FUND BALANCE POLICY

Purpose

To establish a fund balance policy tailored to the needs of the Town in accordance with sound financial management principles to provide a stable financial base for the Town at all times. It is essential that the Town maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures that may result from emergency situations, provide cash flow liquidity for general operations, and maintain investment grade bond ratings and good credit standing.

Definitions

Fund Balance is the cumulative difference over time of all revenues and expenditures. It is also the *net assets* in the fund or the difference between assets and liabilities. In an enterprise fund, fund balance is the same as retained earnings. In accordance with GASB 54 fund balance is classified according to its availability for use into the following categories.

Non spendable Fund Balance. Inventories, prepaid items, accounts receivables and other current assets that are consumed in the course of operations that cannot be converted to cash or are not expected to be available to pay current liabilities. It would include funds set aside for perpetual care of the cemetery.

Restricted Fund Balances are the resources of a governmental fund that are subject to constraints imposed by external parties or law. These restrictions include such things as debt covenants' or constraints imposed by legislation or federal and state agencies on the use of intergovernmental revenues, such as grants and contracts.

Committed Fund Balance represents amounts that have been designated by Town Council resolution or by town ordinance. These funds may only be spent for the purpose intended by the resolution or ordinance and can only be uncommitted by the same action taken to commit the funds.

Assigned Fund Balance represents the net resources of governmental funds that the government intends for a specific purpose. Assigned resources do not require formal action of the governing body. The permanent funds net resources would be assigned fund balance as well as any net resources remaining in some special revenue funds, capital project funds and debt service funds.

Unassigned fund balances are available for any purpose and represents expendable available financial resources that can be used to meet contingencies and cash flow

requirements. (Negative unassigned amounts could occur in funds other than the general fund when assigned, committed, or restricted amounts are too high. If a negative unassigned occurs, the assigned, committed and other amounts should be reduced until the negative is cleared.

Policy

Expenditures shall be charged first to restricted fund balance, second to committed, next to assigned and last to unassigned as appropriate for the expenditure and to the fund being expended.

The Town Manager in consultation with the Director of Finance and discussions with the Town Council shall determine funds to be classified as assigned.

Except in extraordinary circumstances unassigned fund balance should not be used to fund any portion of the ongoing and routine year-to-year operating expenditures of the Town. It should be used primarily to insure adequate reserves, to respond to unforeseen emergencies, to provide cash flow and to provide overall financial stability.

Fund Balance Goals

General fund

The Town shall seek to maintain unassigned fund balance of between 25-30% of all expenditures in the preceding fiscal year. Expenditures shall include operating expenses (excluding capital) of the general fund, permanent fund and enterprise fund, less any unassigned fund balance in the permanent fund and the enterprise fund. If the unassigned fund balance after conclusion of the annual audit exceeds 35% a review shall be conducted and appropriate actions shall be taken. If the unassigned fund balance is less than 20% a plan shall be developed to restore the reserves in an acceptable manner under the circumstances.

Special Revenue fund Special revenue funds are created to account for the proceeds of specific revenue sources that are restricted as to use either by law or contract or donor specifications. Fund balances are therefore either restricted, committed or assigned in the special revenue funds.

Capital Projects fund. Capital project funds may be created to account for resources designated to construct or acquire general fixed assets and major improvements. These projects may extend beyond a single fiscal year. No specific reserve requirement is established for the Capital Projects Fund. However, at a minimum, the fiscal year end assigned, restricted or committed fund balance plus estimated revenues for the ensuing fiscal year must be sufficient to meet all outstanding contractual obligations of the project.

Permanent Fund (Sunset Cemetery) Permanent funds are established to account for resources that are restricted to the extent that earnings and not principal may be used for purposes that support the ongoing operations of the cemetery. The funds received each year for the sale of lots in the cemetery shall be set aside to build up an assigned fund balance for the long term care of maintenance of the cemetery. Interest earnings may be expended once the assigned fund balance reaches a level that the earnings that are generated by the fund would be sufficient to fund ongoing operation of the facility. Unassigned fund balance may accumulate only to the extent of 6 months expenditures as determined by the preceding fiscal year audited financial statements. If unassigned fund balance exceeds this amount a review of fees and uses of fund balances should be performed to determine the appropriate level to sustain the operations over time.

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