

## **FUND BALANCE POLICY:**

### **SECTION I. PURPOSE:**

The purpose of this policy is for the Town of Windham (“the Town”), through its Board of Selectmen (“the Board”) to establish and 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, as described in Section IV. In accordance with GASB Statement No. 54, Fund Balance shall be composed of non-spendable, restricted, committed, assigned, and unassigned amounts, as defined in Section V.

### **SECTION II. AUTHORITY:**

This Policy has been enacted pursuant to the statutory authority granted to the Board of Selectmen by RSA 41:9 V, Financial Duties, and RSA 31:39 as it relates to their management of the Town’s prudential affairs.

### **SECTION III. GENERAL OVERVIEW:**

The primary objective of this policy is to establish a key element of the financial stability of the Town by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the Town maintain adequate levels of unassigned fund balance to mitigate financial risks that can occur from unforeseen revenue fluctuations, unanticipated expenditures, emergencies, and similar circumstances, while still providing tax rate relief to its residents. Having a sufficient level of fund balance also provides cash flow liquidity for the Town’s general operations and minimizes the need to borrow in anticipation of taxes.

### **SECTION IV. DEFINITIONS:**

- A) “*Fund Balance*”: This is an accounting term and represents the difference between the assets and liabilities of the Town.
- B) “*Governmental Fund*”: This an accounting term used to describe the accounting for all functions reported as governmental activities in the government-wide financial statements, and include most of the basic services provided by the Town. These funds are categorized and reported as Major or Non-major and include the Town’s General Fund, Special Revenue funds, Permanent funds and Capital Project funds.
- C) “*Fiduciary Fund*”: Consists of private purpose trust funds and agency funds. Trust funds are used to account for assets held by the Town under a trust agreement for individuals, private organizations or other governments and are therefore not available to support the Town’s own programs. Agency funds are custodial in nature and consist of capital reserve funds of the Windham School District or Village Districts, as applicable, as well as subdivision escrow accounts and impact fees held by the Town.
- D) “*General Fund*”: Represents the main operating fund of the Town and is used to account for all financial resources except those required to be accounted for in another fund.

- E) "Special Revenue Fund": For purposes of this policy and financial statement presentation, the Special Revenue Fund category includes all other funds established by the Town, primarily:
- Special revenue funds established by Town Meeting, pursuant to RSA 31:95-c, which enables the Town to restrict revenues, or any portion of revenues, from a specific source to expenditures for specific purposes;
  - Revolving funds established by Town Meeting, for a specified purpose pursuant to RSA 31:95-h;
  - Conservation fund established by Town Meeting, pursuant to RSA 79-A:25;
  - Capital reserve funds established by Town Meeting, pursuant to RSA 35:1, which enables the Town to raise and appropriate monies for specific purposes;
  - Expendable trust funds established by Town Meeting, pursuant to RSA 31:19-a
- F) "Encumbrances": Represents purchase orders and other commitments for the expenditure of monies related to unperformed contracts for goods or services.
- G) "Town Meeting": Refers to either the annual or a special meeting of the legislative body held pursuant to RSA 40; also referred to as the "highest level of decision making authority" for purposes of this policy.

#### **SECTION V. CATEGORIES OF FUND BALANCE:**

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 purpose stipulated by external resource providers (such as grantors) or enabling legislation (federal or state law). Restrictions may be changed or lifted only with the consent of the resource providers or 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. Commitments may be changed or lifted only by taking the same formal action that imposed the constraint originally. The action must 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 a 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". Items that fall under this classification for the General Fund would be encumbrances properly approved by contract, purchase order, or other such action as required per the purchasing levels prescribed in the Town's Purchasing Policy.
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 balance of another fund is also classified as unassigned.

**SECTION VI. SPENDING PRIORITIZATIONS:**

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 the 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 the unassigned amounts.

**SECTION VII. MINIMUM LEVEL OF UNASSIGNED FUND BALANCE:**

The level of unassigned fund balance is scrutinized annually by the Town's Independent Auditors, the NH Department of Revenue ("DRA"), as well as credit rating agencies and banks, when the Town issues any form of municipal debt. The DRA recommends that the level of unassigned fund balance be maintained in a range of five to ten percent of total gross appropriations of the community (which includes Town, School and County).

The Board of Selectmen believe that the DRA recommendations are excessive based on the past experience in this Town and the ability to hold a Special Town Meeting to raise funds, should the need arise. Thus, the minimum level of unassigned fund balance in the General Fund shall be maintained at \$300,000. The Board of Selectmen will however, review this information each year in order to determine the appropriate amount of unassigned fund balance to be used to reduce the property tax rate.

**SECTION VIII : WAIVERS:**

The Board of Selectmen may vote to waive any portion of this policy if the Board deems it to be in the best interest of the Town of Windham.

**SECTION IX : AMENDMENTS:**

These policies may from time to time be amended by the vote of the Board at a regularly scheduled Board Meeting. Notice of proposed changes shall be posted in at least two (2) public places, one of which must be the Town Hall, at least 14 days from the date of the meeting.

**SECTION X : EFFECTIVE DATE:**

These policies shall be effective upon a vote of the Board and shall replace any and all procedures or policies previously enacted by the Town.

**Adopted By Board of Selectmen – Date: April 2, 2012**

**Bruce Breton**  
**Ross McLeod**  
**Roger Hohenberger**  
**Kathleen DiFruscia**  
**Phil LoChiatto**  
Board of Selectmen