



Fund Balance Policy

Policy FN03

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Key Policy Dates

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I. Overview

The purpose of this policy is to establish the principles and parameters to which a Fund Balance target will be defined at the beginning of each budget period. This policy is established to provide financial stability, cash flow for operations, and the assurance that the District will be able to respond to emergencies with fiscal strength.

In the event that unexpected situations may cause the District to fall below the minimum level, certain steps will be followed to correct the deficiency, as outlined in the section below “Minimum Target Balances”.

II. Definitions

Governmental Funds – are used to account for all or most of the 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 fund/department), and the servicing of long-term debt (debt service funds). The General Fund is used to account for all activities of the District not accounted for in some other Fund.

Enterprise Fund– is used to account for activities similar to those found in the private sector where determination of net income is necessary for sound financial administration. Enterprise funds are required to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. The District does not currently have any Enterprise Funds.

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

Net Assets – the difference between total liabilities from total assets for Enterprise Funds.

Operating Expenditures – total expenditures minus capital and debt service.

Governmental Funds – Fund Balance will be composed of three primary categories:



1. Nonspendable Fund Balance – the portion of a Governmental Fund's net assets that are not available to be spent, whether short or long-term, in either form or through legal restrictions (inventories, prepaid items, land held for resale and endowments).
2. Restricted Fund Balance – the portion of a Governmental Fund's net asset that is subject to external enforceable legal restricts, (grants, debt proceeds, tax levies).
3. Unrestricted Fund Balance – (three categories)
 - a. Committed Fund Balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
 - b. Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
 - c. Unassigned Fund Balance – available expendable resources that are not the object of a tentative management plan.

Proprietary Funds

Proprietary funds include enterprise and internal service funds. The net assets will be composed of three primary categories:

- 1) Invested in Capital Assets, Net of Related Debt – portion of a proprietary fund's net assets that reflects the fund's net investment in capital assets less any amount of outstanding debt related to the purchase/acquisition of said capital assets. Related debt, for this purpose, includes the outstanding balances of any bonds, certificates notes, or other borrowings that are attributable to the acquisition, construction, or improvement of capital assets of the Government.
- 2) Restricted Net Assets – portion of a proprietary fund's net assets that are subject to external enforceable legal restrictions (e.g., grantor, contributor and bond covenants).



- 3) Unrestricted Net Assets (3 categories) – portion of a proprietary fund's net assets that is neither restricted nor invested in capital assets (net of related debt).
- a. Committed Net Assets – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
 - b. Assigned Net Assets - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
 - c. Unassigned Net Assets – available expendable resources that are not the object of a tentative management plan.

III. Guiding Parameters

It is the 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 and to ensure stable tax rates. Credit rating agencies carefully monitor levels of fund balance to evaluate the District's credit worthiness.

The following parameters will be used as part of the budget process to establish targets for the following funds:

General Fund – the unassigned fund balance target should represent six months of average operating expenditures (total expenditures minus capital department). Balances above the six month target may be transferred to the capital projects department.

Capital Projects Department – capital projects are funded through the capital projects department in the General Fund. Amounts set aside for capital will be considered restricted, committed or assigned depending on the source of the use limitation and intended source/use of the funds within the General Fund balance.

Recreation Fund – the fund balance target should represent two - three months of average operating expenditures. Any funds in excess of the target will be used to fund future recreation needs.

Special Recreation Fund – no target is established for this fund. All amounts levied are transferred to the Western DuPage Special Recreation Association (WDSRA) to provide for recreation and capital improvements for our special needs population.



Debt Service Fund – no target is established for this fund. The District levies an annual amount to pay annual debt principal and interest. All funds maintained in the fund are restricted for the purpose of paying debt service. Any fund balance which exceeds 5% of the annual, aggregate debt service shall be transferred and assigned to a reserve account in the Debt Service Fund to ensure that the debt service amount remains a bona fide debt service account pursuant to IRS regulations.

Cash in Lieu of Land Fund – no target is established for this fund. The purpose of this fund is to account for cash donations in lieu of land donations. Expenditures are restricted for the purpose of park land/facility acquisitions and development.

Social Security, IMRF, Insurance and Audit Funds – these funds have a targeted fund balance between three and six months of average expenditures. These funds will be monitored and the taxes levied to support them will be adjusted to ensure they operate within the target range. It may take more than one levy cycle to ensure the funds are operating within the proper range.

Golf Fund – The unrestricted fund balance target is based on the annual debt service amount for the golf fund. Once the golf debt service is retired (in 2019), a new measurement basis will be determined to develop the target fund balance. Balances above the target may be transferred to the capital projects department.

IV. Flow Assumptions

Some projects (funds) are funded by a variety of resources, including both restricted and unrestricted (committed, assigned and unassigned). When restricted funds exist, those funds are used first, then unrestricted. For unrestricted funds, committed funds are used first, then assigned, then unassigned.

V. Authority/Reporting

Staff will prepare and include in the budget document a schedule that shows the status of the District's balances compared to the Targets outlined in this policy. The Executive Director of the Naperville Park District is given authority within this policy to assign fund balance to specific projects/expenditures.

VI. Minimum Targets

Management will monitor the major revenue collections and the amount of cash available by reviewing the monthly financial reports. During the year, if revenue projections suggest that revenue will not meet expectations and the fund target(s) will not be met by year-end, the Executive Director may take the following actions to reach the goals established in the adopted budget:

- Review revenue and expenses with Directors,
- Provide options to reduce capital asset expenditures,



- Provide options to reduce operational expenditures, where appropriate, while maintaining the adopted budget goals,
- Provide options to increase fees and other non-tax revenues
- Present to the Board of Park Commissioners other expenditure control options, including those that might modify the goals established in the adopted budget.

VII. Exceptions to the Policy –

If the Board of Park Commissioners adopts a budget that does not meet the parameters of this policy, then the budget will include a plan for adhering to this Policy within a five-year period.