

## **UNRESTRICTED NET ASSET (Fund Balance) POLICY 2007**

### 1. PURPOSE

The purpose of this policy is to establish guidelines that provide for the sound financial management for unrestricted net assets, also referred at as fund balance.

### 2. UNRESTRICTED NET ASSETS

**2.1 Definition:** Smithville's unrestricted net assets as reported in the annual Financial Report, as prepared by the town's auditor, represents financial resources which are available for future appropriation. These funds are generally comprised of realized revenues in excess of incurred expenses within the fiscal year.

**2.2 Purpose:** Unrestricted net assets represent resources for unanticipated fluctuations or emergencies in the budget. They also serve to create a balance of cash that prevents the need for borrowing in anticipation of taxes. They also serve to assist the town in securing the optimal bond rating based upon financial stability.

**2.3 Balances:** It is the intent of the Town to maintain a minimum balance of one month, 8.33%, of operating expenditures; it is the intent to maintain the minimum balance in liquid assets unless it prevents the need for a tax anticipation note. The targeted balance is 2 months or 16.66%, and the maximum balance is not to exceed 25% of the operating expenditures. Any amount in excess of 25% is to be appropriated to reserve accounts for use on future, specific projects. In the event appropriations to specific projects are not needed it is advised to appropriate the excess to the Tax Stabilization / Emergency Reserve. Although it is allowable to appropriate these funds directly to reducing annual commitments it is not advised. The use of a Tax Stabilization Reserve will allow for continuity whereas use of the funds for year to year reductions in commitment will only result in an unstable commitment that fluctuates with the erratic and unstable nature of Municipal Revenues. The use of Reserves must be in accordance with the Charter of the Town of Smithville, specifically noting Section 8.13. The Town Council may recommend transfers to the Town that would reduce the balance below 25%, but no transfers shall be made that would reduce the balance to less than 8.33%.

**2.4 Calculation of Unrestricted Net Assets to Expenditures:** At the completion of the annual audit the Treasurer or Finance Director shall submit to the council a calculation, expressed as a percentage, of unrestricted net assets as compared to the annual total operating expenditures of general fund for that fiscal year. The calculation shall be as follows: Audited Unrestricted Net Assets / Audited Total Operating Expenditures = Percentage.

**2.5 Transferring Unrestricted net assets to Restricted (Reserves):** The Town Council may present at an Annual Town Meeting or Special Town Meeting, a transfer of the excess as calculated in Section 2.4 of this policy. The priority of transfers shall be as follows:

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1. Increase designated reserves, created for anticipated expenditures in accordance with the Town's Capital Improvement Plan, if existing reserves are insufficient.
2. Increase Tax Stabilization/Emergency Reserve Account, created for emergencies which include transfers to operating expenses to prevent the need for tax anticipation notes, transfers to other reserves for identified projects, and tax rate stabilization, as defined in the reserve policy.

Overall, the unrestricted net assets should not be used to fund general or routine operating expenses of the town. It should be used to fund designated reserves for foreseeable projects or goals, unforeseen emergencies, and to provide financial stability to the town.

SAMPLE