than two months of regular General Fund operating revenues or regular General Fund operating expenditures**. GFOA also recognizes that individual governments may require higher reserve levels based on their unique financial risks and circumstances.

PROPOSED RESERVE TARGETS

Using the Village's FY 2026–2027 approved budget, the proposed policy establishes three reserve benchmarks to provide a consistent framework for evaluating the Village's financial position.

The **two-month level (16.7%)** reflects the GFOA-recommended minimum benchmark. The **three-month level (25%)** is recommended as the **formal reserve target for the Village of Poplar Grove** and represents the level the Village should generally seek to maintain. The **six-month level (50%)** represents an enhanced planning level that may be appropriate during periods of significant financial uncertainty, economic disruption, major revenue loss, emergency conditions, or other extraordinary circumstances.

Accordingly, the proposed reserve structure is:

- **2 Months – GFOA Recommended Minimum (16.7%):** A baseline level the Village should generally seek to maintain.
- **3 Months – Village Target (25%):** The Village's preferred operating reserve level and primary policy target.
- **6 Months – Enhanced Planning Level (50%):** A higher reserve level that may be appropriate when significant financial risks or extraordinary circumstances exist.

The two-, three-, and six-month figures are **alternative reserve benchmarks and are not cumulative requirements**. The Village's formal policy target is the three-month level unless the Board establishes a different target for a particular fund based on its financial circumstances.

Fund	FY27 Budget	2-Month Benchmark (16.7%)	3-Month Benchmark (25%)	6-Month Benchmark (50%)	Proposed Village Target
General Fund	$2,711,872	$451,979	**$677,968**	$1,355,936	**$677,968 (25%)**
Water & Sewer Fund	$2,261,259	$376,877	**$565,315**	$1,130,630	**$565,315 (25%)**
Motor Fuel Fund	$241,350	$40,225	$60,338	$120,675	**$48,270 (20%)**
TOTAL	**$5,214,481**	**$869,081 (16.7%)**	**$1,303,621 (25%)**	**$2,607,241 (50%)**	**$1,291,553**

The General Fund and Water & Sewer Fund proposed targets are approximately **three months, or 25%, of annual appropriations**.

The Motor Fuel Fund proposed target is approximately **20% of annual appropriations**, or approximately **2.4 months of expenditure**. This lower target reflects the fund's restricted revenues and transportation-related purpose. The Village may adjust this target as transportation needs, revenue conditions, or capital requirements change.

Capital project, debt service, grant, escrow, and other restricted funds would remain separate from the Village's operating reserve calculations.

USE OF RESERVES

Reserve funds are intended to provide financial stability and should generally be used for unforeseen or non-recurring circumstances rather than routine operating expenditures.

Potential appropriate uses of reserves may include:

- Unexpected emergency expenditures;
- Significant revenue shortfalls;
- Natural disasters or other extraordinary events;
- Major unanticipated repairs;
- Temporary cash-flow requirements;
- Significant capital or equipment needs when specifically approved by the Board; and
- Other circumstances determined by the Board to be in the best financial interest of the Village.

Reserves should not routinely be used to balance an ongoing structural operating deficit. If recurring expenditures exceed recurring revenues, the Village should address the underlying structural imbalance through the budget process.

REPLENISHMENT STRATEGY

If reserves are used and the fund balance falls below the Village's adopted reserve target, the Village should establish a plan to restore the reserve level.

The Treasurer shall evaluate the reason for the reserve reduction and recommend an appropriate replenishment strategy to the Village President and Board of Trustees.

Replenishment may be accomplished through:

- Year-end budget surpluses;
- Expenditure savings;
- Non-recurring revenues;
- One-time revenues or other available resources;
- Excess resources from other funds when legally permissible and financially appropriate;
- Future budget appropriations; or
- Other funding sources approved by the Board.

GFOA recommends that governments generally seek to replenish fund balance within **one to three years of use**, depending on the reason for the use, economic conditions, long-term financial forecasts, and other circumstances.

The replenishment period may be adjusted by the Board when circumstances warrant, including following a major emergency, significant economic downturn, or other extraordinary event.

