



## Town of Hollis, New Hampshire

### FUND BALANCE POLICY

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#### A. Purpose and Scope:

The general purpose of this policy is to ensure a stable tax rate, an excellent credit rating and to improve the financial stability of the Town of Hollis by protecting the town against unexpected emergencies, economic downturns, pending litigation, fluctuating revenues and unanticipated expenditures. This policy also addresses the minimum unassigned fund balance reserves, the Town's plan to achieve the target level of unassigned fund balance reserves and the allowable uses of unassigned fund balance reserves.

#### B. Fund Balance Categories:

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Board of Selectmen recognizes the following with regards to fund balance.

Fund balance must be classified into one or more of the five following categories:

1. **Nonspendable Fund Balance** – permanent trust funds (nonexpendable portion) non-cash assets such as inventories or prepaid items.
2. **Restricted Fund Balance** – funds legally restricted for specific purposes, such as grant, library, income balance of permanent funds, and capital project fund cannot change purpose.
  - Includes library, grants, and capital project funds, as well as income balances of permanent funds.
3. **Committed Fund Balance** – amounts that can only be used for specific purposes pursuant to a formal vote at Town Meeting; such as expendable trust (capital reserve), nonlapsing appropriations, and other special revenue funds not listed under restricted can change purpose via vote at Town Meeting.
  - The Town Meeting, as the government's highest level of decision-making authority, may authorize special revenue funds in accordance with the provisions of the New Hampshire Revised Statutes Annotated (RSAs) and expendable trust (capital reserve funds).
4. **Assigned Fund Balance** – amounts intended by the Board for specific purposes. The Board can choose to delegate this authority to the Town Administrator or Finance Officer, depending on the situation. Items that would fall under this type of fund balance could be encumbrances.



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- Lapse of Appropriations – All appropriations shall lapse at the end of the fiscal year unless authorized in accordance with the provision of RSA 32:7.

**5. Unassigned Fund Balance** – residual spendable fund balance after subtracting all of the above amounts.

### **C. Spending Prioritizations:**

- a. When an expenditure is incurred that would qualify for payment with either restricted or unrestricted funds, it will be paid first from restricted funds.
- b. When an expenditure is incurred that qualifies for payment from either of the three unrestricted fund balance categories, it will be applied in the following order:
  - i. Committed, 2) Assigned, and 3) Unassigned.

### **D. Appropriate Level of Unassigned General Fund Balance Reserves:**

NH Department of Revenue Administration (DRA) and the Government Finance Officers Association (GFOA) recommend the following guidelines regarding the appropriate level of unassigned fund balance to be retained in the general fund:

1. DRA – Recommends retaining 5% to 10% of the gross general fund operating expenditures, including Town, School, and County appropriations.
2. GFOA – Recommends retaining 8% to 17% of the gross general fund operating expenditures, including Town, School, and County appropriations.

### **E. Minimum Unassigned Fund Balance:**

It shall be the goal of the Town of Hollis to achieve and maintain an unassigned fund balance of at least 10% of general fund appropriations as determined by the annual audit of the town using a modified accrual basis.

### **F. Plan to Achieve Minimum Unassigned Fund Balance:**

The undesignated fund balance target level may be achieved by conservatively estimating annual revenues, expenditures and overlay, eliminating encumbrances of funds to carry-over to the following year and refraining from using any portion of fund balance to reduce the tax rate. Furthermore, attaining the target fund balance level of 10% may also be achieved by adding a line item to the annual operating budget for the sole purpose of building fund balance, subject to town meeting approval.



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### **G. Use of Excess Unassigned Fund Balance:**







The Board of Selectmen may appropriate any amount of the undesignated fund balance in excess of the designated percentage to offset property taxes as part of the final adopted budget for a fiscal year. In addition, excess funds may be used, upon town meeting approval, for capital improvement projects, equipment replacement and other similar budgetary needs.

### **H. Emergency Use of Undesignated Fund Balance:**

The Board of Selectmen may appropriate funds from the unassigned fund balance for emergency purposes in accordance with RSA 32:11 even if such use decreases the fund balance below the designated percentage. An emergency purpose does not include the offsetting of property taxes or mis-management of funds.

### **I. Adoption and Effective Date:**

This policy is effective immediately upon adoption by the Board of Selectmen.

		Date:
Mark LeDoux		<u>8-13-2018</u>
David Petry		<u>8-13-2018</u>
Frank Cadwell		<u>8/13/2018</u>
Peter Band		<u>8/13/18</u>
Vahrij Manoukian		

Adopted Date: April 9, 2012  
Modification Date: August 13, 2018