

12.20.2011
110918

ADOPTED

TOWN OF RIVERHEAD

Resolution #918

ADOPTION OF FUND BALANCE POLICY

Councilman Dunleavy offered the following resolution,

which was seconded by Councilman Wooten

WHEREAS, the Town of Riverhead is required to implement GASB #54 Fund Balance Reporting and Governmental Fund Type Definitions: and

WHEREAS, the Town of Riverhead adopted a Fund Balance Policy in 2006 and wishes to amend that policy,

THEREFORE BE IT FURTHER RESOLVED that the Town of Riverhead's Fund Balance Policy is hereby adopted as follows:

THE VOTE

Giglio Yes No Gabrielsen Yes No
Wooten Yes No Dunleavy Yes No

Walter Yes No

The Resolution Was Thereupon Duly Declared Adopted

Town of Riverhead

Fund Balance Policy

TOWN OF RIVERHEAD

FUND BALANCE POLICY

Adopted: December 6, 2011

The Town of Riverhead (the "Town") believes that sound financial management principles require that sufficient funds be retained by the Town to provide a stable financial base at all times. To retain this stable financial base, the Town needs to maintain a General Fund Balance sufficient to fund all cash requirements of the Town, to secure and maintain investment grade bond ratings, to provide financial reserves for unanticipated/emergency expenditures and/or revenue shortfalls.

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54)* changed the terminology and classification of fund balance to reflect spending constraints on resources, rather than availability for appropriation. This approach is intended to provide users more consistent and understandable information about a fund's resources. The statement is intended to improve the usefulness of the fund balance information reported by providing more clarification and structured classification.

Under GASB 54, fund balance is classified as: 1) nonspendable, 2) restricted, or 3) unrestricted. Unrestricted fund balance is further classified as: 1) committed, 2) assigned, or 3) unassigned:

The following individual items shall constitute the Town General Fund Balance:

- **Nonspendable Fund Balance** consists of assets that will never convert to cash due to their form (i.e. inventories and prepaid items), will not convert to cash within the current period (i.e. long term receivables), or funds that legally or contractually must be maintained intact (i.e. principal amount of legal endowments).
- **Restricted Fund Balance** consists of the portion of fund balance that is limited to use for a specific purpose by external parties (i.e. creditors, grantors), or by law through constitutional provisions or enabling legislation.
- **Committed Fund Balance** consists of the portion of fund balance whose use is constrained by limitations imposed by the Town's highest level of decision making authority (Town Board). Formal action must be taken prior to the end of the fiscal year; however, the amount can be determined in the subsequent period. The same formal action must be taken to remove or change the limitations placed on the funds. The Town Board is the decision making authority that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance.
- **Assigned Fund Balance** consists of the portion of fund balance that reflects the Town's intended use of certain resources for specific purposes. Intent is established the Town's highest level of decision making authority or a body or official that has been given the authority to assign funds.
 - In the General fund, assigned fund balance, represents amounts constrained by a government board, or a body or person(s) with delegated authority from a governing board to assign amounts, for a specific intended purpose. Amounts reported as assigned should not result in a deficit in unassigned fund balance.
 - Assigned fund balance in all other governmental funds represents any positive amount after classifying nonspendable, restricted or committed fund balance.

- **Unassigned Fund Balance** is the residual classification for the General Fund and consists of the excess portion of fund balance that has not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls. Only the General Fund is able to report a positive unassigned fund balance.
 - If another governmental fund has a fund balance deficit, then it will be reported as a negative amount in the unassigned classification in that fund. This fund deficit would only be shown if the fund's liabilities, together with the amounts classified as nonspendable, restricted, and committed exceed the fund's assets (a residual deficit).

Not all of the Town's funds will necessarily have all of the components of fund balance available to that fund.

No funds should report a negative amount for restricted, committed or assigned fund balance.

Nonspendable and Restricted Fund Balance

It is the responsibility of the Financial Administrator to report Nonspendable Fund Balance appropriately in the Town's Comprehensive Annual Financial Report.

