Town of Amherst

Fund Balance Policy

Effective: *02/27/2012*

James M. O'Mara, Jr., Town Administrator

Revised: *10/19/2016*

James M. O'Mara, Jr., Town Administrator 10/19/16

FUND BALANCE POLICY

A. Fund Balance Policy

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

The purpose of this policy is to establish a key element of the financial stability of the Town of Amherst by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the Town of Amherst maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the Town's general operations.

B. Definitions

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

2. ***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.

3. ***Committed Fund Balance*** - includes amounts that can be used only for the specific purposes determined by a formal action of the Town's highest level of decision making authority (the annual Town meeting). Commitments may be changed or lifted only by the governing body taking the same formal action that

imposed the constraint originally. The governing body's actions must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made.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 the constraint may be determined in the subsequent period.

4. ***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 amounts are to be classified as "assigned". The Selectmen expressly delegates this authority to the Town Administrator. Items that would fall under this type of fund balance classification would be encumbrances.

5. ***Unassigned 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 unassigned.

C. Spending Prioritizations

1. 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.

2. 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 unassigned amounts.

D. Deficit Fund Balance

At year end, if any of the special revenue funds (such as the Recreation Fund or Police Detail Fund etc.) has a deficit unassigned fund balance, the Town Administrator will notify the board of selectmen and request to transfer funds from the General Fund to cover the deficit, providing the General Fund has the resources to do so.

E. Minimum Level of Unassigned Fund Balance

The New Hampshire Department of Revenue recommends that cities and towns will strive to maintain an unassigned fund balance in its General Fund equal to 8-15% of the total annual appropriations of the community (which includes the Town, County, and School District).

The Amherst Board of Selectmen has chosen to target an unassigned fund balance equal to 10% of the total annual appropriations. To balance the desire to minimize the property tax rate and to help avoid large fluctuations in the tax rate, the Selectmen will generally apply 50% of the unassigned fund balance that exceeds the targeted 10% each fall to offset property taxes.

The Selectmen will review this information each year in order to determine if circumstances warrant increasing or reducing the amount applied from the unassigned fund balance to reduce property taxes.

F. Annual Review

Compliance with the provisions of this policy shall be 1 reviewed as a part of the annual budget adoption process.

Dwight Brew, Chairman

Reed Panasiti, Vice Chairman

Tom Grella

Peter Lyon

Nate Jensen