

## **Town of Underhill Fund Balance Policy**

The Fund Balance Policy is intended to provide guidelines during the preparation and execution of the annual budget to ensure that sufficient reserves are maintained for unanticipated expenditures or revenue shortfalls. It also is intended to preserve flexibility throughout the fiscal year to make adjustments in funding for program approved in connection with the annual budget. The Fund Balance Policy is established based upon a long-term perspective recognizing that stated thresholds are considered minimum balances. The main objective of establishing and maintaining a Fund Balance Policy is for the Town of Underhill to be in a strong fiscal position that will allow for better position to weather negative economic trends.

The Fund Balance consists of five categories: Nonspendable, Restricted, Committed, Assigned, and Unassigned.

**Nonspendable Fund Balance** consists of funds that cannot be spent due to their form (e.g. inventories and prepaids) or funds that legally or contractually must be maintained intact.

**Restricted Fund Balance** consists of funds that are mandated for a specific purpose by external parties, constitutional provisions, or enabling legislation.

**Committed Fund Balance** consists of funds that are set aside for a specific purpose by the Town of Underhill's highest level of decision making authority (town voters or select board). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.

**Assigned Fund Balance** consists of funds that are set aside with the intent to be used for a specific purpose by the Town of Underhill's highest level of decision making authority or a body or official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in the fund balance.

**Unassigned Fund Balance** consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

### **Nonspendable and Restricted Funds**

Nonspendable funds are those funds that cannot be spent because they are either:

- Not in spendable form (e.g. inventories and prepaids)
- Legally or contractually required to be maintained intact.

It is the responsibility of the Finance Officer to report all Nonspendable Funds appropriately in the Town of Underhill's Financial Statements.

Restricted funds are those funds that have constraints placed on their use either:

- Externally by creditors, grantors, contributors, or laws or regulations or other governments
- By law through constitutional provisions or enabling legislation.

It is the responsibility of the Finance Officer to report all Restricted Funds appropriately in the Town of Underhill's Finance Statements.

### **Order of Use of Restricted and Unrestricted Funds**

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it.

When committed, assigned and unassigned funds are available for expenditures, committed funds should be spent first, assigned funds second, and unassigned funds last.

### **Authority to Commit Funds**

The Town of Underhill voters and select board have the authority to set aside funds for a specific purpose. Any funds set aside as Committed Fund Balance requires the passage of a resolution by a simple majority vote. The passage of a resolution must take place prior to June 30<sup>th</sup> of the applicable fiscal year. If the actual amount of the commitment is not available by June 30<sup>th</sup>, the resolution must state the process or formula necessary to calculate the actual amount as soon as information is available.

### **Authority to Assign Funds**

The Town of Underhill select board has the authority to set aside funds for the intended use of a specific purpose. Any funds set aside as Assigned Fund Balance requires a simple majority vote and must be recorded in the minutes. The same action is required to change or remove the assignment.

### **Unassigned Fund Balance**

Unassigned Fund Balance is the residual amount in the General Fund. It represents the resources available for future spending. An appropriate level of Unassigned Fund Balance should be maintained in the General Fund in order to cover unexpected expenditures and revenue shortfalls.

Unassigned Fund Balance may be accessed in the event of unexpected expenditures up to the minimum established level upon approval of the select board. In the event of projected revenue shortfalls or unexpected expenditures, it is the responsibility of the

Finance Officer to report the projections to the select board on a quarterly basis and shall be recorded in the minutes.

The Fund Balance Policy establishes a minimum Unassigned Fund Balance equal to 15% of the budgeted General Fund expenditures each year. This balance is the minimum fund balance required to meet cash flow needs for two months (60 days).

To the extent that the General Fund unassigned fund balance exceeds 15% the balances may be utilized to fund capital expenditures or pay down outstanding debt.

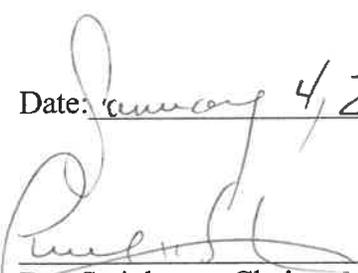
The select board is expected to manage the budget so that revenue shortfalls and expenditures increases do not impact the total unassigned fund balance. If a catastrophic economic event occurs that requires a 10% or more deviation from total budgeted revenues or expenditures then unassigned fund balance can be reduced by action from the Select Board.

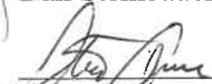
The Fund Balance Policy is effective beginning with the fiscal year ended June 30, 2011.

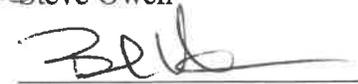
The Fund Balance Policy may be amended from time to time per the Select board.

Adopted by the Town of Underhill Select Board:

Date: January 4, 2012

  
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Dan Steinbauer, Chair

  
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Steve Owen

  
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Brad Holden