



City of Lebanon
New Hampshire

COUNCIL POLICY			
Fund Balance Policy			
<i>Policy Number</i>	<i>Effective Date</i>	<i>Last Revision</i>	<i>Page No.</i>
CC-101	6/20/2018		Page 1 of 5
<i>Approved by:</i>		City Council	

Section 1.0: Purpose

To provide adequate financial resources to ensure the continued orderly operation of government and the provision of services to residents and the continued stability of the tax or rate structure that can be threatened by uncertainty emanating from a number of areas including economic uncertainty, unanticipated changes in federal and state policies, imposition of federal and state mandates, unanticipated expenditures resulting from natural disasters or other unforeseen circumstances, errors in estimating expenditures and revenues, potential drain on resources from funds facing financial difficulties, and disparities in timing between revenue collections and expenditures.

Section 2.0: Scope

Funds other than the General Fund exist primarily to ensure and demonstrate compliance with limitations on the use of existing resources or as enterprises. The General Fund, as the chief operating fund of the City, has a broader mandate which may include accumulating sufficient financial resources for contingencies. Accordingly, this Policy is limited to the General Fund. Fund balance is a measurement of available financial resources and is the difference between total assets and total liabilities in each fund. Governmental Accounting Standards Board (GASB) Statement No. 54 distinguishes fund balance classified based on the relative strength of the constraints that control the purposes for which specified amounts can be spent.

Section 3.0: Definitions

- 1) *Appropriate* – is a policy decision to set apart from the public revenue a certain sum for a specified public purpose and to authorize the expenditure of that sum for that purpose. The most important policy tool is the annual budget. Policy is *what* is going to be done. The budget is the means of determining *what* will get done because that is where money is allocated to programs, services, projects and facilities.



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COUNCIL POLICY			
Fund Balance Policy			
<i>Policy Number</i>	<i>Effective Date</i>	<i>Last Revision</i>	<i>Page No.</i>
CC-101	6/20/2018		Page 2 of 5
<i>Approved by:</i>		City Council	

Appropriations can be made only by vote of the legislative body. Legislative power is the power to set overall policy, the power to raise and appropriate money (tax and spend) and set the purposes for expenditures. The City Council is the City's legislative body; the county convention, which consists of the state representatives comprising Grafton County, is the county's legislative body (NH RSA 24), acting on budgetary recommendations compiled by the county commissioners; the annual meeting of the Lebanon School District is that entity's legislative body.

- 2) *Assigned Fund Balance* – includes amounts the City intends to be *used for specific purposes but are neither restricted or committed*. In accordance with GASB Statement No. 54, funds that are intended to be used for specific purpose, but have not received the formal approval action at the governing body level (City Council), may be recorded as assigned fund balance. Likewise, redeploying assigned resources to an alternative use does not require formal action by the City Council. GASB Statement No. 54 states that resources can be assigned by the governing body or by another internal body or person whom the governing body gives the authority to do so. Therefore, having considered the requirements to assign fund balance, the City Manager, or the City Manager's designee, shall have the authority to assign fund balance.

Encumbrances (purchase orders), or other contractual commitments, the provision of contingency for assessment abatements and bankruptcy proceedings, special revenue funds and capital project funds are examples of assigned fund balance.

- 3) *Committed Fund Balance* – includes amounts that can be *used only for the specific purposes determined by a vote of the City Council*. Commitments may be rescinded, changed or lifted only by a subsequent vote of the City Council. Included are expendable trust funds (capital reserve funds).
- 4) *Current General Fund Budgeted Expenditures* – are related to the appropriated budget of the current year and not prior year expenditures carried over to the current year as encumbrances or non-budgeted current year expenditure adjustments.
- 5) *Encumbrance* – is a purchase order, a contractual (outstanding) commitment. The process of encumbering budgeted funds is meant to



City of Lebanon
New Hampshire

COUNCIL POLICY			
Fund Balance Policy			
<i>Policy Number</i>	<i>Effective Date</i>	<i>Last Revision</i>	<i>Page No.</i>
CC-101	6/20/2018		Page 3 of 5
<i>Approved by:</i>		City Council	

ensure budgetary compliance both to prevent overspending appropriations for the year and to detect violations of budgetary authority.

