

**Town of Rockingham, Vermont  
Village of Bellows Falls, Vermont  
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 and Village by setting guidelines for the General Fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the Town and Village maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures and similar circumstances. The fund balance also provides cash flow liquidity for the Town and Village's general operations.

**Definitions**

***Fund Equity.*** A funds equity is generally the difference between its assets and its liabilities. In the case of the Town and Village's general fund, the 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.

***Fund Balance.*** Accounting distinctions are made between the portion of fund equity that is unassigned and the portion that is nonspendable, restricted, committed or assigned.

- **Nonspendable Fund Balance** consists of funds that cannot be spent due to their form (ie 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 and Village's highest level of decision making authority (Selectboard and Board of Trustees). 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 and Village's highest level of decision making authority or an official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in unassigned 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.

***Order and 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

expenditure, committed funds should be spent first, assigned funds second and unassigned funds last.

***Authority to Commit and Assign Funds.*** The Selectboard and the Board of Trustees 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. The Selectboard and the Board of Trustees have the authority to set aside funds for a specific purpose as Assigned Fund Balance with a simple majority vote and must be recorded in the minutes. The same action is required to change or remove the assignment.

***Considerations.*** In order to determine the adequacy of the unassigned fund balance, a number of important factors must be taken into consideration. These factors include 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 Selectboard and Board of Trustees.

### **Other Provisions**

***Maintenance.*** In the event that the unassigned general fund balance is so calculated to be less than the policy anticipates, the Town and Village 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 any portion of the ongoing and routine operating expenditures of the Town or Village. It should be used primarily to ensure adequate reserves, 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 on the Town and Village's unassigned fund balance. The Municipal Manager and the Finance Director will make recommendations to the Selectboard and Board of Trustees on the use of excessive unassigned fund balance as an element of the annual operating budget submission and from time to time throughout the year as needs may arise.

***Annual Report.*** As part of the annual financial audit review with the Selectboard and Board of Trustees, the Finance Director will outline the status of the various components of the Town and Village's general fund balance.

### **Policy**

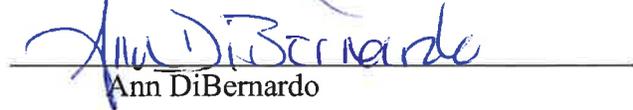
It is the goal of the Town and Village to achieve and maintain an unassigned General Fund balance equal to between 5% and 10% of expenditures. The Town and Village consider a balance of less than 5% to be a cause for concern, barring unusual or deliberate circumstances, and a balance of more than 10% as excessive. An amount in excess of 10% may be committed or assigned to accumulate funds for capital projects and equipment or to reduce the tax levy requirements.

The foregoing policy is hereby adopted by the Rockingham Selectboard this 6<sup>th</sup> day of September, 2011 and is effective as of this date until amended or repealed.

The foregoing policy is hereby adopted by the Board of Trustees of the Village of Bellows Falls, Vermont this 13<sup>th</sup> day of September, 2011 and is effective as of this date until amended or repealed.



Thomas MacPhee



Ann DiBernardo



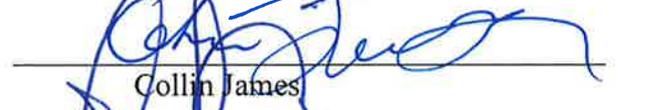
Peter Golec



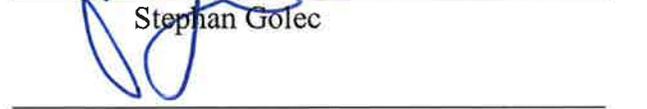
Matthew Trieber



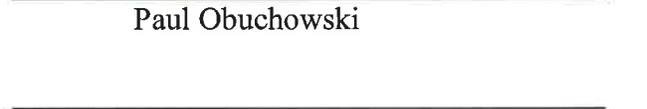
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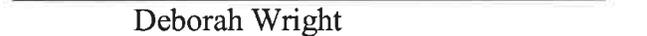
Collin James



Stephan Golec



Paul Obuchowski



Deborah Wright