

## UNDESIGNATED FUND BALANCE POLICY



### **Purpose & Scope**

The Town of Enfield (Town) hereby establishes and will maintain reservation of Fund Balance, as defined herein, in accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This policy shall only apply to the Town's governmental funds. Fund balances shall be composed of non-spendable, restricted, committed, assigned and undesignated amounts.

The purpose of this policy is to improve the Town's financial stability by protecting itself against emergencies and economic downturns. This policy is also designed to help the Town prepare for a financial emergency as well as contribute to continuity of financial operations allowing for the management of necessary operations and projects mitigating short term borrowing and interest charges. It is essential that the town maintain adequate levels of undesignated fund balance to mitigate financial risks that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. Fund balance ensures cash flow and liquidity for town operations. This policy sets guidelines for fund balance classifications, minimum undesignated fund balance reserves and the allowable uses of undesignated fund balance.

### **Definitions**

**Non-spendable Fund Balance:** Includes the amounts that are not in a spendable form (such as inventory or prepaid expenses) or are required to be maintained intact (such as the principal of an endowment fund).

**Restricted Fund Balance:** Includes amounts that can only be spent for the specific purposes stipulated by external resource providers (such as grantors) or the enabling legislation (federal or state law). Restrictions may be changed or lifted only with the consent of the resource providers or the enabling legislation.

**Committed Fund Balance:** Includes amounts that can be used only for specific purposes determined by a formal action of the Town's highest level of decision-making authority (Town Meeting). Commitments may be changed or lifted through Town Meeting action taking the same formal action that imposed the constraint originally. Town Meeting actions must either be approved or rescinded, as applicable, prior to the last day of the

fiscal year for which the commitment is made. The amount subject to constraint may be determined in the subsequent period.

**Assigned Fund Balance:** Includes amounts the Town intends to use for a specific purpose. For all governmental funds other than the General Fund, any remaining positive balances are to be classified as “assigned”. The Board of Selectmen expressly delegates this classification authority to the Town Manager. Other items that would fall under this type of fund balance would be encumbrances resulting from approved purchases orders or specific actions of the governing body pursuant to RSA.

**Undesignated Fund Balance:** Includes amounts that are not obligated or specifically designated and is available for any purpose. The residual classification of any General Fund balance is to be reported here. Any deficit fund balance of another fund is also classified as undesignated.

**General Fund:** A fund used to account for basic government (municipal) services supported mainly by tax revenues.

**Annual Budget:** Calculation includes the town’s general fund operating appropriations (less enterprise funds), the state education tax amount, the local school net tax commitment and the county appropriation in accordance with NH Department of Revenue guidelines. Long-term bond issues authorized shall not be included when calculating annual budget.

### **Spending Prioritization**

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, restricted fund balance is considered to have been spent first.

When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, committed amounts should be reduced first, followed by assigned amounts and then undesignated amounts.

### **Undesignated Fund Balance Reserves – General Fund**

The NH Department of Revenue Administration (DRA) and the Government Finance Officers Association (GFOA) both recommend municipalities maintain their undesignated fund balance reserves at a level between 8% and 17% of the total annual budget (as defined above):

<i>If the Annual Budget Is:</i>	DRA & GFOA Recommended Range	
	8%	17%
10,000,000	800,000	1,700,000
15,000,000	1,200,000	2,550,000
20,000,000	1,600,000	3,400,000
25,000,000	2,000,000	4,250,000

**Minimum Balance:** The Town shall maintain a minimum undesignated fund balance of 8% of the town's annual budget as defined by this policy.

**Target Balance:** The Town shall strive to achieve and maintain an undesignated fund balance of at least 12% of the town's annual budget as defined by this policy.

**Plan for Target Fund Balance:** The undesignated fund balance target shall be maintained by conservatively estimating revenues and giving consideration when analyzing use of fund balance to mitigating variations related to larger one time revenues anticipated that are related to general operations (such as an unusually high receipts for land use change tax, income from sale of town assets or some other similar source) which is not anticipated to be maintained at the same level in future years. In addition, assets made available by reductions in liabilities related to resolution of legal matters, abatement litigation or other similar circumstances shall be directed toward efforts to reach or maintain the target balance or capital purposes.

**Transferring Undesignated Fund Balance to Capital Reserve or Trust Funds:** On an annual basis, the Board of Selectmen (governing body) shall recommend to Town Meeting that undesignated fund balance in excess of the target amount (12% of the town's annual budget) be transferred into a municipal capital reserve fund, trust fund, or combination of funds. The Town Manager and governing body will exercise their discretion in recommending which capital reserve or trust fund(s) would be the most appropriate recipient of such transfers in a given year.

**Undesignated Fund Balance Uses:** The primary acceptable use of undesignated fund balance will be the purchase of goods or services that are: (1) valued at \$10,000 or more, (2) "non-recurring" in nature (i.e., has a useful life of at least five years), and (3) not eligible for funding via a municipal capital reserve fund or trust fund.

The Town will be very conservative in its use of undesignated fund balance for the purpose of stabilizing the tax rate, and will only use undesignated fund balance for this purpose at times when: (A) budgeted non-property tax revenues (i.e., motor vehicle registration fees) are forecasted to fall below what was collected the prior budget year, or; (B) actual non-property tax revenues fall below the amount forecasted when property tax rate estimates are disclosed at the preceding Town Meeting. A maximum of 2.0% of the Town's general fund operating expenses may be used from the undesignated fund balance in a given year for the purpose of stabilizing the tax rate. When preparing initial revenue estimates for the upcoming budget year (early winter near close of current fiscal year), the Town Manager shall make estimates of undesignated fund balance available to nominally reduce property taxes based on a preliminary assessment of the town's financial condition. When preparing for the setting of the tax rate in the fall, use of undesignated fund balance shall be reassessed to by the Town Manager to determine conformance to this policy and recommendations issued to the Board of Selectmen. This review shall consider financial statements and reports issued for the previous fiscal cycle, the town's annual budget based on budgets and appropriations to

be assessed (for the town, state and local education and county purposes for that tax year) to confirm, and if necessary modify, the Town Manager's initial estimates.

Undesignated fund balance may be appropriated for emergency purposes, as deemed necessary by the Board of Selectmen, even if such use decreases the fund balance below the targeted percentage. Emergency purposes do not include the offsetting of property taxes related to increasing continuing appropriations (operations) of the town, school or county or mismanagement of funds.

Use of additional undesignated fund balance may be considered by the Board of Selectmen during the budget setting process, when an annual budget includes an unusually large capital expenditure not financed from other reserves, long term borrowing or leasing, if deemed prudent by the governing body to mitigate the capital expenditures impact on tax rate stability.

### **Policy Review**

The Enfield Board of Selectmen, in collaboration with the Town Manager, will be responsible for reviewing this policy on an annual basis in connection with the Town's annual budgeting process to ensure that the Town's goals under this policy are being carried out. Furthermore, as a result of the annual review of this policy, the Board of Selectmen and Town Manager – with input from the CIP Committee and/or Trustees of the Trust Funds (as appropriate) – will consider revisions/updates to this policy as deemed necessary. Adoption and changes to this policy will require majority vote by the Board of Selectmen.