

# Fund Balance Policy

## Purpose:

The following policy has been created to ensure financial stability through developing long-term financial planning with the intention of maintain prudent levels of financial resources. This is essential to protect the Village of Southampton from various revenue shortfalls, unexpected one-time expenditures, emergencies, disasters and economic market conditions. Likewise, ensuring a healthy reserve level will enable the Village the ability to forecast capital purchases and construction improvements. The Village's goal in relation to reserve funds are to create an open, transparent, and accountable use of public funds.

## GASB 54 - Fund Balance:

The Government Accounting Standard Board (GASB) issued GASB statement number 54, Fund Balance Reporting and Governmental Fund Type Definitions. Fund balance is the difference between assets and liabilities in the Governmental Fund. GASB 54 abandoned the reserved and unreserved classification of fund balance and replaced it with five new classifications for Governmental Funds:

- Non-spendable
- Restricted
- Committed
- Assigned
- Unassigned

GASB 54 also breaks down each new classification on how they should be spent:

**Non-spendable:** fund balance consists of amounts that are not in spendable form or must be legally or contractually required to be maintained intact. This classification includes inventories, prepaid items, long-term loans and notes receivable, as well as resale of property/assets acquired.

**Restricted:** fund balance consists of constraints placed on the use of resources by external creditors, grantors, contributors, laws, or regulations of other governments; or imposed by laws through constitutional provisions or enabling legislation.

**Committed:** fund balance consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. Formal actions would be defined as the creation of legislation, resolution or ordinance. Committed funds should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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**Assigned:** fund balance consists of amounts that are constrained by the government's intent to be used for specific purposes but are neither restricted nor committed. The intent should be expressed by either the governing body itself, a body (a budget or finance committee), or officials to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

**Unassigned:** fund balance consists of the residual classification for general fund. This represents fund balance that has not been assigned to any of the other fund balance classifications. The general fund should be the only fund that reports a positive unassigned fund balance amount.

## Policy Statement & Guidelines:

Village finances will be managed to maintain balances of the various funds at levels sufficient to mitigate current and future risks, such as revenue shortfalls, unanticipated expenditures, stabilization of tax rates, and protection of the Village's creditworthiness.

The objective is to maintain an unrestricted fund balance of no less than 10% of annual appropriations for the fiscal year.

The Village Treasurer shall annually calculate and verify the Village's compliance with this policy. If an emergency or need were to occur that necessitated the appropriation of funds that would reduce unassigned fund balance below 10% of annual appropriations for that fiscal year, a resolution of the Village Board would be adopted to approve such appropriation. In the event that unassigned fund balance falls below the minimum requirement of 10% of any fiscal year, the Village Treasurer shall prepare and submit to the Village Board a plan to restore the balance to the minimum target level in the next budget year or other appropriate period of time.

### Reserves:

- Annual surplus funds can be used to fund the various Village funds
- All expenditures from or uses of reserve will require Village Board approval by adoption of Resolution.
- Reserves shall only be used for the purpose in which they are intended.

### Application of Funds

In instances where expenditures are incurred that will require the funding sources to be comprised of two or more types of fund balance categories, the order of exhaustion of the funds will be as follows:

- i. Restricted
- ii. Committed
- iii. Assigned
- iv. Unassigned

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**Amendment of Policy**

This policy may be amended from time to time according to the discretion of the Village of Southampton Board of Trustees.

***Regulations: GASB No. 54***