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Town Of Limerick

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Fund Balance Policy

Purpose:

The purpose of this policy is to establish a target level of fund balance for the general fund and certain special revenue funds, and to establish a process and criteria for the continued evaluation of that target level as conditions warrant. This policy shall also establish a process for reaching and maintaining the targeted level of unassigned fund balance, and the priority for the use of amounts more than the target. Finally, this policy shall provide a mechanism for monitoring and reporting the Town's fund balance. This policy applies to the general fund.

Definitions and Classifications:

Fund Balance is a term used to describe the net assets of governmental funds. The Fund Balance is calculated as the difference between the assets and liabilities reported in a governmental fund.

Governmental fund balance is reported in five classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The five classifications of fund balance are as follows:

1. *Non-spendable* – resources which cannot be spent because they are either (a) not in spendable form or: (b) legally or contractually required to be maintained intact. Examples: inventory, long-term loans and notes receivable, principal amount of permanent funds
2. *Restricted* – resources with constraints placed on the use of resources which are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Examples: grants, revolving loan fund, TIFs, impact fees

3. *Committed* -- resources which are subject to limitations the government imposes upon itself at its highest level of decision-making authority, and that remains binding unless removed in the same manner. Examples: funds set aside by council action to fund Part II budget capital equipment and projects, Council actions to set aside funds for projects
4. *Assigned* – resources neither restricted nor committed for which a government has a stated intended use as established by the Select Board, or a body or official to which the Select Board has delegated the authority to assign amounts for specific purposes. Examples: year-end balance transfers to capital, encumbrances.
5. *Other* – resources which cannot be properly classified in one of the other four categories. The General Fund should be the only fund that reports a positive fund balance amount.

A negative residual amount should not be reported for restricted, committed, or assigned fund balances in any fund.

The committed, assigned, and classifications are often referred to, taken together, as the *unassigned fund balance*.

GAAP= Generally Accepted Accounting Priniples in the United States.

Financial Stability:

This Fund balance also provides proof of financial stability to credit rating agencies and bond holders who offer the potential of low interest rates for long term financing. Credit rating agencies determine the adequacy of the 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 key 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.

Policy:

The Town of Limerick recognizes the importance of maintaining an appropriate level of Undesignated Funds. After reviewing our financial operations and consulting with our Municipal Auditor, the following goal was established regarding these funds.

Goal:

It is the policy of the Town of Limerick to maintain a combined unassigned fund balance in the general fund and the specified special revenue funds no less than 25% (3) months and no more than 25% (3) months) of the subsequent year's budget, defined as the total of municipal appropriations, school district assessment, and county taxes. If the unassigned fund balance drops below the target of 25% (3 months) the Town will develop a plan, implemented through the annual budgetary process, to bring the balance to the target level. Once the target of 25% of the fund balance policy is reached, any portion of the *fund balance* above the 25% target may be

used to fund the capital improvements, unforeseen emergency purchases, reduce property taxes or loan debt reduction purposes.

Also, GFOA recommends that towns of any size maintain an unassigned General Fund balance of no less than three months of regular general fund operating revenues or expenditures, whichever is more predictable.

Other Provisions:

Maintenance - If the 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, a fund balance should not be used to fund any portion 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.

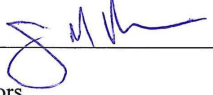
Policy Administration:

Annually the Select Board shall report the Town's fund balance and the classification of the various components in accordance with GAAP and this policy.

The Select Board shall annually review this policy and the considerations used in establishing the unassigned fund balance. The Select Board shall report whether changes in those considerations or additional considerations have been identified that would change the recommended level of unassigned fund balance.


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