

# TOWN OF CABOT POLICY AND PROCEDURES

Subject: Fund Balance for the General Fund

Effective Date: January 1, 2012

Approval Date: February 15, 2012

## **I. PURPOSE**

The Fund Balance Policy is intended to provide guidelines during the preparation and execution of the annual budget to ensure that sufficient reserves are maintained for unanticipated expenditures or revenue shortfalls. It also is intended to preserve flexibility throughout the fiscal year to make adjustments in funding for items approved in connection with the annual budget. The Fund Balance Policy should be established based upon a long-term perspective recognizing that stated thresholds are considered minimum balances. The main objective of establishing and maintaining a Fund Balance Policy is for the Town of Cabot to be in a strong fiscal position that will allow for better position to weather negative economic trends.

## **II. GENERAL POLICY**

Fund balance is essentially the difference between the assets and the liabilities reported in a governmental fund. There are five separate components of fund balance, each of which identifies the extent to which the Town is bound to honor constraints on the specific purpose for which amounts can be spent.

- Nonspendable fund balance (*inherently nonspendable*)
- Restricted fund balances (*externally enforceable limitations on use*)
- Committed fund balances (*self-imposed limitations on use*)
- Assigned fund balance (*limitations resulting from intended use*)
- Unassigned fund balance (*residual net resources*)

The first two components listed above are not addressed in this policy due to the nature of their restrictions. An example of nonspendable fund balance is inventory. Restricted fund balance is either imposed by law or constrained by grantors, contributors, or laws or regulations of other governments. This policy is focused on the financial reporting of unrestricted fund balance, or the last three components listed above. These three components are further defined below.

## **III. PROVISIONS**

### **Committed Fund Balance**

The Cabot Selectboard, as the highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as a Town or Special Meeting. These committed amounts cannot be used for any other purpose unless the Selectboard removes or changes the specific use through the same type of formal action taken to establish the commitment. Selectboard action to commit fund balances needs to occur within the fiscal year, no later than December 31; however, the amount can be determined subsequent to the release of the financial statements.

### **Assigned Fund Balance**

Amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balances. This policy hereby delegates the authority to assign amounts to be used for specific purposes to the Selectboard for the purpose of reporting these amounts in the annual financial statements. Funds cannot be assigned when a deficit exists in the unassigned fund balance.

### **Unassigned Fund Balance**

Residual positive net resources of the general fund in excess of what can properly be classified in one of the other four categories. There are some reserves that do not meet the requirements of the fore mentioned components of fund balance.

**IV. ANNUAL REVIEW**

Compliance with the provisions of this policy shall be reviewed, presented and discussed as part of the budget review and amounts of nonspendable, restricted, committed, assigned and unassigned fund balances shall be reported. It will be the responsibility of the Cabot Town Treasurer to keep this policy current.

**V. APPROVAL**

This policy shall become effective January 1, 2012.

Signed this 15<sup>th</sup> day of February, 2012 by the Cabot Selectboard.

Caleb Pitkin  
Caleb Pitkin, Chair

Fred Ducharme  
Fred Ducharme

Ted Domey  
Ted Domey

Dan Dunham  
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Allen Perry  
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