

VILLAGE OF MUKWONAGO FUND BALANCE POLICY

Purpose

The objectives of this fund balance policy are as follows:

- Preserve the credit worthiness of the Village of Mukwonago for borrowing monies at favorable interest rates.
- Provide working capital for the Village of Mukwonago to meet cash flow needs during the year.
- Provide a comfortable margin of safety to address unanticipated expenditures / emergencies and unexpected declines in revenue due to economic downturns, natural disasters, etc.
- Provide a resource to stabilize fluctuations from year-to-year in the property taxes paid by the Village of Mukwonago taxpayers.

Policy

Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Under GASB 54, fund balance is reported in five categories as described below:

Non-spendable Fund Balance – Amounts cannot be spent because they are a) not in spendable form or b) legally or contractually required to be maintained intact.

Restricted Fund Balance – Amounts are restricted by external parties (i.e., creditors, grantors, contributors) or laws / regulations of other governments or restricted by law through constitutional provisions or enabling legislation, such as an ordinance.

Committed Fund Balance – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The formal action must occur prior to the end of the reporting period. The amount which will be subject to the constraint may be determined in the subsequent period.

Assigned Fund Balance – Amounts constrained by the government's intent to be used for specific purposes that are neither restricted nor committed. The intent can be expressed by a) the governing body itself or b) a body or official to which the governing body has delegated the authority (i.e., finance committee, Director of Finance, Administrator, Clerk-Treasurer). Monies set aside for carryover appropriations, compensated absences, retirement obligations and contingencies are some of the examples to be included in the assigned category. Assigned fund balance can be used to eliminate the projected budgetary deficit in the subsequent year's budget.

Unassigned Fund Balance – Is a residual classification for the General Fund. The total fund balance less amounts categorized as non-spendable, restricted, committed and assigned equals unassigned fund balance. The General Fund is the only fund that should report a positive unassigned fund balance amount. A negative unassigned fund balance is possible in other governmental funds.

Flow of Funds

It is the policy of this government that in cases where multiple types of funds are available to pay for expenditures in the various funds, restricted resources will be used first, followed by committed, assigned, and finally unassigned (if applicable).

Procedures

To achieve the objectives of this policy, the following guidelines shall be adhered to by the Village of Mukwonago:

1. An unassigned General Fund balance shall be maintained as of December 31 of each year equal to a minimum of 25% of the ensuing year's budgeted general fund expenditures, with a targeted maximum of four months of the ensuing year's budgeted expenditures.
2. The Village of Mukwonago will maintain appropriate commitments or assignments of general fund, special revenue funds, debt service funds and capital projects funds for specified purposes, including but not limited to contingencies, compensated absences or similar items. Commitments and / or assignments of fund balance shall be made pursuant to appropriate legislation (ordinance or resolution) adopted by the Village Board.
3. As part of the annual budget process, the Finance Director will estimate the surplus or deficit for the current year and prepare a projection of the year-end unassigned general fund balance. Such projections will include an analysis of trends in fund balance levels on an historical and future projection basis. Any anticipated balance in excess of the minimum unassigned general fund balance may be assigned to other purposes or budgeted to reduce the ensuing year's property tax levy. If the Village Board approves the use excess fund balance for capital purchases or improvements, the current year's budget will be amended to move the funds into the appropriate capital fund to be used in the subsequent year's budget.
4. Funds in excess of the upper range of the unassigned fund balance target may be considered to supplement "pay as you go" capital outlay expenditures (including reduction of anticipated debt issues) or to prepay existing debt via cash defeasance as allowable. Unassigned fund balance shall not be used to support recurring operating expenditures.
5. Withdrawal of any amount of unassigned general fund balance in excess of the targeted minimum of the amount budgeted under (3) above, for the sole purpose of reducing the ensuing year's property tax levy, may be made only upon a two-thirds majority vote of the Village Board.
6. The Village Board, by two-thirds vote, can declare a fiscal emergency and withdraw any amount of general fund balance for purposes of addressing the fiscal emergency. Any such action must also provide for necessary appropriations to restore the unassigned general fund balance to the minimum balance within a three-year period.
7. This policy shall be reviewed periodically by the Finance Director and the Finance Committee. The Finance Committee shall approve any recommended changes, and the necessary resolution to modify the existing policy shall be presented to the Village Board for its action.
8. It is the policy of this government that assignments of fund balances and resources within a fund may be determined by the Village Board or its designee.

Determination of Funds Reporting Status

To provide support for the proper determination of the reporting status of each fund, the Village Board makes the following findings with respect to the classification in the listed funds.

GENERAL FUND:

General Fund*** 100

SPECIAL REVENUE FUNDS:

Fire/Ambulance Fund 150
Revolving Loan Fund 210
TID #3 220
TID #4 240
TID #5 250
TID #6 260
American Rescue Plan Act 350
Recycling 410
Library Fund 440
Stormwater 500
Impact Fees 600
Parkland Site Fee 810

CAPITAL EQUIPMENT & CAPITAL IMPROVEMENT FUNDS:

Community Development Fund 200
Capital Equipment Fund 430
Capital Improvement Fund 480

DEBT SERVICE FUNDS:

Debt Service 300

FIDUCIARY FUNDS:

Tax Agency Fund 720

PROPRIETARY FUNDS:

Water 610
Sewer 620

*** The Village has two funds: Fire/Ambulance Designated-320, and Village Designated-340, which are used to reserve funds for future capital purchases. For financial statement reporting purposes, these are part of the Village's General Fund and are included in the General Fund balances. These balances can be committed or assigned by the Village Board.