

Town of New Lebanon

Fund Balance Policy

Adopted by TB 1/11/2022, reviewed no changes 9/12/2023; 10/8/2024

Fund Balance Policy

Reserve funds.

A. Reserve funds (which essentially are a legally authorized savings account for particular specific purposes) are an important component in the Town's financial planning for specific expenses, future projects, acquisitions and other lawful purposes. To this end, the Town may establish and maintain reserve funds in accordance with New York State laws. The Town will also consider rules and/or opinions issued by the New York State Comptroller when they are not in conflict with law.

B. Town reserve funds must be properly established and maintained to promote the goals of creating an open, transparent and accountable use of public funds. The Town may engage independent experts and professionals, including but not limited to auditors, accountants and other financial and legal counsel, as necessary to monitor all reserve fund activity and prepare reports that the Town Board may require.

Government fund-type assignment (GASB 54).

The Town shall comply with the reporting requirements of Article 3 of General Municipal Law of the State of New York and the Governmental Accounting Standards Board (GASB) Statement Number 54, Fund Balance Reporting and Governmental Fund Types Definitions. GASB Statement Number 54 established the following classifications:

A. Non-spendable fund balances consist of amounts that are not in a spendable form in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans receivable, and financial assets held for resale.

B. Restricted fund balances. Restricted fund balances consist of amounts constrained to specific purposes by a government itself using its highest level of decision-making authority. Amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.

C. Committed fund balances. Committed fund balances consist of amounts that are subject to a purpose constraint imposed by a formal action of the Town Board before the end of the fiscal year, and that require the same level of formal action to remove the constraint.

D. Assigned fund balances. Assigned fund balances consists of 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.

E. Unassigned fund balance. Unassigned fund balances consists of amounts that are available for any purpose.

The total of committed, assigned, and unassigned fund balances constitutes the “unrestricted portion” of fund balance.

Funding policy for restricted or committed and assigned fund balances.

Maintenance of a fund balance is appropriate to provide stability and flexibility to respond to unexpected adversity and/or opportunities.

The objective is to maintain an unrestricted fund balance between 15% and 20% of the current year's total budget.

The decision to maintain an unrestricted fund balance of 15% to 20% of fund appropriations stems from the following:

- This amount provides funding to cover approximately between 2 and 3 months of expenditures;
- This amount provides the liquidity necessary to accommodate uneven cash flow, which is inherent in its tax collection schedule; and
- This amount is consistent with reasonable guidelines suggested by the NYS Comptroller's office.

The Town Board, following receipt of a recommendation from the Supervisor, will set aside certain amounts as committed fund balance. Amounts are to be determined based on the need for extraordinary operating capital that could not be anticipated and cannot be funded with current budget resources. The Supervisor will set aside committed fund balances equal to the amount of outstanding purchase orders or encumbrances. Following receipt of recommendations from the Town Supervisor, the Town Board will determine the proper amounts to be assigned for purposes as are deemed necessary. This would provide the liquidity to respond to contingent liabilities and provide for capital asset replacements. The remaining balance of the unrestricted fund balance will be classified as unassigned fund balance.

The formal action of the Town Board to restrict, commit or assign fund balance to a specific purpose should occur prior to the end of the reporting period, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

Spending policy for fund balances.

The Town Board will determine the composition of its ending fund balance by applying its accounting policies regarding whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Similarly, within unrestricted fund balance, the classification should be based on appropriate accounting policies and practices regarding whether it considers committed, assigned or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. As a guideline, the Town should consider that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Any unrestricted fund balance in excess of 20% of a current year's total budget may be applied in the following order: paydown existing debt; deposited into reserve funds, as needed, and in accordance with capital reserve policies approved by the Town Board; or used to balance the following year's budget.

Periodic review and annual report.

A. The Town Board will periodically review all restricted, committed, and assigned fund balances. The Town will prepare an annual report of all restricted, committed and assigned funds. The annual report shall include the following information for each reserve fund:

- (1) The type and description of the reserve fund.
- (2) The interest earned on each reserve fund.
- (3) Capital gains or losses resulting from the sale of investments of the reserve funds.
- (4) The sum total increase and sum total decrease in the reserve funds.
- (5) The ending balance in the reserve funds at fiscal year end.
- (6) A summary statement of projected use and the need of the reserve funds.

B. The Board shall utilize the information in the annual report to discuss reserve fund balances and to adequately maintain necessary funds for the Town's long-term financial planning. The Board will be mindful of its role and responsibility as a fiduciary of public funds when acting on reserve fund issues.

C. The Board will review this policy annually.