

Town of Bridgton Fund Balance Policy

Purpose

The purpose of this policy is to establish a target level of fund balance for the General Fund and also the town as a whole, including business-type activities. This policy will establish a process and criteria for the continued evaluation of this target level as conditions warrant, and will address target fund balances for reserve and business-type funds as well. The policy will also establish standard classifications for various types of fund balances.

This policy shall also establish a process for reaching and maintaining the targeted level of unassigned fund balance in the General Fund, and the priority for the use of amounts in excess of the target. Finally, this policy shall also provide a mechanism for monitoring and reporting the Town's general fund balance.

Definitions and Classifications

Fund Balance is a term used to describe the net assets of governmental funds. It is calculated as the difference between the assets and liabilities reported in a governmental fund, and reported in the annual audit of the Town's fiscal operations.

Governmental fund balance is reported in five classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The five classifications of fund balances are defined as follows.

- ***Non-spendable*** fund balance includes amounts that are not in a spendable form (inventory, for example) or are required to be maintained intact (the principal of a scholarship fund).
- ***Restricted*** fund balance includes amounts that can be spent only for the specific purposes stipulated by external resource providers (for example, grant providers), constitutionally, or through enabling legislation (that is, legislation that creates a new revenue source and restricts its use). Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- ***Committed*** fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally. In the case of the Town of Bridgton, amounts are classified as committed by a vote of the Select Board.
- ***Assigned*** fund balance comprises amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund

balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. The Town Manager is authorized to set assigned amounts within individual funds, pursuant to general policies established by the Select Board.

- **Unassigned** fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. If another governmental fund has a fund balance deficit, then it will be reported as a negative amount in the unassigned classification in that fund. Positive unassigned amounts will be reported only in the general fund. (This had also been referred to as the Undesignated Fund Balance in prior years)

The committed, assigned and unassigned classifications are often referred to, in the aggregate, as the *unrestricted fund balance*.

GAAP means generally accepted accounting principles in the United States.

Background and Considerations

Fund balance is intended to serve as a measure of financial resources in a governmental fund. The Town's management, credit rating services, and others monitor the levels of fund balances as important indicators of the Town's economic condition. While the credit rating services have always analyzed fund balance as part of their evaluation of credit-worthiness, these services have recently focused increased attention on evaluating appropriate fund balance levels due to concerns reflected in the credit markets.

The Government Accounting Standards Board (GASB) also brought increased attention to fund balance with its fund balance project. This project culminated in GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. In response to GASB's project and resulting statement, and the increased attention from credit rating agencies and others, the Government Finance Officers Association (GFOA) issued a revised "Best Practice" in 2009 entitled, *Appropriate Level of Unrestricted Fund Balance in the General Fund*.

Finally, the town has also recognized the need to do improve its overall fund balance and as a related effect, it's overall liquidity. While a strong fund balance for the General Fund is certainly a priority, it does little good if it is offset by weak or negative fund balances elsewhere. Similarly, creating a schedule of expenses for the capital project funds will enable the town to build up internal balances to fund future projects, rather than being forced to borrow to replace assets.

All of these events have prompted the Town of Bridgton to evaluate its circumstances and develop this policy. In establishing an appropriate level of fund balance the Town of Bridgton has considered the following factors:

Property tax base. The property tax is the largest revenue source of the Town's general fund. It is the source of revenue for debt backed by the Town's general obligation pledge. The dependence of the town on large taxpayers and changes in the overall collection rate are important factors in assessing the stability of this revenue source. Though we have a very good rate of collection and virtually no dependence on large taxpayers, the amount of taxes collected from a significant number of financially stressed households is a factor that contributes to a slightly higher fund balance.

Non-property tax revenues. These resources must be considered in terms of the percentage each comprises of the total budget, as well as the reliability and stability of these resources. In Bridgton, these are a comparatively small source of revenue, but with recent changes to State Revenue Sharing, and possible change looming for excise tax collections looming, this cannot be considered an entirely stable revenue source.

Exposure to significant outlays. The Town shall consider its potential exposure to significant one-time outlays, either resulting from a disaster, immediate capital needs, state budget cuts or other events. While better insulated than many communities, the town still needs to allocate greater amounts of fund balance to cover these contingencies.

