

County Of Ulster, New York Fund Balance Policy

I. PURPOSE

Ulster County ("the County") has adopted the following policy in an effort to ensure financial security through the maintenance of a fiscally responsible unrestricted fund balance that guides the creation, maintenance, and use of resources for financial stabilization purposes.

The County's primary objective is to maintain a prudent level of financial resources to protect against reducing service levels, raising taxes and fees, and/or borrowing to meet cash flow needs due to revenue shortfalls or unanticipated one-time expenditures. The County also seeks to minimize all borrowing costs by maintaining the highest possible credit ratings which are dependent, in part, on the County's maintenance of a fiscally sound fund balance.

II. BACKGROUND

The Governmental Accounting Standards Board (GASB) issued GASB Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, whose requirements are effective for financial statement periods ending June 30, 2011. GASB 54 abandons the reserved and unreserved classifications of fund balance for financial statement reporting and replaces them with five new classifications: nonspendable, restricted, committed, assigned, and unassigned. The new classifications focus on the constraints imposed on resources in governmental funds, instead of the previous focus on availability for appropriation. These reporting changes do not require changes in the County's budgeting and on-going accounting.

Moreover, the Government Finance Officers Association (GFOA) issued a *Best Practices Guide* entitled "*Fund Balance Guidelines for the General Fund*" in September of 2015. In this guide, 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."

III. DEFINITIONS

Fund Balance: The difference between assets and liabilities reported in a governmental fund. Fund balance is not necessarily the cash balance of the County. Fund balances are classified into various components depending on the limitation placed on the use of the funds. The hierarchy indicates the extent to which a government is required to observe spending constraints that govern how it can use amounts reporting in the governmental funds balance sheet.

Nonspendable Fund Balance: Consists of assets that are inherently nonspendable 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, financial assets held for resale, and principal of endowments.

Restricted Fund Balance: Consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provision or enabling legislation.

Committed Fund Balance: Consists of amounts that are subject to a purpose constraint imposed by a formal action of the government's highest level of decision-making authority before the end of the fiscal year, and that require the same level of formal action to remove the constraint.

Assigned Fund Balance: Consists of amounts that are subject to a purpose constraint that represents an intended use established by the government's highest level of decision-making authority. The purpose of the assignment must be narrower than the purpose of the General Fund, and in funds other than the General Fund, assigned fund balance represents the residual amount of fund balance.

Unassigned Fund Balance: Represents the residual classification for the government's General Fund, and could report a surplus or a deficit. In funds other than the General Fund, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Unrestricted Fund Balance: The total of the Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance.

IV. POLICY STATEMENT

The most current fund balance classifications as promulgated by GASB shall be used in all financial statements filed on behalf of the County. In the case that the definitions described herein are no longer applicable, the Commissioner of Finance will file a notice with the Clerk of the Legislature as soon as is practicable to alert the County Legislature that review and amendment of this policy is necessary.

County finances will be managed so as to maintain balances of the various funds at levels sufficient to mitigate current and future risks, such as revenue shortfalls, unanticipated expenditures, stabilization of tax rates and user fees, protection of the County's creditworthiness, and to provide for adequate cash flow needs.

NYS law provides authority for the carryover of reasonable amounts of fund balance from one year to the next. Reasonable amount determinations include factors such as providing adequate cash flow to cover two months of operating expenditures thereby providing the liquidity necessary to accommodate the County's uneven cash flow which is inherent in its periodic tax collection as well as reliance on sales tax, and federal and state program reimbursements.

The County shall have a target unrestricted fund balance within the General Fund of 15%-20% of current General Fund operating expenditures, as calculated below. The County will strive to maintain an unrestricted fund balance in this range for the General Fund at all times.

The County shall not exceed an unrestricted fund balance within the County Road Fund of 20% of current operating expenditures, as calculated below. The County will strive to maintain an unrestricted fund balance in this range for the County Road Fund at all times.

