

A RESOLUTION ADOPTING FUND BALANCE POLICYS FOR THE LIABILITY AND HEALTH INSURANCE FUNDS AND A FUND BALANCE EQUIVALENT POLICY FOR THE UTILITIES FUND

WHEREAS, the City of Rolling Meadows has reviewed the requirements of the Governmental Accounting Standards' Board (GASB) Statement No. 54 governing fund balance; and

WHEREAS, the City Staff recommends the adoption of the GASB-54 requirements; and

WHEREAS, the City recognizes the need to prepare for unforeseen circumstances, emergency needs and the importance of building fund balance reserves; and

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Rolling Meadows, Illinois, that the following policies, Liability Insurance Fund Balance Policy, Health Insurance Fund Balance Policy, and Utilities Fund Balance Equivalent Policy, are adopted for the City of Rolling Meadows, subject to future revisions, a copy of each policy is attached to this Resolution.

AYES: O'Brien, Vinezeano, Bisesi, Reyez, Sanoica, McHale

NAYS: 0

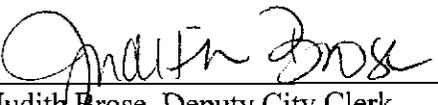
ABSENT: Budmats

Passed and Approved this 11th day of October 2022.



Joe Gallo, Mayor

ATTEST:



Judith Brose, Deputy City Clerk

City of Rolling Meadows
Fund Balance for the Liability Insurance Fund
(Approved by Resolution 22-R-86)

Purpose

A fund balance policy will provide the City of Rolling Meadows a basis to prepare for unforeseen circumstances and to provide sufficient cash flow to avoid the need for short-term borrowing.

1. Amounts Held in Reserve (Current Net Position is Current Assets Less Current Liabilities)

The City of Rolling Meadows shall strive to hold an amount known as Current Net Position equal to one year's payment of insurance plus an additional reserve for any unforeseen liability payments. As of FY2022, this balance minimum threshold is one million dollars. This will be the minimum threshold for the Liability Fund unless a significant change in the insurance payments occurs. That happens, staff will update the policy to reflect the new threshold amount and, when possible, will seek Council approval of the change through the annual budget process.

2. Conditions for Use of Reserves

The use of reserves shall be limited to anticipated, non-recurring needs, emergency needs or anticipated future obligations or a hedge for circumstances needing attention or life safety issues. Fund balances shall not be used for normal or recurring annual operating expenditures.

The City Manager is authorized to offer recommendations to the City Council for the use of fund reserves. The City Council will approve the use of Liability Insurance Fund reserves.

In light of the changing notion of fund balance and accounting rules and to effectively manage this Fund Balance Policy, the City will undertake an annual review.

3. Fund Balance Category

The Governmental Accounting Standards Board (GASB) Statement 54 has identified five categories of fund balances, addressing by whom or why the classification exists. The five categories are as follows: Nonspendable, Restricted, Committed, Assigned, and Unassigned.

Nonspendable is the portion of a fund balance that is not supported by cash; this includes assets such as prepaid insurance and inventories.

Restricted is essentially the same as reserved. There is generally an outside influence which causes the restriction. Examples include bondholders' rights for a general obligation bond.

Committed fund balance occurs when the City Council takes a formal action such as adopting a resolution or entering into a contract.

Assigned fund balance generally occurs through the budget process for a City.

Unassigned fund balance is the residual portion of fund balance that does not meet any of the criteria described above. Note: The General Fund is the only fund that can report an Unassigned fund balance for a positive balance. **Negative** balances in any fund are considered Unassigned.

Since the fund was established as an Internal Service Fund, there are limitations that are assumed on the use of this fund and its balance. Therefore, the Liability Insurance Fund balance would be considered an Assigned fund balance when having a positive position. When the fund balance is in a negative position, the balance is considered Unassigned.

City of Rolling Meadows
Fund Balance for the Health Insurance Fund
(Approved by Resolution No. 22-R-86)

Purpose

A fund balance policy will provide the City of Rolling Meadows a basis to prepare for unforeseen circumstances and to provide sufficient cash flow in order to avoid the need for short-term borrowing.

1. Amounts Held in Reserve (Current Net Position is Current Assets Less Current Liabilities)

The City of Rolling Meadows shall strive to hold an amount known as Current Net Position equal to one half a year's payment of insurance costs. As of FY2022, this balance minimum threshold is \$2.25 million. This will be the minimum threshold for the Health Insurance Fund unless a significant change in the insurance payments occurs. When a significant change occurs, staff will update the policy to reflect the new threshold amount and, when possible, will seek Council approval of the change through the annual budget process.

