

# TOWN OF CANANDAIGUA

## FUND BALANCE POLICY

### PURPOSE

The purpose of a Fund Balance Policy is to ensure that there will be adequate liquid resources to serve as a financial cushion.

### POLICY STATEMENT

The Town of Canandaigua finances will be managed so as to maintain balances of the various funds at levels sufficient to mitigate current and future risks, such as revenue shortfalls and unanticipated expenditures, ensure stable tax rates and user fees, and protect the Town's creditworthiness. To assure the appropriate level in all funds, the Town will maintain Unrestricted Fund Balance(s) as follows:

- General Fund: Unrestricted Fund Balance of not less than 15% and no more than 30% of the average annual budget appropriations.
- Highway Fund: Unrestricted Fund Balance of not less than 5% and no more than 15% of the average annual budget appropriations. These percentages are lower than the General Fund Unassigned Fund Balance range due to limitations on transferring money out of the Highway Fund once it has been moved to this fund.
- Special Lighting District(s): Unrestricted Fund Balance(s) levels of not less than 5% and no more than 25% of the cost of replacing a light pole during unplanned situations plus average district expenditures. For the purpose of calculating unassigned fund balance percentages, the unplanned replacement of a light pole should be based on a cost of \$10,000.00 if no other cost is determined. In the case where planned improvements are scheduled to begin within a twenty-four month time period, Unrestricted Fund Balance(s) may exceed the policy range to help pay for the planned expense.
- Special Drainage District(s): Unrestricted Fund Balance(s) levels of not less than 10% and no more than 50% of the cost of the clean out of an average pond plus average district expenditures. For the purpose of calculating unassigned fund balance percentages, the average clean out of a pond should be based on a cost of \$ 20,000.00 if no other cost is determined. In the case where planned improvements are scheduled to begin within a twenty-four month time period, Unrestricted Fund Balance(s) may exceed the policy range to help pay for the planned expense.
- Special Fire Protection District(s): Unrestricted Fund Balance(s) levels of not less than 2% and no more than 10% of the average annual district expenditures. These percentages are lower than other special districts, since the majority of the district expenditures are planned and budgeted ahead of time. These unassigned funds are to be used when expenditures relating to fire protection planning and safety arise and are approved by the Town Board.
- Special Sanitary Sewer District(s): Unrestricted Fund Balance(s) levels of not less than 5% and no more than 15% of the average annual district expenditures.
- Special Water Districts: Unrestricted Fund Balance(s) of not less than 20% and no more than 35% of the average annual budget appropriations. This amount is higher than typical unassigned fund balance ranges to compensate for delinquent water bills which are placed on the tax roll and then reimbursed to the specific water district at a later date. In the case where planned improvements are scheduled to begin within a twenty-four month time period,

Unrestricted Fund Balance(s) may exceed the policy range to help pay for the planned expense.

- Special Water Districts (operated by Farmington): Unrestricted Fund Balance(s) of not less than 10% and no more than 25% of the average annual budget appropriations. In the case where planned improvements are scheduled to begin within a twenty-four month time period, Unrestricted Fund Balance(s) may exceed the policy range to help pay for the planned expense.

### **SPECIAL DISTRICTS OUTSIDE OF POLICY RANGE**

Certain circumstances may justify unrestricted fund balance levels outside of the policy range in special districts. Instances where the special district fund balance level is outside the policy range, the Chief Fiscal Officer and/or Town Manager shall report to the Town Board on the status of the district and justification for the unrestricted fund balance outside of the policy range. Unrestricted fund balance levels may exist outside the policy range for the following situations:

- Significant volatility in operating revenues or operating expenditures;
- Potential drain on resources due to planned and/or unexpected capital improvements to certain districts;
- Planned improvements in certain districts where the levy of taxes in one budget year would place an unnecessary financial burden on taxpayers; however, the levy of a stable tax rate over consecutive years in order to pay for a planned expenditure may result in unrestricted fund balance higher than the allowable policy range;
- Exposure to natural disasters, or emergency repair response;
- Reliance on a single corporate taxpayer or upon a group of taxpayers in the same industry that could experience a shift creating a substantial assessment change in the district;
- Rapidly growing budgets relating to expenditures for a special district;
- Disparities in timing between revenue collections and expenditures.

### **RESTORATION OF FUND BALANCE RANGE**

Should the Fund balance for any fund exist outside the target range, the Chief Fiscal Officer and/or the Town Manager will advise the Town Board. Working with the Town Board, the Chief Fiscal Officer and/or the Town Manager will prepare a plan for restoration of the balance to the target levels and achieve the target level as soon as practicable within the next fiscal year. The Town Board may consider appropriations of Unrestricted Fund Balance to Reserve Funds at anytime to assist with restoring balances to the proper range.

### **REPORTING OF FUND BALANCE TO THE TOWN BOARD**

The Chief Fiscal Officer and/or the Town Manager shall report to the Town Board monthly on the status of all funds. The monthly fund balance report shall include the estimated fund balance for the fund, along with the minimum and maximum amounts allowable per the fund balance policy.

### **DEFINITIONS**

**Cash Balance:** The sum of cash and the investment of an accounting fund.

**Unrestricted Fund Balance:** The total of the committed, assigned and unassigned fund balance.

**Fund Balance:** The difference between the assets and liabilities reported in a governmental fund. Fund balance is not the cash balance of the Town, the fund balance consists of other assets such as money due from the state and federal government, taxes receivable, and accounts receivable. Fund Balances are classified into various components depending on the limitations placed on the use of the funds. The hierarchy indicates the extent to which a government is bound to observe spending constraints that govern how it can use amounts reported in the governmental funds balance sheet. GASB Statement 54 established the following classifications depicting how specific amounts can be spent:

- **Nonspendable Fund Balance** includes amounts that are not in a spendable form (inventory, for example) or are required to be maintained intact (the principal of an endowment fund, for example).
- **Restricted Fund Balance** includes amounts that can be spent only for the specific purpose stipulated by external resources providers (for example, grant providers), constitutionally, or through laws or regulation of other governments.
- **Committed Fund Balance** includes amounts that can be used only for the specific purpose determined by a formal action of the Town Board (self-imposed limitation set in place prior to the end of the period). Commitments may be changed or lifted only by the Town Board taking the same formal action that imposed the constraint originally.
- **Assigned Fund Balance** comprises amounts intended to be used for specific purposes. Intent can be expressed by the Town Board. Encumbrances that are carried forward to the subsequent year are classified in the Assigned Fund Balance. It is the Assigned Fund Balance that is used to reflect the appropriation of a portion of the existing fund balance to eliminate a projected deficit in the subsequent year's budget.
- **Unassigned Fund Balance** is the residual classification for the general fund and includes all amounts not contained in the other classifications (i.e., surplus). Unassigned amounts are technically available for any purpose.

Adopted: December 21, 2020 by Resolution No. 2020-304