



POLICY No.: F-9
DATE ADOPTED:

TOWN OF WEST BOYLSTON BOARD OF SELECTMEN POLICY

Town Of West Boylston, Massachusetts Fund Balance Policy

PURPOSE OF FUND BALANCE

The purpose of this policy is to establish a key element of the financial stability of the Town by setting guidelines for the General Fund Unassigned 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 risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures and similar circumstances. The unassigned fund balance also provides cash flow liquidity for the Town's general operations. The School Department is part of the Town's General Fund, and is as such included in its fund balance.

DEFINITIONS

Fund Equity. A fund's equity is generally the difference between its assets and its liabilities. In the case of the Town's general fund, its major governmental operating fund, only those financial assets – those that are cash or other liquid assets, and only certain liabilities – those expected to be liquidated in the near term – are considered in the computation of the general fund balance. Non-financial fixed assets, such as streets, and long-term liabilities, such as bonds payable, are accounted for in other funds of the Town.

Fund Balance. Net Position or the difference between assets and liabilities in a governmental fund, is considered Fund Balance.

The Governmental Accounting Standards Board (GASB), who establishes financial reporting rules for governments, separates fund balance into five classifications that comprise a hierarchy based primarily on the restrictions placed on the funds.

1. **Nonspendable.** This classification represents funds that are inherently nonspendable. Resources that must be maintained intact pursuant to legal or contractual requirements are nonspendable, such as the capital of a revolving loan fund. This can include assets that will

never convert to cash such as inventory, or will not convert to cash within the current fiscal year such as the long-term portion of accounts receivable.

2. **Restricted.** These funds are limited by externally enforceable limitations on use. This includes limitations from the entity providing the money, such as grantors. Also, this classification includes funds with limitations placed by law or enabling legislation, such as charter or state law.

3. **Committed.** Funds in this classification are those with limitations the government places on itself. The purpose of these funds is decided by Town Meeting action and also requires Town Meeting action to change the purpose.

4. **Assigned.** Assigned fund balance has limitations based on the intended use of the funds. The assigned use can be established by the Town Meeting or the Town Administrator as described in the financial statements, such as self-insurance assignments and fund balance to be used in the subsequent year's budget.

5. **Unassigned.** Residual net resources, or the balance after restricted, committed and assigned, are classified as unassigned fund balance. This is the amount of fund balance, formerly referred to as "unreserved, undesignated" fund balance. This classification is available to address emergencies and provide fiscal stability. This is the classification governed by this Fund Balance Policy.

Considerations.

Credit rating agencies determine the adequacy of the unassigned fund balance using a complex series of financial evaluations. The size of the fund balance is an important, but not the only consideration in the Town's rating. Other important factors are the reliability of a government's revenue sources, economic conditions, community wealth factors, cash position, debt ratios, management performance, and fiscal decisions made by the legislative body.

The Government Finance Officer's Association of the US & Canada (GFOA) recommends that municipalities of any size maintain an unrestricted General Fund balance of no less than two months (16.67%) of regular general fund operating revenues or expenditures, whichever is more predictable. They advise that the percentage varies depending on individual community situations, based on the considerations and risk mentioned above.

OTHER PROVISIONS

Order of Use of Fund Balances. When multiple sources of use are available for expenditure, restricted funds should be spent first unless legal requirements disallow it. Then committed funds should be spent second, assigned funds third, and unassigned funds last.

Maintenance. In the event that the unassigned general fund balance is calculated to be less than the policy anticipates, the Town shall plan to adjust budget resources in the subsequent fiscal years to restore the balance. Except in extraordinary circumstances, unassigned fund balance should not be used to fund more than 1% of the ongoing and routine year-to-year operating expenditures of the Town. It should be used primarily to insure adequate assigned balances, to respond to unforeseen emergencies, to provide cash flow, and to provide overall financial stability.

Administrative Responsibilities. The Finance Director shall be responsible for monitoring and reporting the Town's various assignments. The Town Administrator is directed to make recommendations to the Board of Selectmen, the School Committee, the Finance Committee and the Town Meeting on the use of unassigned funds both as an element of the annual operating budget submission and from time to time throughout the year as needs may arise.

Annual Report. The Finance Director shall annually submit a report to the Town Administrator outlining the status of the Town's various components of the fund balance. This report shall be submitted within thirty days of the receipt of the annual financial audit. The Finance Director shall also provide status reports at other times to the Town Administrator, Board of Selectmen or the Town Meeting as may be requested.

POLICY

It is the goal of the Town to achieve and maintain an unassigned General Fund balance equal to 10% of the Town's annual operating expenditures. The Town considers a balance of less than 5% to be cause for concern, and will work to restore the balance above that level as soon as possible (see "*Maintenance*").

Pursuant to Massachusetts General Laws related to establishing reserves, for any certified increase in the General Fund Unassigned Fund Balance from one fiscal year to the next, a portion may be transferred to the Town's Stabilization Fund. Balances in the Stabilization Fund are included in the calculation of the 10% goal. In years where there is no increase in unassigned fund balance, there will be no transfer to the Stabilization account.

The Town also maintains a Capital Investment Fund. This is an assigned fund balance created specifically by the Massachusetts Legislature for the Town of West Boylston. It is the policy of the Town that annually upon completing any transfers from the unassigned fund balance to the Stabilization Fund, the Town Administrator may recommend that the Town Meeting make transfers from the unassigned fund balance into the Capital Investment Fund. Balances in the Capital Investment Fund are not included in the calculation of the Town's 10% goal.