

Town of Easton Fund Balance Policy

Purpose

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

Definitions

Fund Equity – A fund's equity is generally the difference between its assets and its liabilities.

Fund Balance – An accounting distinction is made between the portions of fund equity that are spendable and non-spendable. These are broken up into five categories:

- 1) **Nonspendable fund balance** – includes amounts that are not in a spendable form or are required to be maintained intact. Examples are inventory or permanent funds.
- 2) **Restricted fund balance** – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include funds which have a restriction through debt covenants, grantors, contributors, or laws or regulation from other governments. The grant from the Massachusetts School Building Authority (MSBA) to mitigate the cost of the construction of new schools is placed in this category.
- 3) **Committed fund balance** – includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority, the Town Meeting. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- 4) **Assigned fund balance** – comprises amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body, the Town Meeting, 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.
- 5) **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.

Policy

Committed Fund Balance

The Town Meeting is the Town's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a

article approved by Town Meeting. The article must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned Fund Balance

The Town Administrator (or his/her designee) is the official who is empowered to authorize all purchases and/or encumbrances, as applicable, and thus assign fund balance to a specific purpose as approved by this fund balance policy.

Certified Free Cash

The Commonwealth of Massachusetts certifies the amount of available reserves that the Town has at the end of each fiscal year. The Free Cash amount is usually slightly less than the Unassigned Fund Balance in the Financial Statements due to the inclusion of various adjusting items.

Certified Free Cash and Stabilization Level

It is the goal of the Town to achieve and maintain Certified Free Cash plus Stabilization Funds in the general fund equal to 10% of the next year's total General Fund Budget. The Town considers a balance of less than 7% to be cause for concern and below 5% to be an emergency, barring unusual or deliberate circumstances.

The Town will achieve the goal of 10% through conservative revenue estimates, reducing or eliminating the use of free cash for operating expenses, prudent collective bargaining and procurement strategies, exerting downward pressure on energy consumption, employee benefit costs, avoidance of protracted litigation, and careful risk management.

Once met, should the Certified Free Cash plus the Stabilization balance fall below the goal or have a deficiency, the Town Administrator will advise the Selectmen, School Committee and Finance Committee of the deficiency and direct Town Departments to take necessary steps, such as, the delay or elimination of certain discretionary expenditures in order to replenish the Certified Free Cash Level.

Should the level fall below 7% the Town Administrator and Superintendent of Schools shall freeze all discretionary spending and develop an emergency plan to replenish the balance.

Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by Town Meeting, and unassigned fund balance), the Town will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

Adopted by the Selectmen on November 2, 2015