



TOWN OF WORTHINGTON MEMORANDUM

To: All Departments, Boards and Committees

From: Worthington Finance Committee

Re: Reserve Fund and End of Year Transfers

The purpose of this memo is to remind everyone of some of the policies and procedures that govern the use of the Town's Reserve Fund and the use of the Alternative End-of-Year budget transfer procedure pursuant to c.44, S. 33B M.G.L.

All town officials should be aware that by state law no department shall incur a liability in excess of the appropriation made at town meeting, except for very few exceptions such as those found in c.44, s.31 M.G.L. The penalties for any violations of this chapter are set out in c.44, s.62. To this end, the department or board responsible for an appropriation should maintain some sort of record keeping that provides the official with the current balance in the appropriation. A periodic reconciliation of the balances should be made with the Town Accountant's records. The department head should not attempt to overspend the appropriation and then seek additional funding to cure a deficit.

If it appears that the funding of an appropriation might be inadequate and additional funding will be needed, the department head should seek additional funding **before** the appropriation is depleted. Depending on the time of year and the town's meeting schedule, the mechanisms for adding funds to an account may include: 1) appropriation or transfer approved at annual town meeting or a special town meeting, 2) a transfer made from the Reserve Fund, or 3) a transfer made using the Alternative End-of Year mechanism.

RESERVE FUND TRANSFER: The fund is created by an appropriation at the Annual Town Meeting pursuant to c. 40, s.6 M.G.L. Its purpose is to provide funding for ***either extraordinary or unforeseen*** expenditures. No direct drafts are made against the fund, but rather transfers by formal requests are approved or disapproved by the Finance Committee. The Finance Committee must decide all requests at a duly called public meeting of the committee, therefore the 48 hour posting requirement under the "open meeting law" does apply. This is important to note, as the year-end deadline for any reserve fund transfers is July 15th, fifteen days after the close of the fiscal year. To approve a transfer from the fund the Finance Committee must find that the request is for either an extraordinary or unforeseen expense and not just because the appropriation is overspent. The Reserve Fund Transfer Request form must be completed for consideration by the committee.

ALTERNATIVE YEAR-END TRANSFER: M.G.L c.44, s.33B allows for appropriation transfers to be made by "Alternative Year-End Procedure" only in the last 2 months of a fiscal year (May and June) and up to July of the next fiscal year. Posting requirements are the same as with reserve fund requests as they need to comply with the open meeting law and because they involve a joint meeting with two boards care should be exercised with the request notifications. In this period, interfund transfers can be approved by a majority vote of the selectboard and a majority vote of the finance committee, subject to certain restrictions. Transfers may not be made from school accounts or from municipal light department accounts. The year-end procedure does not remove or supersede restrictions on certain accounts; for example, appropriations funded by transfers from stabilization funds must be approved by a 2/3 majority town meeting vote and so cannot be used by this alternative year-end procedure.

Department heads and board chairs should review the balances of accounts for which they are responsible throughout the year; they should contact the finance committee for guidance if it appears there will be a fund

insufficiency. If a year-end transfer would be appropriate, the head/chair should expect to meet with the selectboard and finance committee to explain the current status of the account and the reason for the budget deficiency. The Year End Line Transfer Form must be completed.

It is also important for department heads and board chairs to make sure that all encumbered expenses have been invoiced and paid before the end of the year. Pursuant to M.G.L. c.44, s.64, unpaid bills of a previous fiscal year may be unenforceable due to the insufficiency of an appropriation in the year they were incurred. Prior year bills may only be paid by appropriation of a four-fifths vote at an annual town meeting and by a nine-tenths vote at a special town meeting.

We trust that the information above will provide you with a better understanding of your responsibilities in regard to Town policies and State law. Should you have any questions, or concerns please do not hesitate to contact the Finance Committee. And as always, we need to work closely together to ensure the integrity of the annual budget and the well-being of the townspeople that we serve.