

Policy #: 8

Date Approved: 11/13/23

Date Amended:

TOWN OF RICHMOND

FUND BALANCE POLICY

for

NON-SPENDABLE, COMMITTED, ASSIGNED, RESTRICTED, AND UNASSIGNED FUNDS

PURPOSE: The purpose of this Fund Balance Policy is to establish and maintain high standards for accounting practices in the Town of Richmond, thereby enabling the Selectboard, Town Manager, Finance Director, Department Heads, and ultimately the voters, to make sound decisions in preparing and adopting the Town Budget and managing Town finances. This Fund Balance Policy pertains to the net position of governmental funds calculated in accordance with generally accepted accounting principles (GAAP) and the Government Finance Officers Association (GFOA) recommendations, and is meant to serve as a framework upon which consistent operations may be built and sustained.

POLICY: All below listed types of funds must be reported separately in the financial statements within the annual audit:

Non-Spendable: These funds **cannot** be spent as they are either not in spendable form or there is a legal or contractual requirement for the funds to remain intact. An example of this is expenses paid in one fiscal year for the next fiscal year.

Committed: These funds **cannot** be spent as they already have constraints that the Town has imposed upon itself by a formal action of the Town's Select Board or voters prior to year-end. An example of this is tax revenue raised in the current year for a specific purchase or project that was not expended in the current year but will be expended in the upcoming year.

Assigned: These funds **cannot** be spent as there is already a specific approved use. This constraint is imposed by the budget voted on by the Town's residents, to apply prior year Unassigned Fund balance money to the upcoming Fiscal Year.

Restricted: These funds **can** be spent but have applicable legal restrictions per provisions of GASB #54. For the Town of Richmond this pertains to the fund balance related to the Highway Department only.

Unassigned: These funds **can** be spent and include all spendable amounts not contained in the above classifications, and are therefore, not subject to any constraints. Unassigned funds are available for any purpose approved by the Selectboard and or voters. These are the current resources available for which there are no government self-imposed limitations or set spending plan. Although there is generally no set spending plan for the undesignated portion, it is essential that governments maintain adequate levels of fund balances to mitigate current and future risks and to ensure stable tax rates.

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Fund Balance Target: In order to maintain sufficient cash flow for working capital and emergency expenditures the Town will maintain a minimum of:

- Restricted Funds : 15% of the most recently voted Highway fund expense budget.
- Unassigned Funds : 15% of the most recently voted General fund expense budget.

Fund Balance Uses:

Restricted: Amounts exceeding 15% of the current Fiscal Year Highway budget, will be used for expenses in the following order:

1. Current emergency Highway expenses, such as a FEMA event that will not **likely be reimbursed to Richmond for many years.**
2. Offset the next Highway Budget expense lines, including contributions to Capital Reserves with a specified purpose.
3. Unbudgeted Highway related expenses.

Unassigned: Amounts exceeding 15% of the current Fiscal Year General budget, will be used for expenses in the following order:

1. Current General and Highway emergency expenses, such as a FEMA event that will not **likely be reimbursed to Richmond for many years.**
2. Offset the next General or Highway Budget expense lines, including contributions to Capital Reserves with a specified purpose.
3. Any unbudgeted expenses approved by the Selectboard.

Fund Balance Replenishment: When the combined Restricted and Unassigned Fund Balance drops below 15% of the current Fiscal Year budget, the Town will only use Restricted and Unassigned funds for emergency purposes until the balance is replenished.

Approved Date: _____

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