

MEMORANDUM FROM THE

ULSTER COUNTY OFFICE OF THE COMPTROLLER

March S. Gallagher, Esq.
Comptroller



Alicia DeMarco, CPA
Deputy Comptroller

Charles Dinstuhl, CPA
Director of Internal Audit & Control

Date: April 12, 2023

To: Tracy Bartels, Chair of Legislature

Cc: Jen Metzger, County Executive

From: March Gallagher, Comptroller

Re: Fund Balance Policy Recommendations

Dear Chair Bartels,

Having a sound fund balance policy protects County resources from unforeseen events and maintains financial stabilization. Upon reviewing the proposed Fund Balance Policy included in Resolution 213 of 2023, we recommend that the following items would enhance the proposed policy:

- **Provide Clearer Definitions:** In the definitions section, we recommend including “(Unrestricted)” after the bold heading of Committed, Assigned, and Unassigned, to visualize the classifications of fund balance that apply to the unrestricted fund balance.
- **Comply with GFOA guidance to use only “unrestricted” and not “unassigned”:** In the policy statement section, we observe that the proposed policy has a fund balance target for unassigned fund balance as well as unrestricted fund balance. **Since recommendations by GFOA only reference maintaining unrestricted fund balance amounts worth two months of operational expenditures, we recommend that unrestricted fund balance be the only metric required of the policy.**
- **Provide clear examples of classifications:** After the Definitions section, we recommend including another section for Examples of Classifications that provides specific examples and lists all approved reserve funds in the restricted fund balance section by fund.
- **Address other funds of the County and provide fund balance guidance within each:** In the policy statement section, we reference the need to cover two months operating expenditures for uneven cash flow, however, we only reference the General Fund in the

policy and ignore the Special Revenue, County Road Fund, Road Machinery, and Debt Service Funds which have many operational expenditures, especially within the first two months of the year. Due to these other governmental funds being a substantial piece of operations, we recommend including a target range for each of these governmental funds and requiring each fund to be calculated separately.

- In the policy statement section options for utilizing excess fund balance, the draft policy recommends funding allowable assigned or committed funds, funding accrued liabilities, funding debt, and covering start up costs of new programs. Instead, the policy could simply state that the excess may be utilized for any lawful purpose approved by the Legislature. To minimize the effect of such use, we recommend the policy state that the excess should fund one-time expenditures which do not result in any recurring operating costs.

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 ~~unassigned and 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 (Unrestricted): 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 (Unrestricted): 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, ~~or by their designated body or official~~. 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 (Unrestricted): 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. EXAMPLES OF CLASSIFICATION

1. Nonspendable (all funds)

**Prepaid expenditures
Inventories**

2. Restricted – accounts established by the Ulster County Legislature or restricted for specific purposes

All reserve funds established by resolution, for example:

**Capital Project Reserve (General Fund)
Tax Stabilization Reserve (General Fund)
Liability & Casualty Reserve (General Fund)**

All current restricted funds based on specific use funding, for example:

**Civil and DA Forfeitures
Emergency Telephone (E-911)
Probation Administration Fees
Stop DWI
Traffic Safety Board**

3. Committed (Unrestricted)

NYS 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)

NYS OSC believes that formal actions by the governing boards constitute a constraint of resources and will result in assignment of such resources.

In the County Road Fund and Road Machinery Fund the excess of revenues over expenditures will result in Assigned Fund Balance

Encumbrances

Appropriation to subsequent years expenditures

Jail Telephone Commissions

Tourism

5. Unassigned (Unrestricted)

All other unassigned fund balances

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 ~~one~~ **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 generally accepted County shall have a target operating unassigned fund balance is of 5% - 10% of current General Fund operating expenditures, as calculated below. Further, the County shall~~

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

1. The County shall have a target **General Fund** operating **unrestricted** fund balance 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 at all times.
2. The County shall have a target **Special Grant Fund** operating **unrestricted** fund balance is **15%-20%** of current Special Grant Fund operating expenditures, **as calculated below**. The County will strive to maintain an **unrestricted** fund balance in this range at all times.
3. The County shall have a target **County Road Fund** operating **unrestricted** fund balance is **15%-20%** of current County Road Fund operating expenditures, **as calculated below**. The County will strive to maintain an **unrestricted** fund balance in this range at all times.
4. The County shall have a target **Road Machinery Fund** operating **unrestricted** fund balance is **15%-20%** of current Road Machinery Fund operating expenditures, **as calculated below**. The County will strive to maintain an **unrestricted** fund balance in this range at all times.
5. The County shall have a target **Debt Service Fund** total operating fund balance of **15%-20%** of current Debt Service Fund operating expenditures, **as calculated below**. The County will strive to maintain a total fund balance in this range at all times.

The range of acceptable ~~unassigned and~~ **unrestricted** fund balance is calculated as the ending value of ~~unassigned or~~ **unrestricted** fund balance at the close of the fiscal year, divided by the subsequent year's General Fund Total **Adopted Budgetary Expenditures and Other Uses, Appropriations**. ~~Expenditures and Other Uses taken from the audited financial statements, if available, the Annual Financial Report submitted to the State, if available, or the Adopted Budget.~~ The range of acceptable fund balance in the Debt Service Fund is calculated as the total ending value of Debt Service Fund Balance divided by the Debt Service Fund's subsequent year's Total Adopted Budgetary Expenditures and Other Uses.

~~An unassigned **unrestricted** fund balance above or below the minimum **acceptable thresholds** should be remedied within the succeeding year. If it is determined by the Commissioner of Finance that it is not possible or prudent to adequately adjust the value of unassigned **unrestricted** fund balance **is not remedied** in the succeeding year, the next upcoming operating budget must address compliance with the Fund Balance Policy, including a description of what, if any, actions were taken during the year to regain compliance with the Fund Balance Policy, and what, if any, actions are included in the proposed budget to regain compliance with the Policy.~~

When revenues exceed budgeted appropriations in any given fiscal year, the surplus shall be appropriated first to the unassigned fund balance. Upon reaching the ~~10%~~ **20%** ceiling target for the ~~unassigned~~ **unrestricted** fund balance, the Department of Finance will present to the Legislature, no later than the June Legislative Session, options for utilizing the excess. **To minimize the long-term effect of such use, the excess shall be appropriated to fund one-time expenditures 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. , including, but not limited to: the additional funding of any allowable assigned and/or committed funds; the funding of accrued**

~~liabilities; the funding of debt; the funding of authorized and unissued debt; covering one-time expenditures; or covering start-up of expenditures for new programs.~~ 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 **normally** be applied to recurring annual operating expenditures.

In the event the **unassigned unrestricted** fund balance is below the **5% 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 **unassigned 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.

VI. DELEGATION OF AUTHORITY

The County Legislature is the decision-making authority that can commit and appropriate fund balance pursuant to a duly adopted County Resolution. The action to commit or allocate fund balance must occur prior to the fiscal year-end in order to report such commitments in the financial statements of the respective period. The commitment 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 decision-making body that can commit and appropriate fund balance.

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 unassigned and unrestricted fund balance within the general fund as of December 31st annually.**

VII. POLICY UPDATE

This policy will be reviewed and updated **annually at the Organizational Meeting as deemed necessary** by the County Legislature.