

# City of Hornell

## GASB 54 Fund Balance Policy

### Purpose

The City of Hornell (the "City") has enacted the following policy in an effort to ensure financial security through the maintenance of a healthy reserve fund that guides the creation, maintenance, and use of resources for financial stabilization purposes.

The City's primary objective is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures. The City also seeks to maintain the highest possible credit ratings which are dependent, in part, on the City's maintenance of a healthy fund balance.

Reserve funds (which essentially are a legally authorized savings account for particular specific - purposes) are an important component in the City's financial planning for specific expenses, future projects, acquisitions and other lawful purposes. To this end the City may establish and maintain reserve funds in accordance with New York State Laws. The City will also consider rules and/or opinions issued by the New York State Comptroller when they are not in conflict with law.

City reserve funds must be properly established and maintained to promote the goals of creating an open, transparent and accountable use of public funds. The City may engage independent experts and professionals, including but not limited to auditors, accountants and other financial and legal counsel, as necessary to monitor all reserve fund activity and prepare reports that the Common Council may require.

**Government Fund Type Assignment (GASB 54)** The City shall comply with the reporting requirements of Article 3 of General Municipal Law of the State of New York and the Governmental Accounting Standards Board (GASB) Statement Number 54, Fund Balance Reporting and Governmental Fund Type Definitions. GASB Statement Number 54 established the following classifications depicting how specific amounts can be spent:

- Nonspendable fund balance consists of amounts that are not in a spendable form 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, and financial assets held for resale.
- Restricted fund balance consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by grantors, bondholders or laws and regulations of higher levels of government or through constitutional provisions or enabling legislation.
  - Committed fund balance consists of amounts constrained to specific purposes by a government itself using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
  - Assigned fund balance consists of amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
  - Unassigned fund balance consists of amounts that are available for any purpose; these amounts are reported only in the General Fund.

### **Policy Statement**

The fund balance of the City's General Fund and Water Fund has been accumulated to provide stability and flexibility to respond to unexpected adversity and/or opportunities.

The Common Council's objective is to maintain an unassigned fund balance of not less than 15% of annual operating expenditures for the fiscal year. The Common Council feels that this is a reasonable amount to mitigate current and future risks, such as revenue shortfalls and unanticipated expenditures; to ensure stable tax rates and user fees; and, to protect the City's creditworthiness. If the unassigned fund balance falls below 15%, it should be replenished within one to three years.

The Common Council will set aside certain amounts as committed fund balance. A committed fund balance represents fund balances that have been approved by Common Council resolution prior to the end of the year. The amount of the commitment may be determined after year end but prior to the release of the financial statements. Should the amount of commitment not be known at the time of the resolution, the Mayor shall determine the amounts to be committed and report such amount to the Common Council.

The Common Council delegates to the Mayor the authority to determine the proper amounts to be assigned for purposes as are deemed necessary. Assigned fund balances represent amounts intended to be

used for a specific purpose. These assignments would provide the liquidity to respond to contingent liabilities, provide for capital asset replacements and capital projects, and set aside amounts to reduce the ensuing year's tax levy which was previously referred to as appropriated fund balance.

The Mayor will set aside committed fund balances equal to the amount of outstanding purchase orders or encumbrances.

Effective as of the year ended March 31, 2012; unassigned fund balance shall be any remaining amounts.

The City will spend, as allowed and available, the most restricted dollars before less restricted in the following order:

- a) Nonspendable (if funds become spendable)
- b) Restricted
- c) Committed
- d) Assigned
- e) Unassigned

### **Periodic Review and Annual Report**

The City will be mindful of its role and responsibility as a fiduciary of public funds when acting on reserve fund issues.

This policy may be updated as deemed necessary per the Common Council.

2/2019