

## **RESOLUTION NO. 25-82**

### **VILLAGE OF INNSBROOK, MISSOURI**

#### **GOVERNMENTAL ACCOUNTING FUND BALANCE CLASSIFICATIONS AND POLICY**

##### **Adopted**

##### ***Background***

The Governmental Accounting Standards Board (GASB) is an independent, private-sector, not-for-profit organization that, through an open and thorough due process, establishes and improves standards of financial accounting and reporting for U.S. state and local governments. These governments and the accounting industry in general, recognize the GASB as the official source of authority for generally accepted accounting principles (GAAP) applicable to state and local governments. While the GASB does not have specific enforcement authority to require government to comply with its standards, compliance with the GASB's standard is enforced through the external audit process where auditors render opinions on the fairness of presentations in conformity with GAAP. In addition, the municipal bond industry places a great deal of importance on governments issuing debt to prepare their financial statements on a GAAP basis.

This policy addresses GASB Statement No. 54 which redefines the classification of fund balance in the governmental funds. Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions was issued in March 2009 to enhance how fund balance information is reported, to improve its usefulness in the decision-making process and to provide fund balance categories and classifications that will be more easily understood. It further delineates fund balance based on the spendable makeup of the fund's cash and net assets portions fund balance. The previously used "Reserved" component of fund balance will be eliminated in favor of a new classification called Restricted Fund Balance. This will enhance the consistency between information reported in the government-wide statements and information in the governmental fund statements and avoid confusion about the relationship between Reserved Fund Balance and Restricted Net Assets. The requirements of this statement are effective for financial statements prepared for periods ending June 30, 2011 and thereafter. Therefore, it is effective for the Village of Innsbrook's June 30, 2025 financial statements and all subsequent annual financial statements until superseded.

##### ***Policy***

Fund balance refers to the difference between assets and liabilities in the governmental funds balance sheet. Fund balance information is one of the most widely used elements of state and local government financial statements and is invaluable in the budgeting process.

The new standard for Fund Balance components requires that governmental funds report classifications that consist of a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those accounts can be spent. This includes external as well as internal constraints on the net assets contained within the fund's balance such as financial stabilization.

The Village of Innsbrook has enacted the following policy in an effort to ensure financial security through the maintenance of a healthy reserve fund that guides the creation, maintenance, and use of resources for financial stabilization purposes. The Village's primary objective is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures. The Village of Innsbrook also seeks to maintain the highest possible credit ratings which are dependent, in part, on the Village's maintenance of a healthy fund balance.

It is the policy of the Village of Innsbrook to adhere to GASB Statements and to follow GAAP; therefore, this policy is prepared in that spirit.

### ***Definitions***

Fund balance – The excess of assets over liabilities in a governmental fund.

Nonspendable fund balance – The portion of fund balance that is not in a spendable form or is required to be maintained intact (such as inventory or prepaid expenses). The "not in spendable form" criterion includes items that are not expected to be converted to cash in the normal course of business, such as, inventories and prepaid amounts. It also includes items that are not convertible to cash in the near term, such as the long-term amount of loans and notes receivable, as well as property acquired for resale. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.

Restricted fund balance – The portion of fund balance that is subject to external restrictions imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments and constrained to specific purposes imposed by agreement, through constitutional provisions, or by enabling legislation.

Committed fund Balance – The portion of fund balance with self-imposed constraints or limitations that have been placed by the Village Board, the highest level of decision making, and remains legally binding unless removed in the same manner.

Assigned fund balance – The portion of fund balance that the Village intends to use for a specific purpose; intent can be expressed by the Village Board or by a Village Official to which the Village Board has designated authority that is neither formally restricted by external sources nor committed by Village Board action. For the Village of Innsbrook, at this time, no Village official will be empowered to assign fund balance without Village Board approval.

Assigned fund balance would also include all remaining amounts (except for negative balances) that are reported in governmental funds other than the General Fund that are not already classified as non-spendable, restricted or committed. These amounts are considered Assigned by definition, rather than by administrative action, since they are placed in a governmental fund separate from the General Fund. These would include: special revenue funds, capital project funds, debt service fund, or permanent funds.

