

# **Unassigned Fund Balance Procedure**

## **Annual Risk Assessment and Review of the Unassigned Fund Balance and Related Fund Balance Policy**

### **Background:**

The Board of Selectmen (BOS) adopted its initial Fund Balance Policy on September 20, 2021. The Policy and these Procedures will ensure continuity of municipal services and tax rate stability. It is important to maintain an appropriate amount in the Unassigned Fund balance to reduce financial risks, reduce borrowing costs, and to continue the orderly operation of government. The New Hampshire Department of Revenue Administration (DRA) has recommended a range of 8%-17% of Regular General Fund operating expenditures. Regular General Fund operating expenditures are the sum of municipal, school, county, and state expenditures which are locally raised. Unassigned fund balance primarily comes from unspent money in the Town's budget and collecting more revenue than anticipated.

### **Target Unassigned Fund Balance:**

It is the objective of the BOS to maintain a target Unassigned Fund Balance of 12% of Regular General Fund operating expenditures. This is a financially responsible level which the BOS is committed to maintaining through the utilization of their Fund Balance Policy and this procedure.

The annual review process outlined below identifies circumstances where there may be a cause for concern when the actual balance falls below the target and is closer to DRA's specified minimum or when it reaches the maximum of the range.

### **Annual Review and Risk Assessment:**

An annual review/risk assessment will be conducted by the BOS and Town Administrator prior to finalizing the budget for the next year. The risk assessment will take into consideration the following areas and any foreseeable changes over the next twelve to twenty-four months:

- The predictability of revenues year over year. How are forecasts made in the budget? Are they made based on last year's actuals or last years budget?
- The predictability of expenses year over year. How accurate is the budgeting process? Is it based on last years' actuals or last years' budget?
- The predictability of revenues year over year – large entity. Does the Town rely on any one or two companies or multiple companies with the same ownership to provide a significant portion of revenues? If this revenue is reduced substantially, it may also have an impact on the town's ability to meet its expenses.
- Is there any new exposure to significant one-time outlays? (disasters, state budget cuts)
- Will there be any large un-planned capital expenses that the current capital reserve will not cover? What happened to cause this un-planned event? Was this not adequately forecasted in capital improvements?

- Historical analysis of the Unassigned Fund balance. A spreadsheet is maintained showing the fund balance since 2013. This spreadsheet will be updated each year with appropriate current information along with any notations on large increases or decreases in the balance. This will assist in identifying trends.

**Restoration Plan:**

In the event the fund balance falls below the target and is closer to the minimum as specified by DRA, the BOS will conduct an immediate review to determine the root cause of this deficiency. The BOS will develop a plan to address:

- Describe how the town’s expenditures and/or revenue levels will be adjusted to match any new economic realities
- Define the time period over which the fund balance will be replenished and the means by which they will be replenished.
  - The fund balance will be replenished to the original target balance within one to three years of use. Factors that will influence the replenishment time horizon include:
    - Budgetary reasons behind the fund balance target
    - Recovering from an extreme event
    - Political continuity
    - Financial planning time horizon
    - Long-term forecasts and economic conditions
    - External financing expectations

**Fund Balance in Excess of the Target or Maximum:**

After completing the annual risk assessment, the fund balance may be in excess of the target or maximum percentage even after consideration of any potential future financial risks. Careful consideration should first be given to identify trends that contribute to large increases in the fund balance (i.e., consistent underspending of voter approved budgets, revenues in excess of forecast) before recommendations are made to use this fund balance. The following is a list of some considerations to be reviewed prior to a recommendation to use the fund balance:

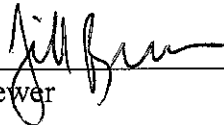
- Capital Reserve Accounts: Are all capital reserve fund balances at the required level. Are there any known upcoming requirements that have not been fully reserved for? Additions to capital reserves from the Unassigned Fund balance would eliminate further taxation. Input from the Capital Improvement Committee will be required.
- A review of the updated Master Plan for the town should be completed to identify any long-term plans that will require funding
- A longer budget plan (i.e., five-year plan) should be completed to assist in a more accurate long-term forecast of revenues and expenditures
- Unassigned Fund balance funds should not be used as a funding source for ongoing-recurring expenditures
- The fund balance may be used to reduce the tax rate but must be matched by either an equal amount in future years or a reduction in the budget in order to avoid the tax rate spiking in the following years.

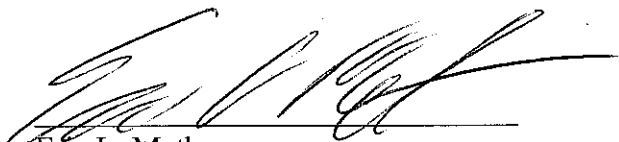
**Acceptable Uses of Excess Fund Balance:**

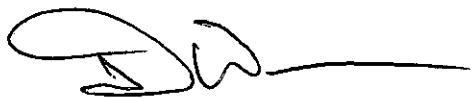
Guidance provided by the NH Department of Revenue indicates acceptable uses of excess funds would be for the following items:

- Offset warrant articles approved by the voters
- Emergency expenditure
- Offset the tax rate

This procedure has been updated as of this date: September 20, 2021

  
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