

TOWN OF AMHERST FUND BALANCE POLICY

Last revised: January 11, 2012

Background

The Town of Amherst desires to maintain the financial operations of the Town in a manner consistent with sound financial management principles that require that sufficient funds be retained by the Town to provide a stable financial base at all times and that the Town's financial statements clearly depict the Town's financial condition.

An adequate fund balance level is an essential element in both short-term and long-term financial planning, and serves to mitigate current and future risks (revenue shortfalls and unanticipated expenditures), sustain operations during economic downturns, and enhance creditworthiness. Through the maintenance of sufficient levels of fund balance, the Town can help stabilize funding for operations, stabilize taxes and fees, and realize cost savings in issuing debt.

Purpose

The purpose of this policy is to establish:

- The components of the fund balance in all funds per GASB 54;
- A Permanent Fund principal;
- Minimum contingency expense line levels; and
- Compliance with this policy.

Components of Fund Balance

General Fund - This fund is the Town's general operating fund, which accounts for all governmental activities unless they are in another fund.

Enterprise Funds - The Town currently has two Enterprise Funds in the Water Fund, Sewer Fund. These operations are intended to be self-supporting. As such, the charges for services should be adjusted to cover any deficits.

Capital Projects Fund - Designation shall be made for projects made with issuance of bond proceeds. Any balances for unreserved-designated capital projects are held in the General Fund until funds are used. Cash transfers are made from the supporting operating fund for projects when funds are expended.

Fund Balance - The difference between assets and liabilities in the General Fund and Enterprise Funds. It is noted that this is not the same as "cash in the bank" but serves as a measure of financial resources available for current operations. Each fund's fund balance is divided into five elements as follows:

1. **Nonspendable Fund Balance**, which is composed of components such as fixed assets (i.e. buildings, real estate and equipment), inventories, prepaid items and other non-cash items.
2. **Restricted Fund Balance**, which is composed of Town cash subject to constraints imposed by external parties or law such as state or federal or court mandates, or debt covenants, such as proceeds from the sale of seized assets.
3. **Committed Fund Balance**, which is composed of the amount of Town cash that the Town Council has specified by ordinance, resolution, contract award or other action that imposes constraints on the use of Town cash.
4. **Assigned Fund Balance**, which is composed of the amount of Town cash that the Town intends to use for a specific purpose but has not been designated by formal Town Council action. Examples include multi-year understandings that are subject to future budget approvals and availability of funds.
5. **Unassigned Fund Balance**, which is the residual from all above fund balance categories and is available for any purpose. This category shall include the Permanent Fund principal as articulated below. Negative balances in other governmental funds are reported here.

Fund Balance and Contingency Requirements

General Fund - As a minimum amount needed to meet ongoing expenditure obligations for the Town, the Permanent Fund Principal shall contain an amount at least 15% of annual General Fund revenues. This amount has been identified as the minimum amount needed to safeguard the Town's financial stability, and as one component in maintaining credit worthiness.

Enterprise Funds - The Permanent Fund Principal for enterprise funds shall be at least 1 year of debt payments plus 3 months of operating costs at the end of each fiscal year.

Contingency - The Town will maintain a contingency line in the General Fund to pay for needs caused by unforeseen emergencies, including unanticipated expenditures of a nonrecurring nature, or to meet unexpected small increases in service delivery cost. The annual Town budget shall contain a contingency expense of at least 3% of General Fund expenditures. The Water Fund and Sewer Fund maintenance budgets shall contain monies for reasonable expected Water Fund and Sewer Fund contingencies.

Permanent Funds are cash reserves that are to be used only in the event of severe financial crisis or to take advantage of an extraordinarily significant opportunity. Permanent Funds are composed of cash on the Town's balance sheet and the amounts shown are to be adjusted from year to year to reflect changes in the Town's budgets. Permanent Funds are not considered cumulative or "sinking" funds.

Compliance with Policy

It shall be the goal of the Town Council to adopt a budget that maintains the requirements established herein.

Each component of the Fund Balance shall be reviewed and reported to the Town Council at least annually in conjunction with the development of the operating budget, upon any significant amendments made to the budget throughout the fiscal year, upon debt financing, or upon any significant event. As such, any action, such as approval of any new outlay or ongoing commitment, involving more than \$100,000 will initiate a fund balance reallocation review.

No appropriation from the Restricted Fund Balance or Committed Fund Balance for recurring operational expenditures shall be made unless a plan for permanent funding of such expenditures is also approved at the time of appropriation.

In the event the Permanent Fund principal is required to be drawn below the requirement established above due to an emergency such as natural disaster or due to severe economic circumstances, the Town Manager will present to the Town Council a plan with a time line not to exceed 24 months to restore the Permanent Fund principal to its minimum level established herein.

