

Town of Ulster Fund Balance Policy 1/4/2024

A. Purpose:

For increased financial stability, the Town of Ulster (Town) desires to manage its financial resources by revising the fund balance policy for the General Fund and all Special Revenue Funds that are legally mandated to be kept separately (i.e., Highway, Water, Sewer, Lighting etc.). This will ensure the Town maintains a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls, unexpected one-time expenditures, emergencies, or disasters. In addition, this Policy is to be adopted to promote compliance with GASB Statement 54.

B. Background:

The Governmental Accounting Standards Board (GASB) issued GASB Statement Number 54 (Statement 54), ***Fund Balance Reporting and Government Fund Type Definitions*** in February 2009. Statement 54 abandons the reserved and unreserved classifications of fund balances and replaces them with five new classifications: nonspendable, restricted, committed, assigned and unassigned. In addition, Statement 54 updates the definitions of government fund types, with the most significant changes related to special revenue funds. These changes were made to bring greater clarity and consistency to fund balance reporting, resulting in an improved usefulness of fund balance information. The requirements of Statement 54 are effective for financial statements for periods ending June 30, 2011.

In April 2011, the Office of the State Comptroller (OSC) issued updated guidance on Fund Balance Reporting and Government Fund Type Definitions.¹ The guidance addressed how the changes in GASB 54 were implemented in the Annual Update Document and the effects on local government reporting.

Chapter 528 of the Laws of 2000 gives local governments the authority to carry over a “reasonable amount” of unappropriated unreserved fund balance from one year to the next.² The Government Finance Officers Association (GFOA) recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. This Policy establishes the percentage that the Town of Ulster considers the “reasonable amount” for each class of fund and redefines the terminology set forth in Chapter 528 to follow GASB 54.

C. Definitions:³

1. **Fund Balance** – Consists of the measurement of available resources and represents the difference between total assets and total liabilities.

2. **Non-spendable** – Consists of the amounts that cannot be spent because they are in a non-spendable form or legally or contractually required to be maintained intact.

¹ <http://www.osc.state.ny.us/localgov/pubs/releases/gasb54.pdf>

² See OSC accounting bulletin, *Budgeting and Fund Balance Legislation*, from July 2001 at www.osc.state.ny.us/localgov/pubs/releases/budfund.htm.

³ GASB 54 paragraphs 5 - 17

3. Restricted – Consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by certain creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. Legal enforceability means that an external party can compel a government to use resources created by enabling legislation only for the purpose specified by the legislation.

4. Committed (Unrestricted) – Consists of amounts constrained to specific purposes by a government itself using its highest-level decision-making authority (Town Board). The amount to be committed may be determined after the date of the commitment. The Town Board must take formal action before the end of the fiscal year to add or remove a constraint.

5. Assigned (Unrestricted) – Consists of amounts that are subject to a purpose constraint that represents an intended use established by the government's highest-level decision-making authority (Town Board), or by the Board's designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund. In funds, other than the general fund, assigned fund balance will be the residual amount of fund balance.

6. Unassigned (Unrestricted) – This consists of all balances remaining after considering the other four categories for the general fund and could result in a surplus or a deficit. Use is least constrained in this category. In funds, other than the general fund, the unassigned classification should only be used to report a deficit balance.

D. Examples of Classification:

1. Non – spendable (all funds)

Prepaid New York State Retirement Contributions
Prepaid Insurance
Inventories

2. Restricted – Accounts established by the Town of Ulster Town Board:

General Fund

Reserve for Landfill Closure (General Fund) (GMU Sec. 6-c) 8/9/88
Equipment Reserve Fund (General Fund) (GMU Sec. 6-c) 8/9/88
Acquisition of Building (General Fund) (GMU Sec. 6-c) 8/9/88
Police Replacement Vehicle Reserve Fund (General Fund) (GMU Sec. 6-c) 6/21/99
Employee Benefit Accrued Liability Reserve Fund (all funds) (GMU Sec. 6-p) 8/2/04
Recreation Equip. Reserve Fund (General Fund) 8/2/04
Biddy Basketball Reserve Fund (General Fund) 9/18/06
Softball Reserve Fund (General Fund) 2/5/07
Volleyball Reserve Fund (General Fund) 4/2/07
Junior Football Reserve Fund (General Fund) 4/3/08
Retirement Contribution Reserve Fund (General Fund) 12/17/2015
East Kingston Fire Protection District Capital Reserve Fund (General Fund) (GMU Sec. 6-c) 12/5/19
Worker's Compensation Reserve Fund (General Fund) (GMU Sec 6-j) 6/18/20