Debt profile. It is essential that the Town have sufficient capacity to make its debt service payments. Sufficient capacity must be maintained in the event of interruptions or reductions in revenue flow, or in the event of unforeseen expenditures. In determining the appropriate capacity, the Town will consider its existing debt service profile as well as its future debt service profile as developed in the Town's capital improvement program. Debt service shall be reviewed in total as well as net of any other revenues that may be used to result in a net amount to be funded from property taxes.

Liquidity. An adequate level of fund balance should be maintained to ensure sufficient liquidity. The potential drain on general fund resources from other funds, as well as the availability of resources in other funds, should be considered.

Budget management. Budgetary variances are an indicator of an ability to manage the Town's financial affairs. A consistent pattern of positive budgetary variances along with moderate increases in the growth of the annual operating budget can be viewed as evidence of strong budgetary management. Evidence of weak budgetary management would necessitate a review of the appropriate levels of fund balance.

Future uses. The Town's adopted capital improvement program and its annual updates to anticipate future investments may also permit the use of fund balance to fund minor capital improvements. Those planned uses should be considered in evaluating the appropriate level of fund balance.

GFOA Best Practice. The Government Finance Officers Association (GFOA) has established a best practice that recommends, "... at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures." GFOA's best practice also states, "... governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance rather than unrestricted fund balance."

Policy**General Fund**

It is the policy of the Town of Bridgton to maintain unassigned fund balance in the general fund between 16.67% and 25% of general fund revenues measured on a GAAP basis. In the event that the unassigned fund balance drops below this level the minimum level, the Town Manager will develop a plan, implemented through the annual budgetary process, to bring the balance to the target level over a period of no more than five (5) years. Amounts in excess of the target shall be reviewed by the Select Board to determine their use(s) :

1. Excess General Fund balances may be used to eliminate negative balances in Capital Project funds, where appropriate.
2. Excess General Fund Balances may be used to offset the ensuing year tax rate or set aside in a tax rate stabilization fund, if so authorized.
3. Excess amounts may be used to build Capital Project funds to appropriate levels for future purchases, as determined by the Select Board and Town Manager.
4. Excess General Fund balances will be used to offset intergovernmental loans. This will occur by building unassigned General Fund Balance until it reaches the point where the unassigned balance minus intergovernmental loans is still greater than or equal to the target unassigned fund balance.
5. Excess General Fund balances may be left in the unassigned fund balance for the ensuing year with written documentation justifying the action.

The Finance Officer, in accordance with GAAP, shall report fund balance in the appropriate classifications and make the appropriate disclosures in the Town's financial statements. Unless classified as restricted or committed, the following balances shall be classified as assigned per GAAP or as required by this policy.

Other Definitions

Encumbrances. Amounts encumbered at year-end by purchase order or another means (carry forward authorizations by the Select Board) shall be classified as assigned.

Capital Budget. Amounts designated in the first year of the Town's capital improvement program ("CIP") as either appropriations or advances to other funds shall be classified as assigned.

Compensated Absences. These are not typically recorded as liabilities in the governmental funds, unless they are paid out immediately following the close of the fiscal year. However, the obligation for compensated absences can be significant. Therefore, the Town will assign the amount equal to the estimated amount required at year end to pay the compensated absence obligation for those who meet the eligibility criteria for payment and can be expected to terminate employment with the Town in the ensuing fiscal year. This amount shall exclude any amount recorded as a liability.

Professional Judgment. Amounts the Town Manager and Finance Officer determine, in their professional judgment, represent the Town's intended use of fund balance.

Prioritization of fund balance use. When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be

the policy of the Town of Bridgton to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the town that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

Policy Administration

Annually the Finance Officer with the assistance of the Town Manager shall report the Town's fund balances and the classification of the various components in accordance with GAAP and this policy. The Town Manager and Finance Officer shall annually review this policy and the considerations used in establishing the unassigned fund balance target. The Finance Officer shall report whether changes in those considerations or additional considerations have been identified that would change the recommended level of unassigned fund balance. Additionally, the Town Manager will set target levels for reserve funds on a yearly basis.

Should the Town fall below the target level, the Town Manager shall prepare a plan to restore the unassigned fund balance to the target level within five (5) years.

This policy shall be amended from time to time by the Select Board to assure continued compliance with Generally Accepted Accounting Procedures.