

General Fund - Fund Balance Policy

Purpose of this Policy

The purpose of this policy is to establish a target level of fund balance for the general fund and to establish a process and criteria for the continued evaluation of that target level as conditions warrant. This policy shall also establish a process for reaching and or maintaining the targeted level of fund balance, and the priority for the use of resources in excess of the target.

Finally, this policy shall provide a mechanism for monitoring and reporting the Town's general fund balance. This policy applies only to the general fund.

Definitions and Classifications

Fund Balance is a term used to describe the net assets of governmental funds. It is calculated as the difference between the assets and liabilities reported in a governmental fund.

Governmental fund balance is reported in five classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The five classifications of fund balance for the General fund are defined as follows.

- *Non-spendable* – resources which cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.
- *Restricted* – resources with constraints placed on the use of resources which are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.
- *Committed* – resources which are subject to limitations the government imposes upon itself at its highest level of design making (Select Board), and that remain binding unless removed in the same manner.
- *Assigned* – resources neither restricted nor committed for which a government has a stated intended use as established by the Select Board, or a body or official (management) to which the Select Board has delegated the authority to assign amounts for specific purposes.
- *Unassigned* – resources which cannot be properly classified in one of the other four categories. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

The committed, assigned, and unassigned classifications are often referred to, in the aggregate, as the unrestricted fund balance.

Background and Considerations

Fund balance is intended to serve as a measure of financial resources in a governmental fund. The Town's management, credit rating agencies, and others monitor the levels of fund balance in the general fund as an important indicator of the Town's economic condition. While credit agencies have always analyzed fund balance as part of their evaluation of creditworthiness, increased attention has been focused on determining sufficient levels because of recent events in the credit markets.

In establishing an appropriate level of fund balance the Town has considered the following factors:

- Property Tax Base
- Non-property Tax Revenues
- Debt Profile
- Liquidity
- Budget Management
- Future Uses
- Employment Base

Fund Balance needs vary from community to community and depend on a number of factors, including the type and stability of revenues, the size and structure of the debt load, and the nature of expenditures. Before GASB Statement No. 34 changed fund balance to calculate the net of all liabilities, Undesignated Fund Balance for a municipality typically ranged from 5 to 15% of total operating expenses, with (three month's operating expenses) being the typical minimum target.

Policy

It is the policy of the Town of Newburgh to maintain unassigned fund balance in the general fund at 15% of general fund revenues measured on a GAAP basis (GAAP - generally accepted accounting principles in the United States). In the event that the unassigned fund balance drops below this level, the Town will develop a plan, implemented through the annual budgetary process, to bring the balance to the target level over a period of no more than three (3) years.

Annually the Town Manager shall report the fund balance in the appropriate classifications and make the appropriate disclosures in the Town's financial statements. Unless already classified as restricted or committed, the following balances shall be classified as assigned, as per GAAP or a matter of policy.

Encumbrances – Amounts encumbered at year-end by contract, including purchase order, or encumbered by some other means shall be classified as assigned. (GAAP)

Budget Appropriation – Amounts appropriated in the annual budget resolve, or in any supplemental budget resolves, for expenditures in ensuing fiscal year shall be classified as assigned. (GAAP)

Capital Budget – Amounts designated for use in the first year of the capital improvement program, whether by appropriation or advance to another fund, shall be classified as assigned.

Board action must be taken to assign amounts before the end of the fiscal year (types of assignments and estimated amounts are required). The Finance Director (Town Manager) will provide the estimated fund balances in order to carry out such assignments.

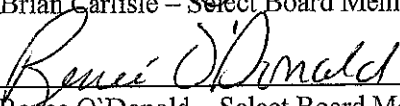
Policy Administration

Annually, the Finance Director shall report on the Town's fund balance and the classification of the various components in accordance with GAAP and this policy.

Should the Town fall below the target level, the Finance Director (Town Manager) shall prepare a plan to restore the unassigned fund balance to the target level.



Brian Carlisle – Select Board Member



Renee O'Donald – Select Board Member

1/22/24

Date



Kurt Giles – Select Board Member