

Village of Green Island

New York

Fund Balance Policy

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**VILLAGE OF GREEN ISLAND**

**FUND BALANCE POLICY**

1. **PURPOSE**

The purpose of this policy is to establish guidelines for the maintenance, classification, use, replenishment, and management of fund balances in the Village of Green Island. This policy ensures financial stability, enhances creditworthiness, and provides transparency in the allocation of financial resources. All local governments are required to abide by Article 3 of the General Municipal Law (GML) which requires the filing of an annual financial report to be submitted to the Office of the State Comptroller (OSC). The reporting is accomplished through the filing of an Annual Financial Report (AFR). The OSC will make any necessary adjustments to ensure that all reporting requirements under the GML are met and adhere to the Generally Accepted Accounting Principles (GAAP) at the fund level.

1. **SCOPE**

This policy applies to all governmental funds of the Village of Green Island, including the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, and any other funds requiring balance management.

1. **BACKGROUND AND DEFINITIONS**

The Government Accounting Standard Board, known as GASB, issued statement No.54 addressing Fund Balance Reporting and Government Type Definitions. Statement No. 54 abandons the reserved and unreserved classifications of fund balance and replaces them with Five (5) classifications for Governmental Funds: Non- Spendable, Restricted, Committed, Assigned and Unassigned. The last update of Statement 54 originally issued in November 2010 (*with an update in April 2011*), was effective for financial statements ending June 30, 2011. Additional details regarding fund classification are explained further in Section IV of this policy.

1. **FUND BALANCE CLASSIFICATIONS**

Fund balances will be classified in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 54 into the following categories:

* *Non-spendable Fund Balance* - Includes amounts that cannot be spent due to their nature (e.g., prepaid expenses, inventory) or because they are legally or contractually required to remain intact, such as: Principal of an endowment, long-term portfolio of loans receivable or financial assets held for resale.
* *Restricted Fund Balance* - Amounts constrained for specific purposes and subject to enforceable legal purpose restrictions by external parties (e.g., grant restrictions, debt covenants, or state/federal laws).
* *Committed Fund Balance* - Amounts designated for specific purposes by formal action of the Village Board before the end of the fiscal year that can only be changed by subsequent formal action.
* *Assigned Fund Balance* - The residual balance available in the General Fund after all other classifications have been determined. The purpose of the assignments must be much more limited than the purpose of the General Fund and all other funds. Assignments may be made by the Village Treasurer or Executive Assistant to the Mayor as authorized by the Village Board.
* *Unassigned Fund Balance* - The residual balance available in the General Fund after all other classifications have been determined.

**Additional Guidelines:** The Village Treasurer or Executive Assistant to the Mayor with the review and approval of the Village Mayor, is responsible for determining the assignment of fund balances that are not immediately identified as Non- Spendable, Restricted, Contingent or Unappropriated as defined in paragraph IX.

1. **MINIMUM FUND BALANCE POLICY**

[[1]](#footnote-1)To ensure fiscal stability, the Village shall maintain the following minimum fund balances:

* General Fund: A minimum unassigned fund balance of ***25% to 30%*** annual operating expenditure to provide a financial resource for revenue shortfalls or unexpected expenses.
* Special Revenue Funds: Fund balances shall be maintained as required by grantors, state statutes, or the Village Board.
* Debt Service Fund: Shall maintain a balance sufficient to meet upcoming debt service payments.
* Capital Projects Fund: Shall be maintained based on the funding needs of approved capital improvement projects.

1. **DETERMINING AN APPROPIATE UNRESTRICTED FUND BALANCE**

It is the responsibility of the Mayor, Executive Assistant to the Mayor, Village Treasurer, and Village Board to assess and determine the appropriate level of unrestricted fund balance (unassigned, committed, and assigned) necessary to maintain financial stability.

*In making this determination, the following factors should be considered:*

* The predictability and volatility of revenues and expenditures.
* The overall economic climate and potential risks.
* The ability to respond to unforeseen emergencies or opportunities.
* The level of dependency on intergovernmental aid and grants.
* The timing of revenue collections in relation to expenditures.
* The impact on the Village bond rating and financial position.

Each year, as part of the budget process, the Village Treasurer shall prepare a fund balance analysis to assess whether the Village’s unrestricted fund balance is reasonable, recommending adjustments when necessary.

