Town of Canterbury
Fund Balance Policy

1. Purpose: The Town of Canterbury believes that sound financial management principles require that sufficient funds be retained by the Town to provide a stable financial base at all times. To retain this stable financial base, the organization needs to maintain a fund balance in the General Fund that is sufficient to fund all cash flows of the organization, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, and to provide funds for all existing encumbrances.

The purpose of this policy is to establish a key element of the financial stability of the Town of Canterbury by setting guidelines for fund balance. Fund balance is an important measure of economic stability. It is essential that the Town maintain adequate levels of 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 general operations of the Town.

2. Definitions:

- **Governing Body**: As per NH RSA 21:48 the Board of Selectmen.
- **Fund Balance**: A governmental fund's fund balance is the difference between its assets, deferred outflows, and liabilities and its deferred inflows.
- **Fund Balance Components**: An accounting distinction is made between the portions of fund equity that are spendable and non-spendable. Under GASB 54, these are broken up into five categories:
    - **Non-spendable fund balance** – Amounts that are not in a spendable form (such as inventory and prepaid items) or are required to be maintained intact (such as the corpus of an endowment fund).
    - **Restricted fund balance** – Amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants and dedicated millages.
    - **Committed fund balance** – Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
    - **Assigned fund balance** – Amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other

governmental funds are, at a minimum, intended to be used for the purpose of that fund.
  - **Unassigned fund balance** – Is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.
- **Unrestricted fund balance**: Unrestricted fund balance includes committed, assigned and unassigned fund balance categories. Governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance rather than on unrestricted fund balance.

4. Minimum Unrestricted Fund Balance - General Fund: The fund balance of the Town of Canterbury's general fund has been accumulated to provide stability and flexibility to respond to unexpected adversity and/or opportunities. The Town's basic goal is to limit expenditures to anticipated revenue in order to maintain a balanced budget.

It is the goal of the Town of Canterbury to achieve and maintain an unrestricted fund balance in the general fund that is recommended by the NH Department of Revenue Administration.

**Should we include the DRA's definition of fund balance? Because they have their own methods of determining what funds we have. (Seems to be mostly cash reserves not physical or other assets) We can add to definitions under Fund Balance as NHDRA Fund Balance if there is a good definition.

**Should we discuss the tax rate setting process when the DRA asks how much of the UFB to use and they provide % retention recommendations? No, lets just refer to their recommendations. They may change.

**In Town Report we used "unreserved" and "unassigned" interchangeably. Should we not? Probably not. Lets try to be consistent in the future. Use "Unassigned"

Town of Canterbury Board of Selectmen

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Scott Doherty, Chairman

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Beth Blair

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Calvin Todd

Reviewed and signed __________________________