

<p style="text-align: center;"><b>MIDLOTHIAN PUBLIC LIBRARY FUND BALANCE POLICY</b></p>
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## I. PURPOSE

A Fund Balance/Net Position Policy establishes a minimum level at which the projected end-of-year fund balance/net position must observe, as a result of the constraints imposed upon the resources reported by the governmental and proprietary funds. This policy is established to provide financial stability, cash flow for operations, and the assurance that the Midlothian Public Library (herein referred to as “the Government”) will be able to respond to emergencies with fiscal strength. More detailed fund balance financial reporting and the increased disclosures will aid the user of the financial statements in understanding the availability of resources.

It is the Government’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 funds balance/net position to mitigate current and future risks and to ensure tax rates. Fund balance/net position levels are also crucial consideration in long-term financial planning. Credit rating agencies carefully monitor levels of fund balance/net position and unassigned fund balance in the General Fund to evaluate the Government’s continued creditworthiness.

## II. DEFINITIONS

The Governmental Fund balance will be composed of three primary categories:

- A. Non-spendable Fund Balance – portion of a Governmental Fund’s fund balance that are not available to be spent, either in the short-term or long-term, or through legal restrictions (e.g., inventories, prepaid items, land held for resale and endowments).
- B. Restricted Fund Balance – portion of a Governmental Fund’s fund balance that are subject to external enforceable legal restrictions (e.g., grantor, contributor and property tax levies).
- C. Unrestricted Fund Balance – is made up of three components:
  - 1. Committed Fund Balance – the portion of a Governmental Fund’s fund balance with self-imposed constraints or limitations that have been placed at the highest level of decision making through formal Board action. The same action is required to remove the commitment of fund balance.
  - 2. Assigned Fund Balance – the portion of a Governmental Fund’s fund balance to denote an intended use of resources but with no formal Board action.
  - 3. Unassigned Fund Balance – available expendable financial resources in the General Fund that is not the object of tentative management plan.

Some funds are funded by a variety of resources, including both restricted and unrestricted (committed, assigned and unassigned). The Government assumes that the

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order of spending fund balance is as follows: restricted, committed, assigned, unassigned.

### III. AUTHORITY

The Governmental Fund balances will be imposed on the following authority:

- A. Committed Fund Balance – A self-imposed constraint on spending the fund balance must be approved by ordinance or resolution of the Board. 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.
- B. Assigned Fund Balance – A self-imposed constraint on spending the fund balance based on the Government’s intent to use fund balance for a specific purpose. The authority may be delegated to members of the management team by the Board.

### IV. MINIMUM AND MAXIMUM UNRESTRICTED FUND BALANCE LEVELS

Minimum and maximum Governmental Fund balances are established as follows:

#### A. General Fund

- 1. Purpose – Is a major fund and the general operating fund of the Government. It is used to account for all activities that are accounted for in another fund.
- 2. Fund Balance – Unrestricted fund balance targets should represent no less than six months and no more than twelve months of the current fiscal year’s budgeted operating expenditures. Balances above the maximum are transferred to other funds or to capital projects at the Board’s discretion.

#### B. Special Revenue Fund (If Applicable)

- 1. Purpose - Used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes other than debt service or capital projects.
- 2. Financing – Special revenue funds are provided by a specific annual property tax levy or other restricted and/or committed revenue source. Financing may also be received from other charges for services, etc.
- 3. Fund Balance – Derived from property taxes (other another restricted revenue source); therefore, legally restricted. The fund balance amount (restricted and/or committed) will be targeted at a minimum level of 25% of the current fiscal year’s budgeted expenditures. This will be adjusted annually with the

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adoption of the annual budget and is calculated at a minimum of three months of expenditures not including capital, debt service and transfers.

C. Special Reserve Fund (Building Fund)

1. Purpose - 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, excluding those types of capital related outflows financed by proprietary funds.
2. Financing – Debt financing, grants, or inter-fund transfers are used to finance projects.
3. Fund Balance – Considered segregated for maintenance, construction and/or development; therefore, considered committed, restricted, or assigned depending on the intended source/use of the funds. No specific minimum established for the capital projects fund.

V. OTHER CONSIDERATIONS

In establishing the above policies for unrestricted fund balance/net position levels, the Government considered the following factors:

- A. The predictability of the Government’s 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)
- B. The Government’s perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts)
- C. The potential drain upon General Fund resources from other funds as well as the availability of resources in other funds (i.e., deficits in other funds may require a higher level of unrestricted fund balance be maintained in the General Fund, just as, the availability of resources in other funds may reduce the amount of unrestricted fund balance needed in the General Fund)
- D. Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained)
- E. 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)

**MIDLOTHIAN PUBLIC LIBRARY  
FUND BALANCE POLICY**

If any of the above factors change, the Government should readdress current unrestricted fund balance/net asset levels to ensure amounts are appropriate.

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