Assignment within the General Fund conveys that the intended use of these amounts is for a specific purpose that is narrower than the general purposes of the government itself. However, the Village cannot report an assignment for an amount to a specific purpose if the amount would result in a deficit in unassigned fund balance.

Unassigned fund balance – Amounts that are available for any purpose: these amounts are reported only in the General Fund. This classification represents fund balance that has not been assigned to other funds

and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund will be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if the assigned fund balance is negative, it will be necessary to report it as a negative unassigned fund balance.

**A. Use of Restricted or Unrestricted Fund Balance**

When an option exists for the use of fund balance components, the classification with the greatest eligible degree of constraint should be used first. This will be followed by succeeding fund balance components with a lesser degree of constraint. The order in the use of funds therefore would be Restricted, Committed, Assigned and Unassigned to the extent that each category is eligible.

***General Fund Stabilization Balance Policy***

The Fund Balance of the Village's General Fund has been accumulated to provide stability and flexibility to respond to unexpected adversity and/or opportunities. The target is to maintain a rolling beginning fund balance of not less than 50.00 % of average annual operating expenditures for the prior two fiscal years. Should the balance fall below 50.00% the Village will identify a plan to restore the Fund Balance to its target amount as part of the budget proposal.

The Village's basic goal is to maintain annual expenditure increases at a conservative growth rate, and to limit expenditures to anticipated revenues in order to maintain a structurally balanced budget. The decision to set a goal for a retained fund balance of not less than 50.00 % of operating expenditures stems from the following considerations

- This amount provides adequate funding to cover approximately 6 months of operating expenses.
- It provides the liquidity necessary to accommodate the Village's uneven cash flow, which is inherent in its periodic tax collection schedule.
- It provides the liquidity to respond to contingent liabilities.

Fund balance may be accessed under the following conditions:

- To allocate funds for capital expenditures, long term obligations, debt service needs, or revenue shortfalls in the Enterprise Fund.
- To respond to emergency funding necessities.

The Village will spend the most restricted dollars before less restricted in the following order, except as noted above:

- a. Nonspendable (if funds become spendable)
- b. Restricted
- c. Committed
- d. Assigned
- e. Unassigned

For capital funds and special revenue funds, a fund balance level has not been established as the underlying goal is to spend available revenue sources on a number of planned projects that are a part of the 5-year capital improvement plan and other committed expenditures. However, for the purposes of budgeting, the unspent appropriations from prior budgetary periods will be classified within the definitions of GASB 54 Fund Balance for internal purposes.

This policy has been approved by the Village Clerk and Chairman, adopted by the Village Board by Resolution No. 25-82. The Fund Balance Policy will be reviewed biennially and can be adjusted at any time by action of the Village Board.

Read and passed by title this 15<sup>th</sup> day of April, 2025.

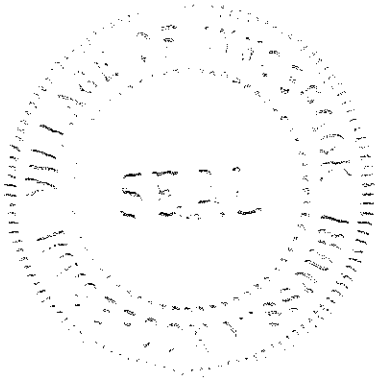


Daniel Reuter, Chairman  
Village of Innsbrook Board of Trustees

Attest:



Karen Denson, Village Clerk





## BEST PRACTICES

# Fund Balance Guidelines for the General Fund

Governments should establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes.

In the context of financial reporting, the term *fund balance* is used to describe the net position of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net position of governmental funds calculated on a government's budgetary basis.<sup>1</sup> While in both cases *fund balance* is intended to serve as a measure of the financial resources available in a governmental fund; it is essential that differences between GAAP *fund balance* and budgetary *fund balance* be fully appreciated.

1. GAAP financial statements report up to five separate categories of fund balance based on the type and source of constraints placed on how resources can be spent (presented in descending order from most constraining to least constraining): *nonspendable fund balance*, *restricted fund balance*, *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*.<sup>2</sup> The total of the amounts in these last three categories (where the only constraint on spending, if any, is imposed by the government itself) is termed *unrestricted fund balance*. In contrast, budgetary fund balance, while it is subject to the same constraints on spending as GAAP fund balance, typically represents simply the total amount accumulated from prior years at a point in time.

