

# VILLAGE OF WARWICK

## FUND BALANCE POLICY

### I. Policy Statement

The Village of Warwick believes that sound financial management principles require that sufficient funds be retained by the Village to provide a stable financial base at all times. To retain this stable financial base, the Village needs to maintain cash reserves (a "Fund Balance") in amounts deemed sufficient to fund cash flow requirements of the Village, to secure and maintain investment grade bond ratings, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls, and to provide funds for unforeseen expenditures related to emergencies.

The Village Board of the Village of Warwick is the highest level of decision making authority that can commit Fund Balance. The Village Board has adopted the Fund Balance Policy set forth herein to establish rules and guidelines for committing Fund Balance in its operating funds.

### II. Fund Balance Definitions and Classifications

"Fund Balance" is the difference between assets and liabilities in the Village's operating funds.

"Appropriated Fund Balance" is the amount of Fund Balance (assigned, restricted or unassigned) that the Village has authorized as a financing source to help fund specific expenditures.

"Unappropriated Fund Balance" is the amount of surplus revenues over expenditures remaining in operating fund that is not restricted, or assigned, or for payment of deficit fund balances in all other funds.

The Governmental Accounting Standards Board ("GASB") has issued GASB Statement Number 54 which abandons the traditional "reserved" and "unreserved" classifications of Fund Balance and replaces them with five new classifications: nonspendable, restricted, committed, assigned and unassigned.

- i. "Nonspendable Fund Balance" generally does not apply to the Village. It consists of assets that are inherently non-spendable; that will never be converted to cash due to their form (i.e. inventories and prepaid items); will not convert to cash within the current period (i.e. long term receivables and financial assets held for resale); or are funds that legally or contractually must be maintained intact (i.e. principal amount of legal endowments).

- ii. "Restricted Fund Balance" is the portion of total fund balance that is either non-spendable or restricted for a particular use. It is similar to Reserve Funds. It consist of amounts that are subject to externally enforceable legal purpose restrictions (such as those imposed by creditors, grantors, contributors, or laws and regulations of other governments or through constitutional provisions or enabling legislation).
- iii. "Committed Fund Balance" is generally not used in New York State. It consists of the portion of fund balance whose use is constrained by limitations imposed by the Village's highest level of decision making authority (Village Board). Formal action must be taken prior to the end of the fiscal year; however, the amount can be determined in the subsequent period. The same formal action must be taken to remove or change the limitations placed on the funds.
- iv. "Assigned Fund Balance" is similar to Appropriated Fund Balance. It consists of amounts that are constrained by the Village's intended use of certain resources for specific purposes.
- v. Unassigned Fund Balance is similar to Unappropriated Fund Balance. It is the amount of surplus revenues over expenditures remaining that is not restricted or assigned in the General Fund, or deficit fund balance in all other fund. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

### III. Fund Balance In Reserve Funds

The Village has established separate reserve funds within the General, Water, and Sewer Funds which are not subject to this policy.

### IV. Managing Excess Appropriated Fund Balances

The Village Board may expend Excess Appropriated Fund Balance for any of the following purposes:

- a. If it is unable or unwilling to increase real property taxes or user fees;
- b. If it is unable or unwilling to reduce the cost of services to be provided in the budget;
- c. If estimated revenues will be insufficient to meet anticipated expenditures in a particular year;
- d. In order to comply with the real estate tax cap in one particular year.

V. Managing Excess Unappropriated Fund Balance

The Village Board may expend Excess Unappropriated Fund Balance for any of the following purposes:

- a. Expenditures that do not normally occur annually, such as capital outlays, court ordered judgements, and other legal or assessment matters;
- b. Reduction in debt, such as decrease in future interest payments, shorten the life of any loans or to improve credit ratings;
- c. Finance Reserve Funds, such as General, Water and Sewer reserves.
- d. Providing for economic downturns or revenue shortfalls, while ensuring adequate cash flow to meet financial obligations.

VI. Minimum Unappropriated Fund Balance

Under this Fund Balance Policy a minimum unappropriated fund balance in each Fund equal to 15% of the Fund expected expenditures shall be maintained. In the event that the balance drops below the established minimum level, the Village Board will develop a plan to replenish the Fund Balance to the established minimum level during the next budget preparation.

VII. Responsibility

It is the responsibility of the Village Treasurer and Mayor to properly report fund balance classifications to the Village Board.