

Town of East Hampton
General Fund Balance Policy
Updated for GASB 54 Fund Balance Reporting and Governmental Fund Type Definitions

PURPOSE

To outline the policies and procedures adopted by the Board of Finance regarding provisions for identifying and classifying fund balances in accordance with Government Accounting Standards Board Statement 54.

BACKGROUND

Government entities should maintain a prudent level of financial resources to protect against reducing service levels or incurring debt because of temporary revenue shortfalls or unpredicted one-time expenditures. To this end, the Board of Finance adopted a *Fund Balance Policy* on June 20, 2005.

Prior to the adoption of GASB 54 the fund balance is divided into three basic classifications for accounting and tracking purposes: designations, reserves and unreserved/undesignated. The unreserved/undesignated fund balance is the official title for what has previously been described as "fund balance" in the Town's financial reports and discussions. Reserves are legally restricted funds established for a future specific use and are not available for general appropriation. Designations have been set-aside by the Town Council for a specific purpose.

A positive fund balance serves three important functions:

1. Eliminates the need for short term borrowing to handle cash flow between the start of the fiscal year and receipt of revenue from taxes;
2. Can be periodically used to lower taxes to smooth out major fluctuations in the property tax rates;
3. Serves as a contingency fund that enables the Town to respond to unanticipated emergencies or opportunities.

Credit rating agencies determine the adequacy of the unreserved fund balance using a complex series of financial evaluations. The size of the fund balance is an important, but not the only consideration in the Town's rating. Other important factors are the reliability of a government's revenue sources, economic conditions, community wealth factors, cash position, debt ratios, management performance, and fiscal decisions made by the legislative body.

The Government Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, to become effective for financial statements with periods beginning after June 15, 2010 (Statement 54). Statement 54 is designed to improve financial reporting consistency among governmental entities. Basically, a hierarchy has been established clarifying the constraints that govern how a government entity can use amounts reported as fund balance. Statement 54 establishes the following five new fund balance classifications: Non-spendable, Restricted, Committed, Assigned, and Unassigned. The new fund balance classifications from most restrictive to no restrictions are as follows:

FUND BALANCE DEFINITIONS

- **Fund Balance** is the difference between the Town’s current assets (cash, short-term investments, receivables) expected to be available to finance operations in the immediate future and its current liabilities.
- **Fund balance** is initially characterized as being restricted and unrestricted. **Unrestricted Fund Balance** is calculated as follows:

Total Fund Balance
 Less: **Nonspendable fund balance**
 Less: **Restricted fund balance**
Unrestricted Fund Balance

RESTRICTED FUND BALANCE CATEGORIES

- **Nonspendable fund balance**– Amounts that cannot be spent because they are (a) not in spendable form (such as inventory, prepaid items, long term portions of notes receivables), or (b) legally or contractually required to be maintained intact (such as the corpus of an endowment fund).
- **Restricted fund balance**- Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation and includes a legally enforceable requirement that the resources be used for a particular purpose specified in the legislation.

UNRESTRICTED FUND BALANCE CATEGORIES

- **Committed fund balance**– Amounts constrained to specific purposes by the Town itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purposes unless the government takes the same highest-level action to remove or change the constraint.

The decision making authority for purposes of this policy can be any one of the following:

Decision making authority	Formal Action To Be Taken
Town Council	Adoption of Resolution
Electors	Town Meeting or Referendum

Amounts cannot be used for any other purpose unless the constraint is changed in a similar manner.

- **Assigned fund balance**– Amounts the Town intends to use for a specific purpose; intent can be expressed by the Town or by an official or body to which the Town delegates the authority. Appropriations of existing fund balances to future budgets are considered assigned fund balance. The Town shall not report an assignment that will result in a deficit in Unassigned fund balance.

Negative fund balances cannot be considered assigned. The expression of intent does not have to be made prior to year end.

The body authorized to assign amounts to a specific purposes for purposes of this policy is the Town Manager and Finance Director.

- **Unassigned fund balance** – Amounts that are available for any purpose; these amounts are reported only in the general fund. In other governmental funds, if expenditures incurred exceeded the amounts restricted, committed or assigned it may be necessary to report a negative unassigned fund balance.

GOVERNMENTAL FUND TYPE DEFINITIONS

- **General Fund** – all funds not reported in another fund
- **Special Revenue Funds** – Used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt and capital projects. *Restricted or committed revenues is the foundation for a special revenue fund.*
- **Capital Project Funds** – Used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.
- **Debt Service Funds** – Used to account for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest, including resources being accumulated for principal and interest maturing in future years.
- **Permanent Funds** – Used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is for the benefit of the government or its citizenry. Permanent funds do NOT include private purpose trust funds.

TOWN SPENDING PRIORITIZATION POLICY:

The Town formally establishes and adopts the “default” spending policy, spending resources in the following manner when available: restricted, committed, assigned, and unassigned. The default policy is meant to prioritize the flow of resources from most restrictive to least restrictive for normal business activities.

ASSIGNMENT DESIGNATION BY THE BOARD OF FINANCE:

The Board of Finance authorizes the Town Manager and the Director of Finance to express assignments on behalf of the town to document the Town's intent to use available resources for specific purposes. The applicable assignments do not require formal Town approval. A change in assignment will be reported to the Board of Finance at their next regularly scheduled meeting.

GUIDELINES

The appropriate level of unrestricted fund balance to be maintained in the general fund.

The Town strives to maintain an unrestricted general fund balance of not less than ten (10) percent nor more than twelve (12) percent of current year budgeted general fund operating expenditures.

Surplus:

If it is determined there is a surplus (an amount in excess of the upper limit of the unrestricted fund balance range) a recommendation by the Board of Finance may be made to the Town Council that the excess be used for the following purposes:

- To fund unforeseen expenditure requirements or unanticipated revenue fluctuations.
- Reduction or avoidance of debt. If there is short-term debt within the fund the surplus may be applied to reduce or eliminate the debt if financial analysis proves this to be advantageous for the Town. If a borrowing is scheduled, the surplus may be used to reduce the principal amount the Town needs to obtain if financial analysis proves this to be advantageous for the Town.
- Applied to a replacement program. Surplus funds may be used to supplement or enhance a capital replacement program such as vehicle, personal computer, or heavy equipment replacement, or any other capital replacement program initiated by the Town.
- One-time capital needs. Since a surplus does not represent a recurring source of revenue it should not be used to fund a recurring expense; however, if a one-time capital expenditure has been identified, the surplus may be appropriated for this use.
- To take advantage of opportunities that would have a positive economic impact for the Town of East Hampton. This may include, but not limited to, land acquisition and land development rights.
- Tax, fee, or rate stabilization. Surplus funds may be designated for stabilization in order to avoid raising taxes, fees, or rates related to the fund in subsequent years.

Shortfall:

If it is determined there is a shortfall (an amount below the lower limit of the unrestricted fund balance range), the fund balance is to be rebuilt through the following mechanisms.

- An appropriation during the next annual budget process of at least 20% of the shortfall until the lower limit has been reached. If this is financially infeasible, a written plan shall be forwarded by the Town Manager to the Board of Finance for approval in order to restore the unrestricted fund balance to an amount within the range within a reasonable time frame. This plan may require reduction of services, increases in taxes, fees, or rates, or some combination thereof.

Adopted: Board of Finance 7-18-2011

Amended: Board of Finance 02-22-2022