1. **USE OF FUND BALANCE**

[[2]](#footnote-2)The order of fund balance usage shall be as follows:

1. Unassigned Funds

2. Assigned Funds

3. Committed Funds (if applicable to the expenditure)

4. Restricted Funds (if applicable to the expenditure)

Unassigned fund balances should only be used for:

* One-time capital expenditure
* Emergency situations
* Temporary revenue shortfalls

1. **FUND BALANCE SURPLUS AND ALLOCATION**

[[3]](#footnote-3)A fund balance surplus occurs when the Villages unassigned fund balance exceeds the established 30% upper limit of annual operating expenditures. When a surplus exists, the Village may allocate excess funds as follows:

1. **Reinvestment in Capital Projects**: A portion of the surplus may be transferred to the Capital Projects Fund to finance infrastructure improvements, facility upgrades, or other long-term investments.

2. **Debt Reduction**: The Village may use the surplus to pay down outstanding debt, reducing future financial obligations.

3. **Stabilization Reserves**: Additional reserves may be set aside for future economic downturns, revenue shortfalls, or unanticipated emergencies.

4. **Taxpayer Relief**: If the financial condition of the Village allows, a portion of the surplus may be used for one-time tax relief or reductions in fees for municipal services.

5. **Other Strategic Initiatives**: The Village Board may allocate surplus funds to new programs or initiatives that align with the municipality long-term goals.

1. **FUND BALANCE DEFICIT AND MITIGATION PLAN**

A fund balance deficit occurs when total expenditures and obligations exceed available fund balances, resulting in a negative unassigned fund balance. To prevent and address deficits, the Village shall implement the following measures:

**1.** Early Detection and Monitoring:

* The Village Treasurer should monitor fund balances regularly and report potential shortfalls to the Mayor, Executive Assistant to the Mayor and Village Board.
* If a fund deficit is projected, the Village Treasurer shall provide recommendations for corrective actions.

**2.** Immediate Corrective Actions:

* Expenditure Reductions: Departments shall identify non-essential expenditures that can be delayed or eliminated.
* Revenue Enhancements: The Village may explore increasing fees, fines, or tax adjustments if necessary.
* Hiring and Spending Freeze: A temporary freeze on new hiring, salary increases, and discretionary spending may be imposed.

**3.** Long-Term Deficit Reduction Plan:

* If the deficit is significant, the Village shall develop a multi-year recovery plan to restore fund balance levels within three fiscal years.

**THE PLAN MAY INCLUDE**

1. Debt Restructuring: Refinancing existing obligations to reduce short-term financial strain.
2. Service Reductions: Scaling back non-essential services if necessary.
3. Reallocation of Funds: Transferring available funds from less critical areas, where legally allowed.

**4.** Emergency Financial Measures:

* If a severe deficit threatens the Villages financial stability, the Village Board may declare a financial emergency and take additional measures, including emergency appropriations or seeking external financial assistance.
* The Village Board shall approve all deficit mitigation strategies and ensure that financial stability is restored in a timely manner.

1. **CONTINGENT FUND BALANCE**

A contingent fund balance is an amount set aside within the assigned or committed fund balance category to cover unexpected events or uncertainties that may impact the Village financial stability. This contingency reserve will:

* Serve as a financial safeguard against unforeseen expenses such as natural disasters, lawsuits, infrastructure failures, or economic downturns.
* Ensure that the fund balance is kept at 25% to 30% of the annual operating budget, separate from the unassigned fund balance.
* Require Village Board approval for any expenditure from the contingent fund.
* Must be replenished as part of the annual budget process if utilized.

1. **UNAPPROPIATED FUND BALANCE**

The unappropriated fund balance represents the portion of the fund balance that has not been allocated for specific expenditures in the current fiscal year. It serves as a financial buffer and provides flexibility for future budgetary needs.

* The unappropriated fund balance must be reviewed annually as part of the budget development process.
* It may be distributed to address unanticipated expenses, economic downturns, or strategic initiatives, but only with Village Board approval.
* Maintaining a healthy unappropriated fund balance ensures the Village has the necessary financial capacity to respond to future needs without sudden tax increases or service cuts.

1. **POLICY REVIEW**

This policy may be amended as necessary at the recommendation of the Village of Green Island Treasurer or Executive Assistant to the Mayor when submitted for the review and discretion of the Village of Green Island, Board of Trustees.

1. If the General Fund balance falls below the minimum threshold, the Village Board shall develop a plan to replenish the balance within a reasonable period, not exceeding three fiscal years. [↑](#footnote-ref-1)
2. Recurring operating expenses should not be funded with unassigned fund balance. [↑](#footnote-ref-2)
3. Decisions on surplus allocation shall be made during the annual budget process and must be approved by the Village Board. [↑](#footnote-ref-3)