

**VILLAGE OF VERNON HILLS  
RESOLUTION 2024-011**

**A RESOLUTION ADOPTING A REVISED FUND BALANCE POLICY FOR THE VILLAGE  
OF VERNON HILLS**

**WHEREAS**, managing fund balances and reserves is paramount to financial flexibility as this provides governments with options to respond to unexpected issues and affords a buffer against shocks and other forms of financial risks; and

**WHEREAS**, a Fund Balance Policy will assist in maintaining financial stability and flexibility that the Village may be able to respond to emergencies with fiscal strength; and

**WHEREAS**, the Village has maintained fund balance targets that are reviewed on an annual basis through the Budget and Financial Planning process; and

**WHEREAS**, the attached Fund Balance Policy dated April 16, 2024 is designed to comply with the standards set by Government Accounting Standards Board Statement Number 54.

**NOW, THEREFORE, BE IT RESOLVED BY THE PRESIDENT AND BOARD OF TRUSTEES OF THE VILLAGE OF VERNON HILLS, LAKE COUNTY, ILLINOIS, AS FOLLOWS:**

**SECTION 1: INCORPORATION** – Each whereas paragraph above is incorporated by reference into this Section and made a part hereof as material and operative provisions of this Resolution.

**SECTION 2: ADOPTION OF THE REVISED FUND BALANCE POLICY** – The Fund Balance Policy attached hereto as Exhibit A is hereby approved and adopted by the Village Board.

**SECTION 3: CONFLICTS** – All ordinances or resolutions, or parts of ordinances or resolutions, in conflict with the provisions of this Resolution, to the extent of such conflicts, are repealed.

**SECTION 4: SEVERABILITY** - Each section, paragraph, clause and provision of this Resolution is separable, and if any provision is held unconstitutional or invalid for any reason, such decision shall not affect the remainder of this Resolution, nor any part thereof, other than that part affected by such decision.

**SECTION 5: EFFECTIVE DATE** - This Resolution shall be in full force and effect from and after its adoption, approval, and publication in the manner required by law.

**SECTION 3: RESOLUTION NUMBER** - This Resolution shall be known as Resolution Number 2024-011.

Dated the 16<sup>th</sup> of April, 2024.

Adopted by roll call votes as follows:

AYES: 6 – Marquardt, Oppenheim, Forster Schenk, Koch, Byrne

NAYS: 0 - None

ABSENT AND NOT VOTING: 1 – Takaoka

PASSED: 04/16/2024  
APPROVED: 04/16/2024  
ATTEST: 04/16/2024

  
\_\_\_\_\_  
Kevin Timony, Village Clerk

  
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Roger L. Byrne, Village President



**EXHIBIT A**

**VILLAGE OF VERNON HILLS  
FUND BALANCE POLICY**



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# Fund Balance Policy

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**Roger L. Byrne, President**

**Trustees**

Thom Koch	Michael Marquardt
David Oppenheim, MD	Craig Takaoka
Nancy Forster	Michael Schenk

**Staff**

Kevin Timony, Village Manager/Clerk  
Thomas Lyons, Finance Director/Treasurer

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DRAFT  
April 16, 2024

	<b>POLICY</b>	Fund Balance	<b>REVISION HISTORY</b>
	<b>ADOPTED DATE</b>		2012-058 04/17/2012
	<b>DEPARTMENT</b>	Finance	

This policy has been adopted by Resolution of the Village Board of the Village of Vernon Hills and replaces all previous Fund Balance Policies or Resolutions pertaining to the Village's Funds.

## 1. Purpose

The Village of Vernon Hills has established this fund balance policy to provide the Village options to respond to unexpected financial issues and afford a buffer against shocks and other forms of financial risk. This policy will assist in maintaining financial stability and flexibility that the Village may be able to respond to emergencies with fiscal strength to:

- Ensure stable service delivery
- Smooth the effects of lost revenue sources
- Meet short-term cash flow needs during a transition period
- Preserve the Village's bond rating

## 2. Definitions

- A. **Fund Balance** – Represents the difference between assets and liabilities in a governmental fund.