In the event of deficits, the Town Council may approve a loan or gift from the General Fund to cover the deficit. The preferred method for providing supplemental funding shall be that of a loan accompanied by an appropriate repayment schedule. However, particular circumstances may warrant supplemental funding in the manner of a gift from the General Fund. The unreserved undesignated fund balance requirement established for the General Fund takes this liability into account.

All Fund Balance amounts shall be invested according to the Bookkeeping Policy, and unless otherwise specified, investment revenue shall accrue to the General Fund.

Undesignated Fund Calculation For FY11

Permanent Fund principal for the General Fund (based on FY11 Budget)

GF Revenues	\$ 1,615,853
Administration Fee (covered in W & S Funds)	660,000
Net GF Revenues	\$ 955,853
Ratio	15%
GF target Permanent Fund principal	\$ 143,378 ←

Required contingency in the General Fund (based on the FY 11 Budget)

GF Expenses	\$ 1,615,853
Current GF Contingency	61,927 3.8% ←
Target GF Contingency	80,793 5.0% ←

Permanent Fund principal for the Water Fund (based on FY11 Budget)

<u>Fund 20 WATER FUND</u>	<u>FY11 Budget</u>		
3000.0000 MONTHLY BILLING	544,298		
3000.0001 WATER REVENUE-SBC	99,870		
3000.1000 DEBT SERVICE REVENUE	101,526		
3010.0000 SPRINKLER LINE CHARGES	4,968		
3020.0000 PENALTIES	7,000		
3025.0000 RECONNECT FEE	7,065		
3030.0001 MISC-WATER BY THE TRUCK LOAD-PERMIT	50		
3040.0000 GRANT REVENUE	30,000		
3050.0000 REIMBURSEMENT-CONST & MTN	2,000		
4000.4500 ADMINISTRATION FEE	348,000	25% operations	\$ 87,000
4000.4700 WTP BOND - PRIN	51,179	Debt	51,179
4000.4701 WTP BOND - INT	58,981	Debt	58,981
4000.4750 UH TANK BOND - PRIN	32,555	Debt	32,555
4000.4751 UH TANK BOND - INT	50,621	Debt	50,621
4000.4800 DEPRECIATION	202,717		
4000.4825 CIP CONTRIBUTION REDUCTION	(219,775)		
4000.5000 WATERSHED MANAGEMENT	20,000	25% operations	5,000
4000.5001 STUDY PROJECTS	30,000		
6010.4300 LINE MATERIALS	25,000	25% operations	6,250
6010.4400 PUMP STATION OPERATION - SBC	1,500	25% operations	375
6020.0710 ELECTRICITY	37,000	25% operations	9,250
6020.0730 WATER PLANT-W/S/T EXP	65,000	25% operations	16,250
6020.4900 PLANT MAINTENANCE	30,000	25% operations	7,500
6020.5000 CHEMICALS	35,000	25% operations	8,750
6020.5110 WATER SAMPLING	21,000	25% operations	5,250
6020.5200 LABORATORY	8,000	25% operations	2,000
Total	796,777	WF target Permanent Fund principal	\$ 340,960 ←

Permanent Fund principal for the Sewer Fund (based on FY11 Budget)

<u>Fund 30 SEWER FUND</u>	<u>FY11 Budget</u>		
3000.0000 MONTHLY BILLING	616,724		
3100.0000 PENALTIES	6,000		
3180.0100 GRANT - USDA	15,000		
3300.0000 REIMBURSEMENT-CONST & MTN	4,000		
3400.0000 SBC-RUT CR-OPERATION/LAND	36,000		
4000.4500 ADMINISTRATION FEE	312,000	25% operations	\$ 78,000
4000.4700 WWTP BOND - PRIN	38,315	Debt	38,315
4000.4750 WWTP BOND - INT	121,237	Debt	121,237
4000.4800 DEPRECIATION	230,515		
4000.4850 REDUCED CIP CONTRIBUTION	(193,193)		
4000.5001 STUDY PROJECTS	22,500		
6010.4300 LINE MATERIALS	10,000	25% operations	2,500
6010.4400 PUMP STATIONS OPERATIONS	7,000	25% operations	1,750
6020.0710 RUT CREEK-ELECTRICITY	45,000	25% operations	11,250
6020.0730 RUT. CR. - W/S/T EXP	5,000	25% operations	1,250
6020.4100 RUT CREEK-PLANT MAINTENANCE	27,000	25% operations	6,750
6020.4200 RUT CREEK-MAJOR REPAIRS	8,000	25% operations	2,000
6020.5000 RUT CREEK-CHEMICALS	13,000	25% operations	3,250
6020.5600 RUT CREEK-LAB	16,500	25% operations	4,125
6020.5625 PRETREATMENT EXPENSE	3,750	25% operations	938
6020.5650 LABORATORY EQUIPMENT	7,000	25% operations	1,750
6020.7000 RUT CREEK-PERMIT RENEWAL	4,100	25% operations	1,025
Total	677,724	SF target Permanent Fund principal	\$ 274,140 ←

Total of all undesignated fund balances \$ 758,478