2. The calculation of GAAP fund balance and budgetary fund balance sometimes is complicated by the use of sub-funds within the general fund. In such cases, GAAP fund balance includes amounts from all of the subfunds, whereas budgetary fund balance typically does not.
3. Often the timing of the recognition of revenues and expenditures is different for purposes of GAAP financial reporting and budgeting. For example, encumbrances arising from purchase orders often are recognized as expenditures for budgetary purposes, but never for the preparation of GAAP financial statements.

The effect of these and other differences on the amounts reported as *GAAP fund balance* and *budgetary fund balance* in the general fund should be clarified, understood, and documented.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance in the general fund.

**GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes.<sup>3</sup> Such a guideline should be set by the appropriate policy body and articulate a framework and process for how the government would increase or decrease the level of unrestricted fund balance over a specific time period.<sup>4</sup> In particular, governments should provide broad guidance in the policy for how resources will be directed to replenish fund balance should the balance fall below the level prescribed.**

*Appropriate Level.* The adequacy of unrestricted fund balance in the general fund should take into account each government's own unique circumstances. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher level in the unrestricted fund balance. Articulating these risks in a fund balance policy makes it easier to

explain to stakeholders the rationale for a seemingly higher than normal level of fund balance that protects taxpayers and employees from unexpected changes in financial condition. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.<sup>5</sup> The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances.<sup>6</sup> Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time. In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

1. The predictability of its 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. Its perceived 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;
5. Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose). Governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance, rather than on unrestricted fund balance.

#### *Use and Replenishment.*

The fund balance policy should define conditions warranting its use, and if a fund balance falls below the government's policy level, a solid plan to replenish it. In that context, the fund balance policy should:

1. Define the time period within which and contingencies for which fund balances will be used;
2. Describe how the government's expenditure and/or revenue levels will be adjusted to match any new economic realities that are behind the use of fund balance as a financing bridge;
3. Describe the time period over which the components of fund balance will be replenished and the means by which they will be replenished.

Generally, governments should seek to replenish their fund balances within one to three years of use. Specifically, factors influencing the replenishment time horizon include:

1. The budgetary reasons behind the fund balance targets;
2. Recovering from an extreme event;
3. Political continuity;
4. Financial planning time horizons;
5. Long-term forecasts and economic conditions;
6. External financing expectations.

Revenue sources that would typically be looked to for replenishment of a fund balance include nonrecurring revenues, budget surpluses, and excess resources in other funds (if legally permissible and there is a defensible rationale). Year-end surpluses are an appropriate source for replenishing fund balance.

*Unrestricted Fund Balance Above Formal Policy Requirement.* In some cases, governments can find themselves in a position with an amount of unrestricted fund balance in the general fund over their formal policy reserve requirement even after taking into account potential financial risks in the foreseeable future. Amounts over the formal policy may reflect a structural trend, in which case governments should consider a policy as to how this would be addressed.



Additionally, an education or communication strategy, or at a minimum, explanation of large changes in fund balance is encouraged. In all cases, use of those funds should be prohibited as a funding source for ongoing recurring expenditures.

Notes:

1. For the sake of clarity, this recommended practice uses the terms GAAP fund balance and budgetary fund balance to distinguish these two different uses of the same term.
2. These categories are set forth in Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
3. Sometimes restricted fund balance includes resources available to finance items that typically would require the use of unrestricted fund balance (e.g., a contingency reserve). In that case, such amounts should be included as part of unrestricted fund balance for purposes of analysis.
4. See Recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting governments on the need to "maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures" (Recommended Practice 4.1).
5. In practice, a level of unrestricted fund balance significantly lower than the recommended minimum may be appropriate for states and America's largest governments (e.g., cities, counties, and school districts) because they often are in a better position to predict contingencies (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty), and because their revenues and expenditures often are more diversified and thus potentially less subject to volatility.
6. In either case, unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the decision has been made to compare unrestricted fund balance to either revenues

and/or expenditures, that decision should be followed consistently from period to period.

*This best practice was previously titled Appropriate Level of Unrestricted Fund Balance in the General Fund.*

**Board approval date: Wednesday, September 30, 2015**