*Governmental Fund Balances* - The Village maintains the following governmental fund types: General Fund, Special Revenue Funds, and Capital Projects Funds.

Governmental fund balances are divided between nonspendable and spendable.

*Nonspendable fund balances* are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. This would include assets such as prepaid expenses and inventory items.

*Spendable fund balances* are arranged in a hierarchy based on spending constraints.

Restricted – Restricted fund balances are restricted when constraints are placed on the use by either (a) external creditors, grantors, contributors, or laws or regulations of other governments or (b) law through constitutional provisions or enabling legislation.

Committed – Committed fund balances are amounts that can only be used for specific purposes as a result of constraints of the Village Board. Board approval of an ordinance is required to establish, modify, or rescind a fund balance commitment. Committed amounts cannot be used for any other purpose unless the Village Board removes those constraints by taking the same type of action (ordinance). Committed fund balances differ from restricted balances because the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned – Assigned fund balances are amounts that are constrained by the Village's intent to be used for specific purposes but are neither restricted nor committed. Intent is expressed by an appointed body (e.g., a budget or finance committee) or official to which the Board of Trustees has delegated the authority to assign, modify, or rescind amounts to be used for specific purposes. This authority is delegated to the Village's Budget Officer.

Assigned fund balances also include (a) all remaining amounts that are reported in governmental funds (other than the General Fund) that are not classified as nonspendable, restricted, or committed, and (b) amounts in the General Fund that are intended to be used for a specific purpose. Specific amounts that are not restricted or committed in a special revenue fund are assigned for purposes in accordance with the

nature of their fund type. Assignment within the General Fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purpose of the Village itself. All assigned fund balances are the residual amounts of the fund.

Unassigned – Unassigned fund balance is the residual classification for the General Fund. This classification represents the General Fund balance that has not been assigned to other funds, and that has not been restricted, committed, or assigned to specific purposes within the General Fund. This classification is also used to represent negative fund balances in other funds.

*Order of expended funds* - The Village permits funds to be expended in the following order: Restricted, Committed, Assigned, and Unassigned.

- B. **Unrestricted Fund Balance** – The combination of committed, assigned, and unassigned fund balance. Also known as “reserves.”
- C. **Net Position** – Reported in proprietary and fiduciary funds as well as government-wide financial statements. Net position represents the difference between fund assets plus deferred outflows of resources and liabilities plus deferred inflows of resources reflected on the balance sheet or statement of net position.

*Proprietary Fund Net Position* – The Village maintains the following proprietary fund types: Enterprise Funds.

Enterprise fund net position is divided into three components:

Net investment in capital assets – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

Restricted net position – consists of net position that is restricted by the Village’s creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.

Unrestricted – all other net position is reported in this category. Also known as “reserves.”

- D. **Reserve** – For the purposes of this policy reserve is defined as follows: for a governmental fund the reserve is equal to the unrestricted fund balance and for a proprietary fund the reserve is equal to the unrestricted net position.

### 3. General Fund

The General Fund is a governmental fund and is the Village’s main operating fund. It accounts for most general government services, including critical functions like public safety. The General Fund also provides financial backing for all other Village funds that are not self-sustaining. Funds that rely on ongoing funding from the General Fund include the Capital Fund, Vehicle and Equipment Replacement Fund, Dispatch Fund, Golf Course Fund, and the Metra Parking Fund. Accordingly, the General Fund’s minimum fund balance target is a key reserve for the Village.

#### A. Minimum Fund Balance Target

The Village shall maintain in its General Fund a minimum fund balance target of no less than 67% of the annual recurring expenditures plus recurring transfers out excluding transfers to

the Capital Fund. This level would provide eight months of continued operation without additional funding.

