

Adopted 08/15/07

Upper Valley Lake Sunapee Regional Planning Commission Policy on Balance in Unrestricted Net Assets

Purpose

For Management purposes, the Commission wishes to maintain a balance of unrestricted net assets in order to preserve the financial stability of the entity. The purpose of maintaining adequate levels of unreserved net assets is to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable dues rates. Maintaining an adequate level of unrestricted net assets is a crucial consideration in long-term financial planning and good financial management.

The Finance Committee will review the analysis annually to determine the reasonableness of the balance of unrestricted net assets and recommend steps to be taken, if any.

Policy

The review is for management purposes only- the financial records and reporting will continue to be in accordance with generally accepted accounting principles (GAAP) and as required by the Governmental Accounting Standards Board.

A prudent level of financial resources is needed to protect against reducing service levels or raising fees because of temporary revenue shortfalls or unpredicted one-time expenditures. The volatility of the revenue stream and the relative predictable nature of the expense stream need to be taken into account.

The review of the balance of unrestricted net assets is to be considered in the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis on the level of the unreserved net assets balance at any one time.

The review of unrestricted net assets would consider the following:

- Contingencies - short term cash flow needs in order to accommodate unexpected operational changes, legislative impacts, or other economic events affecting the Commission's operations which could not have been reasonably anticipated at the time the budget was prepared. Recommended level is three (3) percent of the Commission's annual operating budget.
- Replacement of capital items. Increased annually at 1/5 of the balance needed to fund the 5 year projected estimate. The increase for the replacement of capital assets component would be included in the annual budget and the balance reduced as capital assets are purchased. (See example 1 for a sample of how the replacement of capital items would be

computed for review purposes.) The Finance Committee reviews a 5-year projection of replacement of capital items annually.

- Strategic reserves to be able to respond to unanticipated projects. These funds would not be spent without the Commission's authorization. Recommended level is five (5) percent of the Commission's annual operating budget.
- Operating reserve resources- because of the volatility of the revenue stream, it is recommended that there be no less than three (3) months operating expenses and a most desirable level is six (6) months of operating expenses.

Other factors may be considered as determined necessary by the Finance Committee. Recommended levels will be reviewed periodically and amended as appropriate by the Finance Committee. Example 2 reflects how an analysis may be prepared annually for review.

The review of the balance of net assets and recommended plan of action, if any, will be included as part of the Finance Committee report to the Commission.

UPPER VALLEY LAKE SUNAPEE REGIONAL PLANNING COMMISSION
 UNRESERVED NET ASSET POLICY DRAFT
 EXAMPLE 1

Capital Assets Replacement Designation Funding and Balance Over Time- Example for Discussion Purposes

Balance
 Designated
 for capital
 assets

Beginning of period 1: Designate a beginning balance of

40,000 Note 1

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Total</u>
Replacement needs by year	41,800	13,500	10,500	9,000	26,000	100,800

Annual average- budget to increase reserve by this amount year 1 (100,800/5) 20,160

Year 1 purchases (assume \$7,000 copier not purchased) (41,800-7,000) (34,800) Note 2

Balance at end of year 1

25,360 Note 2

Period 2:

	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Total</u>
Replacement needs by year	20,500	11,000	9,500	27,000	27,000	95,000

Budget to increase reserve = (Total needed less balance)/5= (95,000-25,360)/5 13,928

Purchases during the year (20,500)

Balance at end of year 2

18,788

Period 3:

	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Total</u>
Replacement needs by year	11,500	10,000	28,000	28,000	45,000	122,500

Budget to increase reserve $(122,500 - 18,788) / 5$	20,742
Purchases during the year	(11,500)
Balance at end of year 3	28,030

Period 4:

	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Total</u>	
Replacement needs by year	10,500	28,500	28,500	47,500	20,000	135,000	
Budget to increase reserve $(135,000 - 28,030) / 5$							21,394
Purchases during the year							(10,500)
Balance at end of year 4							38,924

Note 1: The Asset Inventory discussed at the 09/06/06 finance committee shows an FY07 replacement of \$41,800. Rounded down and conservative, the number for the beginning balance is \$40,000.

Note 2: The balance would be expected to decrease in the years that a significant purchase is made e.g. truck, copier, plotter.

UPPER VALLEY LAKE SUNAPEE REGIONAL PLANNING COMMISSION
ANALYSIS OF UNRESERVED NET ASSETS AT 06/30/06
EXAMPLE 2

NOTE: All numbers are estimates and have been rounded for the purpose of analysis.

	<u>Percent of</u>	<u>OPERATING</u>	
		<u>Minimum</u>	<u>Maximum</u>
	<u>Adopted FY07 Budget</u>	<u>3 mos.</u> <u>Operating</u>	<u>6 months</u>
Designated for contingencies	appr 3%	18,500	18,500
Designated for capital assets	separate analysis	40,000	40,000
Designated for strategic reserve	appr 5%	30,700	30,700
Designated for operating reserve	appr 25-50%	150,000	300,000
Total recommended		220,700	370,700
Balance at 06/30/06-between minimum and maximum			304,700

Conclusion: Unreserved net assets is within preferred range, no action required.

For management review purposes only.