INVESTMENT OF RESERVE FUNDS

Reserve funds should be maintained with priority given to:

1. **Safety and preservation of principal;**
2. **Liquidity and availability of funds when needed; and**
3. **Reasonable investment return.**

Funds needed for immediate operating or emergency purposes should remain readily accessible.

Reserve funds that are not expected to be needed in the short term may be invested in permitted interest-bearing accounts, certificates of deposit, government securities, or other investments authorized under the Village's investment policy and applicable Illinois law.

FUNDS ABOVE THE RESERVE TARGET

When unrestricted reserves exceed the Village's established target, the excess should not automatically be treated as available for recurring operating expenditures.

The Treasurer shall periodically evaluate whether excess reserves are reasonably needed for anticipated capital projects, infrastructure, equipment, debt reduction, emergency preparedness, economic uncertainty, or other identified financial needs.

Amounts determined to be above the Village's reasonable reserve needs may be considered by the Board for appropriate **one-time uses**, such as capital improvements, major equipment purchases, infrastructure projects, debt reduction, or establishment of a separate capital reserve.

Excess reserves should **not be used to create or permanently support recurring expenditures or ongoing programs that cannot be supported by recurring revenues.**

AUTHORITY AND RESPONSIBILITIES

To provide appropriate oversight and separation of financial duties, reserve decisions and transfers should follow the responsibilities outlined below.

Village Treasurer

The Treasurer shall:

- Monitor reserve and cash levels;
- Review reserve levels as part of the annual budget process;
- Identify when reserves fall below or materially exceed the adopted target;
- Initiate recommendations regarding reserve replenishment, investment, or use;
- Recommend appropriate reserve targets based on financial conditions and future needs;
- Provide the Village President and Board of Trustees with periodic information regarding reserve levels; and
- Initiate requests for transfers involving reserve funds in accordance with Village policy and Board authorization requirements.

Village Board of Trustees

The Board of Trustees shall:

- Establish and periodically review the Village's reserve policy;
- Approve the use of reserves when Board approval is required;
- Approve significant transfers or appropriations involving reserve funds;
- Consider recommendations from the Treasurer regarding replenishment, investments, or excess reserves; and
- Approve changes to the Village's reserve targets as financial conditions change.

Village Clerk

The Village Clerk shall:

- Execute authorized transfers between Village accounts following appropriate approval;
- Maintain documentation of authorized reserve transfers;
- Ensure transfers are properly recorded in the Village's financial records; and
- Provide documentation to the Treasurer and Board as required.

This process is intended to provide a clear separation between **recommendation/initiation, authorization, execution, and financial recordkeeping.**

ANNUAL REVIEW

The Treasurer shall review the Village's reserve position annually and compare actual and projected reserves against the Village's **three-month formal reserve target**, the **two-month GFOA minimum benchmark**, and the **six-month enhanced planning level.**

The annual review should also consider changes in:

- Revenues and expenditures;
- Economic conditions;
- Revenue volatility;
- Capital needs;
- Infrastructure requirements;
- Debt obligations;
- Emergency risks;
- Cash-flow requirements; and
- Other financial risks facing the Village.

The Board of Trustees may adjust the reserve targets when appropriate based on the Village's changing financial circumstances.

THE LONG-TERM BENEFIT TO THE VILLAGE

This policy is not being proposed because the Village is financially unstable. Rather, it is being proposed because maintaining financial stability should be an ongoing priority of the Village.

A reserve policy gives the Village a plan before it needs one. It establishes a reasonable financial cushion, provides guidance for when reserves should be used, creates a strategy for replenishing those reserves, and establishes a thoughtful approach to managing funds that exceed the Village's target.

The goal is to help the Village remain financially prepared while continuing to provide essential services and make responsible investments in our community. A strong reserve position can give the Village greater flexibility when faced with unexpected expenses, emergencies, changes in revenues, infrastructure needs, or other financial challenges.

Most importantly, this policy is about being good stewards of the resources entrusted to us by our residents.

RECOMMENDATION

The Village Board review and consider adoption of the proposed **Cash & Fund Balance Reserve Policy**.

Adoption of the policy will establish a clear and consistent financial standard for maintaining, using, replenishing, investing, and managing Village reserves while allowing the Board to adjust the targets in future years as financial conditions and capital needs change.