The Government Finance Officers Association (GFOA) recommends, at a minimum, that general-purpose governments such as the Village, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating expenditures. This recommendation is a baseline, so it does need to be adjusted for local conditions. The Village's target minimum fund balance outlined above is four times that of the recommended base due to the consideration of the following risk factors that are specific to the Village of Vernon Hills. These factors include:

- Revenue source stability – As the Village does not currently levy a property tax (a very reliable and consistent source of revenue) the Village is heavily reliant on economically sensitive sales tax revenues. Significant revenues are generated from a small number of businesses in the Village. A change in state statutes could reduce or eliminate Village revenue sources outside of Village control. These risks can from time to time create revenue volatility.
- Expenditure volatility – This risk factor refers to potential spikes in expenditures, usually arising from a special, non-recurring circumstance. Any significant unplanned payments the Village would be required to pay would typically be funded by the General Fund
- Other funds' dependency – The General Fund is used as a "backstop" for other Village funds. The General Fund covers any operating deficit and capital needs of the Dispatch Fund, Golf Course Fund, and the Metra Parking Fund.

#### B. Conditions for Use of Reserve

At the discretion of the Village Board, fund balance above the minimum balance target may be used. Use of fund balance reserve below the minimum balance target may be used at the discretion of the Village Board to:

- Provide resources to make up for a temporary decrease in revenues
- Provide temporary resources in the event of an economic downturn
- Provide resources to meet emergency expenditures in the case of a flood, fire, or other disaster, or
- Provide resources for any temporary event or hardship

The Village will avoid the use of fund balance for non-temporary recurring operating expenditures whenever possible. If at any time the utilization of a fund balance for operating expenditures is necessary to maintain the quality or level of service, a plan to return to a surplus of operating revenues over operating expenditures shall be presented to the Board and accepted.

#### C. Funding the Minimum Fund Balance Target

If the fund balance drops below the minimum target, it should be replenished in a timely fashion or as fast as feasibly possible. This will allow the reserves to continue to serve as a hedge against risk and meet the other purposes for which the reserves were established. If it becomes necessary to replenish the minimum fund balance target the Village will develop an

explicit strategy to replenish reserves as part of the annual budget and long-term financial planning process.

#### 4. Other Funds

##### A. Minimum Fund Balance/Net Position Target

Similar to the General Fund, other governmental funds report a fund balance or net position for Enterprise Funds, but establishing minimum reserves in those funds isn't always meaningful. For example, the purpose of a Special Revenue Fund is to demonstrate legally restricted resources have been spent for their intended purpose. Requiring a minimum fund balance to be maintained in this type of fund would not mitigate any risks. The Village maintains several Special Revenue Funds including TIF funds, Motor Fuel Tax Fund, Dispatch Fund, and various forfeiture and seizure funds. There are no established minimum reserve balances for these funds or any other remaining Village fund.

To further provide financial stability in times of financial hardship, it is the goal of the Village to maintain a fund balance in the following funds as described below:

Capital Fund – The Village shall strive to maintain in Fund Balance, approximately three years of planned capital project expenditures, less planned expenditures to be funded by Village funds other than the General Fund.

Vehicle and Equipment Replacement Fund (VERF) – The Village shall strive to maintain approximately three years of planned vehicle and equipment expenditures in Fund Balance.

In times of financial hardship, this measure will help reduce the annual burden on the General Fund to fund equipment necessary for ongoing Village operations (Vehicle and Equipment Replacement Fund) and capital projects related to critical Village infrastructure (Capital Fund) as transfers from the General Fund can be deferred up to three years before these funds may need to scale back on spending.

##### B. Excess Reserves

According to Illinois Compiled Statutes, 65 ILCS 5/8-2-9.5, an amount not to exceed 3% of the equalized assessed value (EAV) of property subject to taxation by the municipality may be accumulated in a separate fund for the purpose or purposes of specific types of capital improvements, repairs, and/or replacements of specific types of municipal equipment. Based on this statute reference, the maximum cumulative fund balance of all capital project funds shall be equal to 3% of the most recent available Village EAV. Any fund balance in excess of this maximum shall be transferred to the General Fund.

#### 5. Authority Over Reserves

The use of Fund Balance or reserves must be approved by the Village Board either through the approval of the annual budget outlining the use of Fund Balance or through other formal Board action.