

# TOWN OF LITCHFIELD

## FUND BALANCE POLICY

Reviewed by BOS on June 10, 2019

ORIGINAL

### Purpose and Scope

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for the period ending December 31, 2011, the Town of Litchfield will establish and maintain reporting and classification of fund balance as defined herein. The purpose of this policy is to establish a key element of the financial stability of the Town of Litchfield, seeking to ensure a more stable tax rate and creditworthiness. It is essential to protect the Town, through adequate fund balances, to mitigate risks from unforeseen revenue fluctuations, unanticipated expenditures and emergencies. The fund balance also provides cash flow liquidity for the Town's operations.

### Definitions

*Nonspendable Fund Balance* – permanent trust funds (nonexpendable portion), non-cash assets such as inventories or prepaid items.

*Restricted Fund Balance* – funds legally restricted for specific purposes, such as grants, library, income balance of permanent funds, and capital project funds that cannot change purpose. Restrictions can only be changed with the consent of the fund provider

*Committed Fund Balance* – amounts that can only be used for specific purposes pursuant to a formal vote at Town Meetings; such as expendable trust funds (capital reserve), non lapsing appropriations, and other special revenue funds not listed under restricted and can change purpose via a vote at Town Meeting.

*Assigned Fund Balance* – amounts intended by the Board of Selectmen for specific purposes. Items that would fall under this type of fund balance could be encumbrances approved by the Board. For the General Fund, all appropriations shall lapse at the end of the fiscal year unless authorized in accordance with the provision of RSA 32:7. For governmental funds other than the General Fund, any remaining positive amounts are to be classified as assigned.

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

### Spending Prioritization

When an expenditure is incurred that would qualify for payment with either restricted or unrestricted funds, it will be paid first from restricted funds.

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: Committed, Assigned, and Unassigned.

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**Minimum Level of Unassigned Fund Balance**

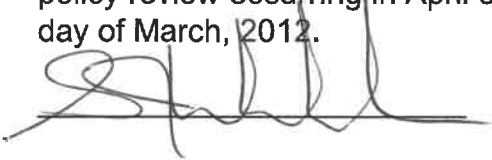
The Board will strive to maintain an appropriate level of unassigned fund balance in its general fund equal to 8% to 12% of regular general fund operating appropriations which includes Town, School and County operating appropriations. The Board may choose to use additional measures to determine an appropriate level of fund balance. However, at no time as a result of discretionary policy choices will the fund balance dip below the minimum threshold.

**Use of Excess Undesignated Fund Balance**

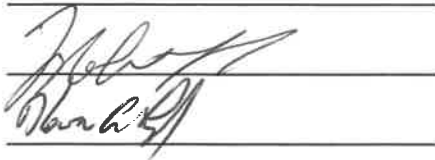
The Board of Selectmen may appropriate any amount of undesignated fund balance in excess of the minimum target balance to offset taxes. In addition, excess funds may be used, subject to Town Meeting approval, for capital improvement projects, equipment replacement, establishment of Trust Funds or other similar budgetary needs. The Board of Selectmen may appropriate undesignated fund balance for emergency purposes, as deemed necessary, even if such use decreases the fund balance below the designated percentage, if such emergency appropriation follows requirements as outlined under Municipal Budget Law (RSA 32).

**Annual Review**

Compliance with the provisions of this policy shall be reviewed as a part of the annual policy review occurring in April of each year. This policy is hereby adopted on this 12<sup>th</sup> day of March, 2012.



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- Revised May 14, 2012**
- Revised April 22, 2013**
- Reviewed May 13, 2014**
- Reviewed May 11, 2015**
- Reviewed May 23, 2016**
- Reviewed May 22, 2017**
- Reviewed June 10, 2019**