

TOWN OF ACTON FUND BALANCE POLICY

PURPOSE:

To establish a target balance for the municipal government's undesignated fund balance.

DESCRIPTION:

Undesignated Fund Balance (UFB) is a number derived by the year end audit. It represents an accumulation (from year to year) of year end expenditure surplus (funds unexpended) and revenue surplus (additional revenues above town meeting estimate). It may also be called surplus and in government accounting surplus is then recorded in the fund balance. If these funds are not designated for specific purposes then they are called Undesignated Fund Balance.

LOW BALANCE AFFECT:

Some communities choose to keep as little as possible in the fund balance. While this may seem to be a good idea it has several implications for the town; the most important being the effect on cash flows. Like a business with little more than the cash they take in daily, sometimes their expenses exceed the cash they have. This leads to a line of credit. In government we would seek a tax anticipation note (TAN). UFB in part allows for funds in the bank to cover cash flow needs.


TARGET BALANCE:

Government complies with generally accepted accounting principles, just like private business. However, since we deal with tax payer's dollars, our accountability is that much more critical. Auditor's have historically recommended that a municipality maintain a UFB in the vicinity of 2-4 months worth of expenses, which factors down to 16.7% - 33.3% of the current year's approved budget. For Acton that would be a range of approximately \$800,000 to \$1.6 million for the current year.


Municipal Budget FY 18 Approved- 4.8million x .167(16.7%)= \$ 801,600

Municipal Budget FY 18 Approved- 4.8million x .333(33.3%)= \$ 1,598,400

Adopted 01/09/2018



Elise Miller, Chairman



Edward Walsh, Selectman



Kimberly Stacey-Horn, Selectman