It is the responsibility of the Financial Administrator to report all Restricted Funds appropriately in the Town's Financial Statements. All Restricted Funds must also be reported to the Town Board at the next Board meeting following the recognition of the restriction.

Order of Use of Restricted and Unrestricted Funds

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless otherwise required by law or agreement.

When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second, and unassigned funds last.

Authority to Commit Funds

The Town's Board has the authority to set aside funds for a specific purpose. Any funds set aside as Committed Fund Balance requires the passage of a resolution by a simple majority vote. The passage of a resolution must take place prior to December 31st, of the applicable fiscal year. If the actual amount of the commitment is not known by December 31st, the resolution must state the process or formula necessary to calculate the actual amount as soon as information is available.

Authority to Assign Funds

Upon determination of the amounts of Nonspendable, Restricted and Committed Fund balance, **in all funds except** for the General Fund, the Financial Administrator has the authority to record the remainder of fund balance as Assigned Fund Balance.

Upon passage of a budget resolution, where fund balance is used as a source to balance the budget, the Financial Administrator shall record the amount of Assigned Fund Balance.

Unrestricted Fund Balance

Unrestricted Fund Balance is the residual amount of Fund Balance in the General Fund and consists of committed, assigned and unassigned fund balance. It represents the resources available for future spending. Unrestricted Fund Balance may be accessed in the event of unexpected expenditures, upon approval of a budget amendment resolution by the Town's governing body. In the event of a projected revenue shortfall, it is the responsibility of the Financial Administrator to report the projections to the Town's Board on, at a minimum, an annual basis and shall be recorded in the minutes.

Any budget amendment resolution that will result in the Unrestricted Fund Balance dropping below the minimum level will require a simple majority vote.

Adequate Fund Balance

Year-end surpluses and fund balances are moneys that can provide a cushion or buffer that may be needed from time to time to operate without interruption or reduction in services. They provide a degree of stability and the resources to weather fluctuations in revenues and expenditures without severely impacting real property tax rates. Fund balances and adequate reserves should be managed and reviewed on a regular basis.

In its evaluations of credit ratings, Moody's Investors Service has stated it "...expects [municipalities] to maintain... conservative budgeting and sound fiscal management in order to sustain levels of fund equity." Standard & Poor's Corporation, in its evaluations, has stated that it expected "...that [issuers] will continue to maintain strong financial positions..." that "...are supported by conservative budgeting practices..." Thus, the financial community, and especially the credit rating agencies, attaches considerable importance to adequate fund balances and policies to monitor and manage those fund balances.

Auditors and financial advisors often note that fund balances are not replaceable through the budget process because of the legal requirement to develop balanced budgets for the general fund and the special revenue funds. The Town does face significant pressure on the expenditure side of its budget (and therefor on its reserves) due to health insurance premiums, pension costs, labor negotiations and the tax cap. If surplus is depleted at the end of a fiscal year, it cannot be replaced unless during the ensuing fiscal year expenditures are less than amounts budgeted or non-tax revenues are higher than projected (or both).

The Town of Riverhead, due to revenue streams produced by property taxes and other sources, as well as careful and conservative budgeting of expenditures, has been able to generate operating surpluses in its General Fund over the years.

In recognition of sound fiscal policy and in order to stabilize and possibly enhance the current credit rating of the Town, the Town Board will make all reasonable efforts to maintain a total fund balance including reserves in its General Fund at the end of each fiscal year equal to no less than 15% of its total operating budget. The Town believes that this is a reasonable amount fund balance to achieve at the end of each fiscal year as unanticipated events during the course of a year can have negative effects on non-tax revenues or expenditures, or both.

If an emergency or a need were to occur that necessitated the appropriation of funds that would result in reducing the projected fund balance in the General Fund below 15% of operating expenditures, a resolution of the Town Board would be adopted to approve such appropriation.

Fund balance in the General Fund above 15% may be appropriated for the following purposes:

To reduce the subsequent year's property taxes.

For one-time capital expenditures.

For emergencies caused by natural occurrences such as hurricanes or blizzards.

This policy will remain in effect until the Town of Riverhead, by resolution, amends or revises it.