The County shall not exceed an unrestricted fund balance within the Road Machinery Fund of 20% of current operating expenditures, as calculated below. The County will strive to maintain an unrestricted fund balance in this range for the Road Machinery Fund at all times.

The range of acceptable unrestricted fund balance is calculated as the ending value of unrestricted fund balance for the unique fund at the close of the fiscal year, divided by the subsequent year's Total Adopted Budgetary Expenditures and Other Uses for the same Fund.

When revenues exceed budgeted appropriations in any given fiscal year, the surplus shall be appropriated first to the unassigned fund balance. Upon unrestricted fund balance reaching the 20% ceiling target, the Department of Finance will present to the Legislature, no later than the June Legislative Session, options for utilizing the excess, including, but not limited to: the additional funding of any allowable restricted funds; the funding of accrued liabilities; the funding of debt; the funding of authorized and unissued debt; or covering one-time expenditures. Any Fund Balance in excess of this Policy for the County Road Fund and the Road Machinery Fund shall be used for the required purposes of said fund. It is the intent of the County to limit the use of these fund balances to address unanticipated, non-recurring needs, or unanticipated future obligations. Fund balances should not be applied to recurring annual operating expenditures.

In the event the unrestricted fund balance is below the 15% floor target, the County Executive, in conjunction with the Department of Finance, will work towards increasing the amount of budgetary surplus at the earliest appropriate time. If necessary, the ensuing County Executive Recommended Budget shall be required to remedy the unrestricted fund balance to ensure compliance with the policy guidelines herein.

When resources are available from multiple classifications, the County will spend, as allowed and available, the most restricted dollars before less restricted in the following order:

1. Nonspendable (if funds become spendable);
2. Restricted;
3. Committed;
4. Assigned;
5. Unassigned.

V. DELEGATION OF AUTHORITY

The County Legislature is the government's highest decision-making authority that can commit and assign fund balance pursuant to a duly adopted County Resolution. The action to commit or assign fund balance must occur prior to the fiscal year-end in order to report such commitments and/or assignments in the financial statements of the respective period. The commitment and/or assignment may only be modified by a resolution adopted by the County Legislature.

The County Legislature delegates the authority to determine and classify the proper ending fund balance amounts to the Commissioner of Finance for those accounts which are already established, and require adjustment based on interest earned, and/or on the account's relationship with a specific revenue and/or expenditure.

This delegation of authority does not apply to the establishment of new fund balance accounts and does not supersede authorizations required by State statute or by Section III above. The County Legislature does not designate its authority as the government's highest decision-making body that can commit and assign fund balance.

Upon submission of the County Executive Recommended Budget, the County Executive may request the use of Committed and/or Assigned Fund Balance. Such request must be clearly defined and disclosed. The disclosure of such recommended use must include a schedule detailing each affected fund balance account's beginning balance, the vendor name and a description of the recommended use, the value of the recommended use, and the account's budgeted ending balance should all recommendations be successfully authorized and executed.

Funding authorized through the budget process consistent with the terms set forth within this Policy does not supersede New York State Law or the County Charter. As such, any associated contracts in excess of \$50,000 or contract amendments which cause such contracts to exceed the aggregate sum of \$50,000, made in connection with such authorization, shall be subject to the further approval of the Ulster County Legislature.

VI. REPORTING

The Commissioner of Finance shall file a report with the Clerk of the Legislature upon completion of the Annual Update Document (AUD) each year. This report shall include the following information:

- all fund balance accounts and classifications and their beginning balances as of January 1st for the period;
- a description and value of each change to each of the fund balance accounts that took place during the period;
- the ending balance of all fund balance accounts and classifications; and
- the percentage of unrestricted fund balance within the general fund, County Road Fund, and Road Machinery Fund as of December 31st annually.

VII. POLICY UPDATE

This policy will be reviewed annually on or before the June Legislative Session and updated as deemed necessary by the County Legislature.