- 6) *Fund* – segregates resources (revenues) and requirements (expenditures) that are legally restricted to specific uses.
- 7) *Non-spendable Fund Balance* – includes amounts *not in spendable form*, such as inventory, or amounts required to be maintained intact legally or contractually such as for inventory, prepaid items, and the nonexpendable portion of permanent trust funds.
- 8) *Restricted Fund Balance* – includes amounts that are subject to externally enforceable legal restrictions and can be spent only for the specific purposes stipulated by law, ordinance or regulation, external resource providers or through enabling legislation. Restrictions applicable to this fund balance may not be changed or lifted by the City without the consent of the resource providers or enabling legislation. Included are library funds, the income balance of permanent funds (trust funds), grant funds and unspent bond proceeds.
- 9) *Unassigned Fund Balance* – is the residual classification for the City's General Fund and includes all amounts not contained in other fund balance component classifications and therefore not subject to any constraints. Appropriation from Unassigned Fund Balance requires approval of the City Council.
- 10) *Unassigned Fund Balance Maintenance Range* – an amount of money, in dollars or as a percentage of a defined base, that is considered a prudent level at which to maintain the unassigned fund balance.
- 11) *Unrestricted Fund Balance* – is total fund balance less nonspendable fund balance and restricted fund balance, which is the total of committed fund balance, assigned fund balance and Unassigned Fund Balance.

Section 4.0: Policy Detail

- 1) Spending Prioritization:
 - a. When both restricted and unrestricted funds (committed, assigned and unassigned) are available for expenditure, restricted funds should be spent first unless legal requirements disallow it.



City of Lebanon
New Hampshire

COUNCIL POLICY			
Fund Balance Policy			
<i>Policy Number</i>	<i>Effective Date</i>	<i>Last Revision</i>	<i>Page No.</i>
CC-101	6/20/2018		Page 4 of 5
<i>Approved by:</i>		City Council	

- b. When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second, and unassigned funds last.
- 2) Unassigned Fund Balance Maintenance Range:
- a. It is the objective of the City to maintain an Unassigned Fund Balance of 19.0% to 24.0% of gross current General Fund budgeted expenditures.
 - b. The City considers a balance of less than 19.0% to be a cause for concern and, considering factors or circumstances that may require a higher than normal maximum level of Unassigned Fund Balance, a balance of more than 24.0% as excessive.
 - c. In the event Unassigned Fund Balance is less than 19.0%, restorative steps shall be taken in the immediate subsequent fiscal years.
 - d. In the event Unassigned Fund Balance is more than 24.0%, steps should be taken to reduce the excess balance in the immediate subsequent fiscal years, or a plan for doing so over a reasonable period should be prepared, including an explanation of how the excess fund balance will be reduced to an acceptable level. An amount more than 24.0% may be considered to reduce tax levy requirements determined in conjunction with the annual budget process, as a capital improvement funding component, for reservation to accumulate funding for future capital improvements, or for any legal purpose deemed appropriate and desirable by the City Council.
 - e. This Policy is not intended to preclude the administrative application of Unassigned Fund Balance as a companion to the budgeted application of Unassigned Fund Balance as a mitigating utility in setting the annual Municipal Tax Rate.
- 3) This Policy shall be reviewed annually by the City Council and revised as warranted.

Section 5.0: References (Charter/Code/State Statues)

- 1) *Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.*



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New Hampshire

COUNCIL POLICY			
Fund Balance Policy			
<i>Policy Number</i>	<i>Effective Date</i>	<i>Last Revision</i>	<i>Page No.</i>
CC-101	6/20/2018		Page 5 of 5
<i>Approved by:</i>	City Council		

Section 6.0: Policy & Procedure Revision History

	Section	Revisions	Date
Original Adoption			6/20/18
Amendment			
Amendment			
Amendment			