

DATE OF ADOPTION:



CITY OF
Middletown
— NEW YORK —

FUND BALANCE POLICY

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I. Purpose

City of Middletown, NY (the “City”) recognizes the significance of sound financial management and establishes this Fund Balance Policy for the General, Water and Sewer Fund to:

- ❖ Ensure financial stability and resilience against economic fluctuations.
- ❖ Maintain sufficient reserves for emergencies and unforeseen circumstances.
- ❖ Establish guidelines for prudent use of available funds while meeting community needs.
- ❖ Provide transparency in financial reporting to stakeholders.
- ❖ Protect the City’s credit worthiness and provide adequate cash flow needs.
- ❖ Protect the City against reducing service levels or raising of taxes due to temporary revenue shortfall, one-time expenditure, emergency and disasters.

The Office of NYS Comptroller recommends local governments establish a policy to maintain reasonable levels of unexpended surplus funds and other principle funds to hedge against unanticipated expenditures and/or revenue shortfalls.

II. Definitions

Fund Balance is the total accumulation of operating surpluses and deficits since the beginning of a local government’s existence. The fund balance shall be categorized as follows in accordance with GASB principle 54:

Nonspendable:

Amounts that cannot be spent in the current period either because of their form or because they must be maintained intact. *Classification: prepaid items, inventory*

Restricted:

Amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors or law and regulation of other governments or through constitutional provisional or enabling legislation. *Classifications: Capital Reserves, Tax Stabilization Reserves, Debt Reserves, Insurance Reserves, and other reserves allowed by State statutes.*

Committed:

Amounts that are subject to purpose constraints imposed by a formal action of the government’s highest level of decision – making authority (the Common Council) before the end of the year. The same level of formal action is required to remove the constraints. *Classification: The Office of State Comptroller recommends most local governments do not have committed funds due to reserves.*

Assigned:

Amounts that are subject to a purpose constrained that represents an intended use established by the government’s highest level of decision-making authority or by its designated body or official. The purpose of the assigned fund balance represents the residual amount of fund balance. *Classification: The Office of State Comptroller states that resolutions, ordinance, and*

local laws constitute a constraint of resources and will result in an assignment of resources. Encumbrances will typically be considered an assignment of fund balance.

Unassigned:

Represents the residual amount of fund balance in the General Fund. Use is least constrained in this category. In funds other than General Fund, this classification should only be used to report deficit balances. *Classification: all other unassigned fund balances.*

III. Target Levels for Unassigned Fund Balance

The City recommends to maintain an unassigned fund balances at levels consistent with:

5% -20% of the prior year expenditure made from General, Water and Sewer fund.

The City Treasurer shall annually calculate and verify the compliance with this policy. The formula to calculate the fund balance will be as follows:

- ❖ The audited balance available in the unassigned fund balance of the most recent fiscal year, divided by the total expenditures.

Surplus: In the event the unassigned fund balance exceeds the maximum requirement, the excess may be used for any lawful purpose approved by the Common Council.

Deficit: In the event the unassigned fund balance falls below minimum requirement of 5%, the City Treasurer shall prepare and submit a plan to restore balance to minimum target levels in the next budget year.

IV. Use and Allocation

Criteria for Utilization:

- ❖ **Unrestricted Unassigned Fund Balance:** Available for unforeseen expenditures, one-time expense emergencies, offsetting economic downturn, covering an unanticipated or excess shortfall in revenues or spike in expenses or other lawful purposes approved by the governing body.
- ❖ **Restricted, Committed, and Assigned Fund Balances:** Shall be used for their designated purposes only, as specified by legal or contractual obligations or governing body decisions.

V. Reserves

As financial circumstances may warrant, the City will look to establish funds including but not limited to, retirement contribution, contingencies, tax stabilization and capital; emergencies including repairs.

VI. Reporting and Compliance

Regular Reporting:

- ❖ Periodic reporting on fund balance status in financial statements and other relevant documents.
- ❖ Ensuring compliance with accounting standards, governmental regulations, and reporting requirements.
- ❖ Transparency in communicating fund balance status to stakeholders, including the governing body, citizens, auditors, and regulatory authorities.

VIII. Annual Review and Revision

- ❖ The fund balance policy shall be reviewed annually or more frequently if necessary, considering changes in financial conditions, legislative mandates, or organizational needs.
- ❖ This policy will be presented for review and adoption annually by the Common Council.