

Town of Danvers
Fund Balance Policy

Date Adopted: March 3, 2016

Fund Balance Policy

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The Town's fund balance classification policies and procedures are as follows:

1. Nonspendable funds cannot be spent because they are either (a) not in spendable form, such as inventory or prepaid items, or (b) legally or contractually required to be maintained intact, such as nonmajor governmental fund reserves for the principal portion of permanent trust funds.
2. Restricted funds are used solely for the purpose in which the fund was established, and are restricted based on the constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes General Fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.
3. Committed funds are established, modified and rescinded as a result of articles passed by Town Meeting, the highest decision making authority in the Town.

This fund balance classification includes: (a) General Fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, (b) stabilization and other reserve funds set aside by Town Meeting vote for specific and non-routine future capital acquisitions and improvements (reported as part of the General Fund per GASB 54), and (c) various special revenue funds.

4. Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year. The Town permits the Town Manager to assign fund balance amounts to a specific purpose, although fund balance to be applied against a subsequent year's budget is voted by Town Meeting.
5. Unassigned funds are available to be spent in future periods. This is the amount of fund balance formerly referred to as "unreserved, undesignated" fund balance. This classification is available to address emergencies and provide fiscal stability. This is the classification governed by this Fund Balance Policy.

It is the goal of the Town to maintain the above Governmental Fund Balances, in the aggregate, above 15% of the Town's annual operating expenditures.

Order of Use of Fund Balances – When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: (1) restricted, (2) committed, (3) assigned, and (4) unassigned.

Considerations

Credit rating agencies, such as Moody's and S&P, determine the adequacy of the unassigned fund balance using a complex series of financial evaluations. The size of the fund balance is one of many important considerations in the Town's bond rating.

Other important factors are the reliability of the Town's revenue sources, economic conditions, community wealth factors, cash position, debt ratios, management performance, and fiscal decisions made by the legislative body.

Policy

It is the goal of the Town to achieve and maintain an unassigned General Fund balance in the range of 8-12% of the Town's annual operating expenditures. The Town considers a balance of less than 5% to be cause for concern, and will work to restore the balance above that level as soon as possible.

Specifically, in the event the unassigned General Fund balance is calculated to be less than the policy anticipates, the Town shall plan to adjust budget resources in the subsequent fiscal years to restore the balance.

Pursuant to Mass. General Laws related to establishing reserves, a portion of the unassigned General Fund balance may be transferred to the Town's General Stabilization Fund. Balances in the General Stabilization Fund are included in the unassigned General Fund balance, and are therefore included in the calculation of the Town's 8-12% goal.

The Town also maintains a School Construction Stabilization Fund. This is a committed fund balance used specifically to offset the debt service costs of school construction projects. For information on the School Construction Stabilization Fund, see the Town of Danvers Reserve Policy. Balances in the School Construction Stabilization Fund are not included in the calculation of the Town's 8-12% goal.

Reporting

The Finance Director shall be responsible for monitoring and reporting the Town's various fund balances. The Town Manager is directed to make recommendations to the Board of Selectmen, the School Committee, the Finance Committee and the Town Meeting on the use of unassigned funds both as an element of the annual operating budget submission and from time to time throughout the year as needs may arise.

The Finance Director shall annually submit a report to the Town Manager outlining the status of the Town's various components of the fund balance. This report shall be submitted within a reasonable period after receipt of the annual financial audit. The Finance Director shall also provide status reports at other times to the Town Manager, Board of Selectmen or the Town Meeting as requested.