



TOWN OF SWANSBORO

North Carolina

FUND BALANCE POLICY



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2.01 FORWARD

The purpose of this policy is to define the level of Unassigned Fund Balance and establish guidelines for establishing and preserving an adequate fund balance in the Town of Swansboro General Fund in order:

- To provide sufficient financial flexibility to meet future obligations, take advantage of opportunities and avoid interest expense through use of excess reserves in lieu of debt.
- To enhance the financial position of the Town of Swansboro to maintain the highest credit and bond ratings
- To plan for contingencies in unforeseen revenue volatility and expenditures in the event of emergency
- To ensure adequate cash flow.

2.02 DEFINITIONS

Fund Balance: the difference between a fund's assets and liabilities.

Fund Balance Available: Fund balance available for appropriation represents the maximum amount that is legally available for appropriation in the next year per NCGS 159-8(a). This amount includes funds that are restricted in nature and funds that the unit has already committed to spend in subsequent years for various purposes.

$$\text{Fund Balance Available} = \text{Restricted (excluding Stabilization by State statute)} + \text{Committed} + \text{Unassigned} + \text{Assigned for NY Expenditures} + \text{Restricted Cash}$$

Types of Fund Balance: An accounting distinction is made between the portions of governmental fund balance that is spendable and non-spendable. Governmental Accounting Standards Board (GASB) Statement 54 classifies fund balance based on relative strength of the constraints that control the purposes for which designated amounts may be spent.

Non-spendable: Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Examples include inventory and prepaid items.

Restricted: Amounts that can be spent only for the specific purposes stipulated by external resource providers, whether constitutionally or through enabling legislation. Examples include grants, debt proceeds and restricted by state statute.

Committed: Amounts that can be used only for specific purposes determined by a formal action of the Town's highest level of decision-making authority (including local ordinances), which is the Board of Commissioners. Commitments may be changed or lifted only by the Board of Commissioners taking the same formal action that originally imposed the commitment.

Assigned: Amounts intended to be used by the Town for specific purposes. Intent may be expressed by the Board of Commissioners by the approval of a budget appropriation. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. An example includes funds assigned by the Board of Commissioners for specific capital projects.

Unassigned: The residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned fund balance is the amount that is available for appropriation for public purposes.



Accessible Fund Balance: Total of Assigned Fund Balance and Unassigned Fund Balance for the purposes of this policy. To be conservative, Committed Fund Balance is not included in Accessible Fund Balance. Accessible Fund Balance is not the same as available Fund Balance as defined in North Carolina General Statute 159-8(a).

General Fund Expenditures Calculation for Unassigned Fund Balance:

$$\text{General Fund Expenditures} = \text{Total Expenditures} + \text{Transfers Out} - \text{Capital Leases Issued} - \text{Installment Contracts Issued}$$

3.01 OBJECTIVES

- (1) The Town recognizes that it is essential to maintain adequate unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances.
- (2) The fund balance also provides cash flow liquidity for the Town's operations and increases the potential for investment income.
- (3) Ample fund balance enhances short-term and long-term financial credit by helping to achieve the highest credit and bond ratings possible to provide the Town with the ability to borrow at the lowest possible rate.
- (4) A fund balance policy promotes long-term financial stability by establishing clear and consistent guidelines.
- (5) Adequate unassigned fund balance will provide funding flexibility during unanticipated emergencies and natural disasters.

4.01 GUIDELINES

- I. The Town commits to maintain reserves required by law, ordinance, and/or bond covenants.
- II. North Carolina Local Government Commission, which is charged with the oversight of the fiscal health of North Carolina cities and counties, recommends that local governments develop a fund balance policy to maintain **fund balance available** that is consistent with their peers that provide similar services. Higher levels may be set based on the current operating needs of the Town and the individual fund and future funding needs.
- III. The State and the Local Government Finance Division and the Local Government Commission of the North Carolina Department of State Treasurer publishes a memo annually regarding the management of cash and taxes and fund balance available for municipalities for fiscal year end date. The division compares fund balance available and the trend of percentage of fund balance available and will advise units if fund balance available is materially below the average of similar units or the trend is for fund balance available to decline. The Town will review the memo annually to ensure adequate **fund balance available** as compared to the Town's peer group range. The Town will, as part of the annual comprehensive financial report, monitor the trend of change in available fund balance to ensure there is not a trend of material decline.
- IV. The Board of Commissioners hereby establishes a goal for **unassigned fund balance** for the general fund of forty percent (50%) of budgeted expenditures. (Note: budgeted expenditure includes Other Financing Uses for this calculation)
- V. All expenditures made using appropriation(s) from fund balance will require Board of Commissioners approval unless previously authorized for expenditure within the Town's annual budget.
- VI. Should the fund balance fall below the goal level, the Town Manager, in coordination with the Finance Director, shall implement a plan to restore fund balance to the goal level within thirty-six (36) months from the date of appropriation. The restoration plan shall be included in the annual budget until the goal level is reached.
- VII. Should the fund balance fall below goal levels resulting from a declared fiscal emergency, declared disaster emergency or to protect long-term fiscal security, and the restoration of fund balance cannot be completed within thirty-six (36) months without severe hardship to the town, the Board of Commissioners will establish an alternative restoration plan.
- VIII. The Finance Director at the Town Manager direction is authorized by the Board of Commissioners to credit all revenue in excess of expenditures realized at the end of any fiscal

SECTION 4. GUIDELINES

year for the general fund that is not non- spendable, restricted, assigned, or committed to the unassigned fund balance.

5.01 EXPENDITURE OF FUNDS

- I. Unassigned fund balance above the Town's goal should be considered, through the annual budget process, as a funding source for capital needs funded with pay-as-you-go capital. Appropriations outside the annual budget will generally be limited to:
 - (1) Expenditures to support or facilitate projects that generate new revenues or cost savings in excess of the investments within established periods.
 - (2) Interim partial year funding for new programs that are needed before the next fiscal year.
 - (3) Cost related to unanticipated workload in the current fiscal year that cannot be addressed with budgeted resources.
 - (4) Prudent supplemental funding for existing capital projects that require additional resources before the next fiscal year to fund unanticipated costs, avoid excessive delays, or improve service levels.

- II. If multiple categories of fund balance are available for expenditure, the Town will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

- III. Appropriation of unassigned fund balance exceeding the minimum funding levels may only be used at the discretion of the Board of Commissioners in dire financial circumstances to:
 - Provide resources to offset unforeseen revenue shortfalls in combination with expenditure reductions.
 - Fund emergency expenditures in a disaster.
 - One-time expenditures that are for the long-term financial benefit of the town. (i.e., refinancing at lower interest rates, capital outlay for items that appreciate in value)