Town of Hancock, NH
Fund Balance Policy

PURPOSE AND SCOPE
The purpose of this policy is for the Town of Hancock through its Board of Selectmen (Selectmen) to establish and maintain reservations 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 unassigned amounts.

This policy shall have the following objectives:
1. To clearly define the nature and extent of the constraints placed on each fund balance so that users of the Town’s financial information can better understand the purposes for which the Town has chosen to use particular funds for financial reporting (GASB, 2009). And,

2. To describe the guidelines the town uses to manage the fund balances. Of particular importance is to maintain an adequate level in the Unassigned Fund Balance to mitigate financial risks that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances; thereby, ensuring adequate cash flow and liquidity for town operations. This policy sets guidelines for (1) a minimum Unassigned Fund Balance reserve; and (2) the allowable uses of the Unassigned Fund Balance.

DEFINITIONS
Non-Spendable Fund Balance: Includes the amounts that are not in a spendable form (such as inventory or prepaid amounts) or are legally or contractually required to be maintained intact (such as long-term amounts principal of loans and notes receivable, as well as property acquired for resale). Restricted, committed or assigned proceeds from the collection of those receivables or from the sale of properties are should be included in the appropriate fund balance classification. For fund balance reporting amounts "required to be retained for perpetuity" that are classified as "nonexpendable within a restricted net asset category should be classified as "non-spendable" rather than "restricted".

Restricted Fund Balance: Includes amounts that can only be spent for the specific purposes stipulated by external resource providers (such as creditors, grantors, or contributors) 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 the specific purposes determined by a formal action of Town Meeting. Commitments may be changed or lifted through Town Meeting action taking the same formal action that imposed the constraint originally. The 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, but are neither restricted nor committed. For all governmental funds other than the General Fund, any remaining positive balances are to be classified as “assigned”. The Selectmen expressly delegates this classification authority to the Town Administrator. Other items that would fall under this type of fund balance would be encumbrances resulting from approved purchase orders or specific actions of the governing body pursuant to the provisions of the New Hampshire Revised Statutes Annotated (RSAs). All appropriations shall lapse at the end of the fiscal year unless authorized in accordance with RSA 32:7.

Unassigned Fund Balance: The Unassigned Fund Balance is the residual classification for the General Fund. This classification represents the fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned for specific purposes within the General Fund. Any deficit fund balance of another fund (restricted, committed or assigned) is also classified as unassigned.

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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.

GUIDELINES TO MANAGE FUND BALANCES
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 unassigned amounts.

Deficit Fund Balance: At year end, if any of the special revenue funds has a deficit unassigned fund balance, the Town Administrator is authorized to transfer funds from the General Fund to cover the deficit, provided the General Fund has the resources to do so. Notice of such transfer shall be provided to the Selectmen.

Unassigned Fund Balance Reserves – General Fund: Unassigned fund balance reserves recommended by the NH Department of Revenue Administration (DRA) and the Government Finance Officers Association (GFOA) are as follows:

<table>
<thead>
<tr>
<th>If the Annual Budget Is:</th>
<th>DRA 5%</th>
<th>DRA 10%</th>
<th>GFOA 8%</th>
<th>GFOA 17%</th>
<th>Town 6%</th>
<th>Town 7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>6,461,155</td>
<td>323,058</td>
<td>646,116</td>
<td>516,892</td>
<td>1,098,396</td>
<td>387,669</td>
<td>452,281</td>
</tr>
</tbody>
</table>

Minimum Balance: The Town’s policy is to maintain a minimum unassigned fund balance of 5% of the town’s annual budget, unless appropriations for emergency are required.

Target Balance: The Town shall strive to achieve and maintain an unassigned fund balance of between 6% and 7% of the town’s annual budget.

Plan for Target Fund Balance: The unassigned 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 for capital purposes.

Unassigned Fund Balance Uses: When preparing initial revenue estimates for the upcoming budget year (early winter near close of current fiscal year), Selectmen shall make estimates of unassigned fund balance available to offset annual warrant articles and/or to reduce property taxes conservatively 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 unassigned fund balance shall be reassessed by the Selectboard and Town Administrator to determine conformance to this policy. 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 Selectmen’s initial estimates.

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Unassigned fund balance may be appropriated for emergency purposes, as deemed necessary by the 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 to mismanagement of funds. The Town Administrator will prepare a plan to replenish the fund to the minimum balance, which includes a replenishment schedule and revenue sources. This plan to be approved by the Selectmen.

Use of additional unassigned fund balance may be considered by 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.

**Waivers:** The Selectmen may vote to waive any portion of this policy, if the Selectmen deems it to be in the best interest of the Town of Hancock.

**Amendments:** These policies may from time to time be amended by the vote of the Selectmen 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.

**Effective Date:** These policies shall be effective upon a vote of the Selectmen and shall replace any and all procedures or policies previously enacted by the Town.

**Adopted by the Board of Selectmen on this day:** March 27, 2017

Tom Shevenell, Chair, Board of Selectmen

Erik Spitzbarth

John Jordan

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