

GLENCOE PARK DISTRICT
FUND BALANCE POLICY

Approved: December 2011

Revised: August 2012

PURPOSE

The purpose of this policy is to establish fund balance classifications that establish a hierarchy based on the extent to which the Park District must observe constraints imposed upon use of the resources that are reported by the governmental funds. More detailed fund balance financial reporting and the increased disclosures will aid the user of the financial statements in understanding the availability of resources.

The fund balance will be composed of three primary categories: 1) Nonspendable Fund Balance, 2) Restricted Fund Balance and 3) Unrestricted Fund Balance.

DEFINITIONS

Governmental Funds – are used to account for all or most of the Park District’s general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general capital assets (capital projects funds) and the servicing of general long-term debt (debt service funds). The General Fund is used to account for all activities of the Park District not accounted for in some other fund.

Fund Balance – the difference between assets and liabilities in a Governmental Fund.

Nonspendable Fund Balance – the portion of a Governmental Fund’s net assets that are not available to be spent, either short-term or long-term, in either form or through legal restrictions (e.g., inventories, prepaid items).

Restricted Fund Balance - the portion of a Governmental Fund’s net assets that are subject to external enforceable legal restrictions (e.g., grantor, contributors and property tax levies).

Unrestricted Fund Balance is made up of three components:

Committed Fund Balance - the portion of a Governmental Fund’s net assets with self-imposed constraints or limitations that have been placed at the highest level of decision making.

Assigned Fund Balance - the portion of a Governmental Fund’s net assets to denote an intended use of resources (e.g. Medical Insurance Reserve).

Unassigned Fund Balance - available expendable financial resources in a governmental fund that are not the object of tentative management plan (i.e. assignments). Unassigned fund balance should exist only in the General Fund; for all other governmental funds, unassigned fund balance may only be reported in the case of a deficit fund balance position.

FUND BALANCE PHILOSOPHY

It is the Park District's philosophy to support long-term financial strategies, where fiscal sustainability is its first priority, while also building funds for future growth. It is essential to 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. Fund balance levels are also a crucial consideration in long-term financial planning.

SCOPE

This policy establishes the hierarchy of fund balance and provides for the minimum amount of fund balance each governmental fund should maintain. Credit rating agencies carefully monitor levels of fund balance and unassigned fund balance in the general fund to evaluate the Park District's continued creditworthiness.

MINIMUM FUND BALANCE LEVELS

This Policy applies to the Park District's governmental funds as follows:

- A. **General Fund** - The General Fund is a major fund and the general operating fund of the Park District. It is used to account for administrative, maintenance, parks, and greenhouse, Watts Ice, and Beach operations, and all financial resources except those that are accounted for in another fund.
 1. Each year a portion of the spendable fund balance will be determined as follows:
 - a. Committed – A portion of the fund balance may be committed through formal action of the Board of Commissioners either through a resolution or ordinance.
 - b. Assigned – Fiscal Sustainability. This assigned fund balance will be maintained at a minimum level of 25% of annual budgeted expenditures. This will be adjusted annually with the adoption of the annual budget and is calculated at a minimum of three months (25%) of expenditures not including capital, debt service and interfund transfers.
 - c. Unassigned – The unassigned fund balance will be reviewed annually during the budget process. Balances in excess of six months (50%) of annual budgeted expenditures may be transferred to the Capital Projects Fund to support future capital projects.

B. Special Revenue Funds - Special revenue funds are used to account for and report the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes other than debt service or capital projects. Financing for most special revenue funds is provided by a specific annual property tax levy. In some cases, financing is received from admissions, fees and charges for programs and activities. These proceeds are devoted exclusively to the purposes of which the special tax was authorized. Fund balances in special revenue funds (other than the Recreation Fund) are derived from property taxes and are therefore legally restricted to the purpose of the fund.

1. Recreation - This fund is a major fund and is used exclusively for planning, establishing, and maintaining recreational programs carried out by the Park District. Financing is provided from fees and charges for programs and activities and an annual property tax levy.

Each year a portion of the spendable fund balance will be determined as follows:

- i. Committed – A portion of the fund balance may be committed through formal action of the Board of Commissioners either through a resolution or ordinance.
 - ii. The remaining restricted fund balance for this fund will be targeted at a minimum level of 25% of annual budgeted expenditures. This will be adjusted annually with the adoption of the annual budget and is calculated at a minimum of three months (25%) of expenditures not including capital, debt service and interfund transfers.
2. NSSRA Special Recreation Fund - This fund is a non-major fund and established to account for revenues derived from a specific annual property tax levy and expenditures of these monies to the North Suburban Special Recreation Association, to provide special recreation programs for the physically and mentally handicapped.