Highway Fund

Capital Equipment Reserve (Highway Fund) (GMU Sec. 6-c) 6/21/99
Debt Reserve (Highway Fund)
Fuel Dispenser Reserve (Highway Fund) (GMU Sec. 6-c) 10/21/10
Cedar Ridge Stormwater Reserve (Highway Fund) (GMU Sec. 6-c) 3/15/18
Snow and Ice Removal and Road Repair Reserve Fund (Highway Fund) (GMU Sec 6-f) 11/5/20

Ulster Sewer Fund

Sewer Improvement Reserve (Ulster Sewer District Fund) (GMU Sec. 6-c) 1988
Sewer Connection Impact Reserve (Ulster Sewer District Fund) (GMU Sec. 6-c) 1988
Spring Lake Sewer District Capital Reserve (GMU 6-c) 3/3/22
Washington Ave Sewer District Capital Reserve Fund (GMU 6-c) 12/21/23

Ulster Water Districts

Ulster Water District Storage Tank Replacement Reserve (GMU 6-c) 6/21/18
Ulster Water District Capital Reserve Fund (GMU 6-c) 6/18/20
Halcyon Park Water District Capital Reserve Fund (GMU 6-c) 3/5/20

3. Committed (Unrestricted)

OSC believes that in most cases, local governments will not have committed fund balances to report primarily since reserves are allowed by New York State Statute.

4. Assigned (Unrestricted)

OSC believes that formal actions by the governing boards (resolutions, ordinances, and local laws) constitute a constraint of resources and will result in assignment of resources. In Special Reserve Funds the excess of revenues over expenses will result in an Assigned Fund Balance. Encumbrances, when used, will result in an assignment of fund balance. Appropriation of Unassigned Fund Balance to future periods.

5. Unassigned (Unrestricted)

All other unassigned fund balances

In Special Reserve Funds, the excess of expenses over revenues will result in an Unassigned Fund Balance

E. General Policy:

1. Reserves

- a. The Town shall strive to maintain a level of reserves to guard its citizens against a service disruption because reserves are essential to dealing with unforeseen emergencies or changes in condition
- b. Funding of reserves can come from surplus funds (excess of revenues over expenditures or one-time revenues), or other sources as designated by the Town Board.
- c. All expenditures from or uses of reserve will require prior Board approval by adoption of Use of Reserve Resolution.
- d. Reserves shall only be used for the purpose in which they are intended.

2. Fund Balance Policy and Procedures

This Policy is based upon the rule that the Town of Ulster has fully funded or reserved for all operating expenses incurred in prior years in the funds.

- a. The unassigned (unrestricted) fund balance range for General Fund shall not be less than 15% and not more than 18% of the total adopted budgeted expenditures of the Fund.

b. The assigned (unrestricted) fund balance of any Special Revenue Fund shall not be less than 10% and not more than 15% of the total adopted budgeted expenditures of any Fund.

c. The Supervisor shall annually calculate and verify the Town's compliance with this policy. In determining compliance, the following formula will be used: the audited balance available in the unassigned (unrestricted) / assigned (unrestricted) fund balance of the Town's Funds for the most recently audited fiscal year, divided by the adopted expenditure budget for the ensuing fiscal year for each of the Town's Funds.

d. The Supervisor shall report annually to the Town Board the results of the calculation and make recommendations for the use of funds in the event of a surplus or the replenishment of funds in the event of a deficit.

e. **Surplus:** In the event the unassigned (unrestricted) / assigned (unrestricted) fund balance of any of the Town's funds exceed the maximum requirements, the excess may be utilized for any lawful purpose approved by the Town Board. To minimize the long-term effect of such use, the excess shall be appropriated to fund one-time expenditures or expenses which do not result in recurring operating costs, or other one-time costs including the establishment or increase in legitimate restrictions (reserves) of fund balance.

f. **Deficit:** In the event the unassigned (unrestricted) / assigned (unassigned) fund balance for the Town's funds falls below the minimum requirement for any fiscal year, the Supervisor or Chief Accounting Officer shall prepare and submit to the Town Board a plan to restore the balance to the minimum target level in the next budget year or other appropriate period.

3. Application of Funds:

In instances where expenditures are incurred that will require the funding sources to be comprised of two or more types of fund balance categories, the order of exhaustion of the fund will be as follows:

1. Nonspendable (if funds become available)
2. Reserved
3. Committed
4. Assigned
5. Unassigned

F. Review:

The Supervisor will present this Policy annually at the Organizational Meeting of the Town Board for review and adoption.