

## **Town of Caroline Fund Balance Policy**

**Purpose:** The Office of the New York State Comptroller recommends that local governments establish a policy to maintain reasonable levels of Unexpended Surplus Funds to buffer the Town from unanticipated expenditures or revenue shortfalls. The Caroline Town Board hereby establishes this Fund Balance Policy in order to provide a clear understanding of the purposes of the various Town funds and guidance for Town Officers to promote a rational strategy for the budgeting and capital planning needs of the Town. This policy will enhance fiscal stability and predictability for the Town and its residents.

**Fund Balance Classifications:** In 2009 the Governmental Accounting Standards Board (GASB) revised the classification of Fund Balance in Statement 54 from reserved and unreserved fund balance to five fund balance classifications:

1. **Non-spendable Fund Balance:** assets that are inherently nonspendable because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and the principal of endowments (examples include materials and fuel for maintenance of highways and Town capital assets).
2. **Restricted Fund Balance:** funds that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments, or through constitutional provisions or enabling legislation (examples include Town Hall, Highway Barn, and Highway Equipment Reserve Funds, as well as grant awards from FEMA or the NYS Dept. Environmental Conservation, such as WQIP and Clean Energy Communities).
3. **Committed Fund Balance:** amounts that are subject to a purpose constraint imposed by a formal action of the government's highest level of decision-making authority before the end of the fiscal year, and that require the same level of formal action to remove the constraint. The New York State Office of the State Comptroller believes that most local governments in New York will not have committed fund balance to report.
4. **Assigned Fund Balance:** amounts subject to a purpose constraint that represents an intended use established by the government's highest level of decision-making authority, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the General Fund, and in funds other than the General Fund, assigned fund balance represents the unexpended moneys in those funds (i.e., Highway Fund, Fire Protection Fund, and Streetlight Fund).
5. **Unassigned Fund Balance:** the residual classification for the government's General Fund, and could be a surplus or a deficit. In funds other than the General Fund, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or unassigned.

**Policy:**

1. This policy shall apply to the Town's General Town-wide (A) Fund and the Highway (DA) Fund.
2. When resources are available from multiple fund balance classifications, the Town shall spend funds in the following order: restricted, committed, assigned, unassigned.
3. The Caroline Town Board is the decision-making authority authorized to commit fund balance. The action to commit fund balance must occur prior to the end of the fiscal year in order to report such commitments in the annual financial report. The commitment may only be modified by a resolution of the Town Board.
4. The Town Supervisor has authority to assign Unassigned Fund Balance amounts where the Town's intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements.
5. *Unexpended Surplus Funds*: For the purpose of this policy, *unexpended surplus funds* shall consist of Unassigned Fund Balance for the General Fund (A917 in the Annual Update Document) and Assigned Fund Balance for the Highway Fund (DA915 in the Annual Update Document).
6. The Town shall strive to maintain Unexpended Surplus Funds in the General and Highway Funds between 15% and 20% of budgeted expenditures:
  - A. General Fund Unexpended Surplus Funds above 20% shall be reserved for specific capital needs or to support Highway Fund policy goals.
  - B. Highway Fund Unexpended Surplus Funds above 20% shall be reserved for equipment needs (Reserve Fund DA 233).
7. The Town Supervisor shall report the amount and percentage of unexpended surplus funds to the Town Board upon completion of the Annual Update Document each year.
8. If unexpended surplus funds exceed the maximum amount recommended by this policy, the excess may be used for any lawful purpose approved by the Town Board. In order to minimize the long-term impact of such use, the excess should be appropriated to one-time expenditures which do not result in recurring operating costs, and/or be used to establish or increase reserves, and/or be used to offset the succeeding year's tax levy.
9. All unexpended funds in DA5130.2 Machinery - Equipment shall be transferred to its own reserve fund (DA233).
10. All other Unexpended Surplus Funds may not be transferred to reserves or used for other purposes unless fund balance minimums have been met.
11. In the event that Unexpended Surplus Funds fall below the minimum amount set forth herein, the Supervisor shall make a recommendation to the Town Board to restore the balance to the minimum level in the next budget year or other appropriate period of time.

**Review:** This policy shall be reviewed by the Town Board on an annual basis.