The targeted restricted fund balance of the NSSRA Special Recreation Fund Fund shall be calculated as follows:

- i. The restricted fund balance for this fund will be targeted at a minimum level of 25% of annual budgeted expenditures. This will be adjusted annually with the adoption of the annual budget and is calculated at a minimum of three months (25%) of expenditures not including capital, debt service and interfund transfers.
3. Retirement/Pension Fund - The Retirement/Pension Fund is a non-major fund and accounts for the activities resulting from the Park District's participation in Social Security/Medicare and the Illinois Municipal Retirement Fund. Revenues are provided by a specific annual property tax levy which produces a sufficient amount to pay the Park District's contributions on behalf of the Park District's employees. Fund balances in this fund are derived from property taxes and are therefore legally restricted to the purpose of the fund.

The targeted restricted fund balance of the Retirement/Pension Fund shall be calculated as follows:

- i. The remaining restricted fund balance for this fund will be targeted at a minimum level of 25% of annual budgeted expenditures. This will be adjusted annually with the adoption of the annual budget and is calculated at a minimum of three months (25%) of expenditures not including capital, debt service and interfund transfers.
4. Audit Fund - This fund is a non-major fund and accounts for the expenditures related to the Park District's annual financial compliance audit which is mandated by State statute. Financing is provided from an annual property tax levy, the proceeds of which can only be used for this purpose. Fund balances in this fund are derived from property taxes and are therefore legally restricted to the purpose of the fund.

The targeted restricted fund balance of the Audit Fund shall be calculated as follows:

- i. The restricted fund balance for this fund will be targeted at a minimum level of 25% of annual budgeted expenditures. This will be adjusted annually with the adoption of the annual budget and is calculated at a minimum of three months (25%) of expenditures not including capital, debt service and interfund transfers.
5. Liability Insurance Fund/Workers Comp Fund- These funds are non-major funds and account for the operation of the Park District's insurance and risk management activities. Financing is provided from an annual property tax levy. These funds record the insurance expenditures.

The targeted restricted fund balance of the Liability Insurance Fund and Workers Comp Fund shall be calculated as follows:

- i. The restricted fund balance for this fund will be targeted at a minimum level of 25% of annual budgeted expenditures. This will be adjusted annually with the adoption of the annual budget and is calculated at a minimum of three months (25%) of expenditures not including capital, debt service and interfund transfers.
- C. **Debt Service Fund** - This fund is a major fund and was established to account for financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

The Park District levies an amount based on the principal and interest that is anticipated to be paid per the outstanding bond ordinances filed with the County. The County then adds a 5% "loss" amount . Any fund balance accumulation should be

minimal, not less than 15% and not more than 25%.. . Fund balances in this fund are derived from property taxes and are therefore legally restricted to the purpose of the fund. In instances where fund balance level exceeds 25%, the Board may consider the option of abating a portion of the Debt Service levy amount.

D. Capital Projects Fund – This fund is a major fund established to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets.

This fund’s fund balance will be considered restricted, committed, or assigned depending on the intended source/use of the funds.

FLOW ASSUMPTIONS

Some projects (funds) are funded by a variety of resources, including both restricted and unrestricted (committed, assigned and unassigned). The Park District’s flow of funds assumption prescribes that the funds with the highest level of constraint are expended first. If restricted or unrestricted funds are available for spending, the restricted funds are spent first. If different levels of unrestricted funds are available for spending, the Park District considers committed funds to be expended first followed by assigned and, lastly, unassigned funds.

AUTHORITY

A self-imposed constraint on spending the fund balance (Committed Fund Balance) must be approved by ordinance or resolution of the Board of Commissioners. Any modifications or removal of the self-imposed constraint must use the same action used to commit the fund balance.

Formal action to commit fund balance must occur before the end of the fiscal year. The dollar amount of the commitment can be determined after year end.

Authority for designating fund balance as assigned is delegated by the Board of Commissioners to the Executive Director and Director of Finance/HR.

MONITORING MINIMUM FUND BALANCE LEVELS

Park District management staff will monitor revenue collection and available cash by reviewing monthly financial reports. During the year, if there is an expectation that fund balance levels will not be met by the end of the fiscal year, the Executive Director may review all projected operational and capital expenditures with the management team, and accordingly, present a plan to the Board of Park Commissioners for a modification of goals and projects established in the adopted budget.