2. Conditions for Use of Reserves

The use of reserves shall be limited to anticipated, non-recurring needs, emergency needs, anticipated future obligations, or a hedge for circumstances needing attention or life safety issues. Fund balances shall not be used for normal or recurring annual operating expenditures.

The City Manager is authorized to offer recommendations to the City Council for the use of fund reserves. The City Council will approve the use of Health Insurance Fund reserves.

In light of the changing notion of fund balance and accounting rules and to effectively manage this Fund Balance Policy, the City will undertake an annual review.

3. Fund Balance Category

The Governmental Accounting Standards Board (GASB) Statement 54 has identified five categories of fund balances, addressing by whom or why the classification exists. The five categories are as follows: Nonspendable, Restricted, Committed, Assigned, and Unassigned.

Nonspendable is the portion of a fund balance that is not supported by cash; this includes assets such as prepaid insurance and inventories.

Restricted is essentially the same as reserved. There is generally an outside influence which causes the restriction. Examples include bondholders' rights for a general obligation bond.

Committed fund balance occurs when the City Council takes a formal action such as adopting a resolution or entering into a contract.

Assigned fund balance generally occurs through the budget process for a City.

Unassigned fund balance is the residual portion of fund balance that does not meet any of the criteria described above. Note: The General Fund is the only fund that can report an Unassigned fund balance for a positive balance. Negative balances in any fund are considered Unassigned.

Since the fund was established as an Internal Service Fund, there are limitations that are assumed on the use of this fund and its balance. Therefore, the Health Insurance Fund balance would be considered an Assigned fund balance when having a positive position. When the fund balance is in a negative position, the balance is considered Unassigned.

**City of Rolling Meadows
Fund Balance Equivalent for the Utilities Fund
(Approved by Resolution No. 22-R-86)**

Purpose

The Utilities Fund shall be a self-sufficient enterprise fund. In order to maintain stable rates and provide reliable service, The City of Rolling Meadows must have various tools to deal with changes in costs or operational performance. One such tool is maintaining appropriate financial reserves. A fund balance equivalent (reserve) policy will provide the City a basis to prepare for unforeseen circumstances and to provide sufficient cash flow to avoid the need for short-term borrowing.

1. Amounts Held in Reserve (Current Net Position is Current Assets Less Current Liabilities)

The City of Rolling Meadows shall strive to maintain at least 25% of operating expenditures. Since the reserve changes annually based on the operating expenditures, this policy does not address a specific amount dedicated for the reserve.

Potential sources of cash flow variability addressed by the reserve include the following exposures:

- a) Reductions in overall customer demand
- b) Changes in total system load resulting from actions of large customers
- c) Failure to achieve the budgeted level of net income
- d) Changes in the cost of purchased water
- e) Changes in interest income
- f) General operational exposures, such as timing mismatch between revenue receipts and expense payments, unforeseen maintenance costs, regulatory compliance costs, and other unexpected increased in the operating budget.

2. Conditions for Use of Reserves

The use of reserves shall be limited to anticipated, non-recurring needs, emergency needs, anticipated future obligations or a hedge for circumstances needing attention or life safety issues. Fund balances shall not be used for normal or recurring annual operating expenditures.

The City Manager is authorized to offer recommendations to the City Council for the use of fund reserves. The City Council will approve the use of Utilities Fund reserves.

In light of the changing notion of fund balance and accounting rules and to effectively manage this Fund Balance Equivalent Policy, the City will undertake an annual review.

3. Fund Balance Category

The Governmental Accounting Standards Board (GASB) Statement 54 has identified five categories of fund balances, addressing by whom or why the classification exists. The five categories are as follows: Nonspendable, Restricted, Committed, Assigned, and Unassigned.

Nonspendable is the portion of a fund balance that is not supported by cash; this includes assets such as prepaid insurance and inventories.

Restricted is essentially the same as reserved. There is generally an outside influence which causes the restriction. Examples include bondholders' rights for a general obligation bond.

Committed fund balance occurs when the City Council takes a formal action such as adopting a resolution or entering into a contract.

Assigned fund balance generally occurs through the budget process for a City.

Unassigned fund balance is the residual portion of fund balance that does not meet any of the criteria described above. Note: The General Fund is the only fund that can report an Unassigned fund balance for a positive balance. Negative balances in any fund are considered Unassigned.

The Utilities Fund was established to be used for a specific purpose and was established through formal Council action. Therefore, the Utilities Fund balance would be considered a Committed fund balance when having a positive position. When the fund balance is in a negative position, the balance is considered Unassigned.