
**VILLAGE OF SUGAR GROVE
BOARD REPORT**

TO: VILLAGE PRESIDENT & BOARD OF TRUSTEES
FROM: MATT ANASTASIA, FINANCE DIRECTOR
SUBJECT: DISCUSSION: RESOLUTION - TRANSFERRING FUND BALANCES
AGENDA: AUGUST 16, 2022
DATE: AUGUST 12, 2022

ISSUE

Shall the Board transfer excess General Fund Reserve Balances to other Funds for future uses.

DISCUSSION

Each year the Village completes an annual audit to determine the financial status of the previous fiscal year. The audit determines if the Village had a surplus, revenues exceeded expenditures, or a deficit, expenditures exceeded revenues, for the fiscal year. The Village has a financial policy in place for the Fund Balance Reserve. The policy states the Village is to keep a 25% unrestricted Fund Balance Reserve in the General Fund based on the current fiscal year General Fund operating expenses.

Each year, the Village will review the General Fund Surplus/Deficit of the prior fiscal year, prior to the audit being finalized. The current fund balance reserve estimates as of FY21-22 was anticipated to be at 27.80%. At the end of each year, during the audit process, the Village Board will determine, if there is any surplus, what they would like to do with it. This process must be complete prior to finalize the audit for each year.

The Village has received the preliminary FY21-22 Audit, which shows a surplus for the year of \$699,765, of which \$595,170 is unrestricted fund balance. The FY21-22 projected surplus at the FY22-23 Budget Workshops was \$237,800. This brings the total unrestricted Fund Balance as of April 30, 2022 to \$2,132,653, or 31.77% Fund Reserve. For the current fiscal year 2022-2023, 25% of operating expenses for the Fund Balance Reserve Policy total \$1,740,259, leaving an excess of \$392,394, 5.64%, above the 25% Fund Balance Reserve policy.

During our FY22-23 budget process, a discussion with the Board was had regarding how the Fund Balance Reserve amount has inflated significantly over the last two fiscal years, mainly contributed to the transfers made from the General Fund to the Capital Projects Fund

stemming from excess revenues. This has significantly increased the 25% reserve policy, which is based on General Fund Operating Expenses. For FY22-23, there is \$700,000 budgeted to be transferred out of the General Fund to the General Capital Projects Fund for future Village Hall purposes. It is anticipated to only transfer \$500,000, as there are additional expenses with the relocating of Administration & Finance to the renovated 160 Municipal Dr. building between electrical, security, furniture and lease expenses. These transfers have been possible through additional revenues from ARPA and CARES Grant Funding, freeing up additional operating revenues for other purposes.

In future budgets, these large transfers would not occur, thus decreasing the General Fund operating expenses. In anticipation of these transfers not occurring beginning in FY23-24, and to not run a deficit in that year when the Fund Balance Reserve Policy decreases, the Board should consider transferring additional funds effective for FY21-22. Transferring additional funds in FY21-22 would bring the Unrestricted Fund Balance below 25% for the year, but once the large expense transfers are removed from the budget in FY23-24, this would balance the reserve policy back to above the 25% requirement.

Removing the anticipated \$500,000 in transfers to the Capital Projects Fund from the General Fund in FY22-23 would decrease the General Fund Operating Expenses from \$6,961,036 to \$6,461,036. In turn, this would decrease the 25% Fund Balance Reserve Policy amount from \$1,740,259 to \$1,615,259 – a difference of \$125,000.

The Board should consider, with Staff recommendation, transferring the excess above the 25% general fund operating expenses, \$392,394, plus the additional \$125,000 taking in to account the reduction in operating expenses in the future for a total of \$517,394. If this transfer is made for FY21-22, the General Fund would still show a surplus for the year of \$182,371, and \$77,776 of unrestricted fund balance, and not negatively affecting the General Fund bottom line. This transfer would be made to the General Capital Projects Fund for future Village Hall/Police Department uses. At this time, with this additional transfer of Fund Balance, FY22-23 \$500,000 budgeted transfer, and the sale of the 140/160 Municipal Drive property, it is anticipated the Village has roughly \$3.1-\$3.2 million set aside for Future Village Hall/Police Department uses. Some of these funds annually will be used for the lease cost of 160 Municipal Dr. for Administration & Finance, as well as ongoing maintenance required.

After these transfers are completed, the General Fund unrestricted fund balance would total \$1,615,259, roughly a 23.20% General Fund balance reserve per FY22-23 General Fund Operating Expenses.

COST

There is no cost to complete the Resolution.

RECOMMENDATION

The Board discuss how they would like to proceed with the transferring fund balances, and direct staff to draft the necessary resolution for approval.