

# ORDER

## STANDISH TOWN COUNCIL

DATE: June 6, 2017  
ORDER NUMBER: 59-17

SUBMITTED BY: Nesbitt

### TITLE: ADOPT REVISED FUND BALANCE POLICY

WHEREAS a financial management policy to control the ~~undesignated~~ unassigned fund balance would insure a stable cash flow and reduce short term borrowing costs has been adopted

WHEREAS a new identification of Fund Balance composition has been established per the GASB 54 pronouncement, now therefore be it

ORDERED that the following Fund Balance Policy is hereby adopted replacing the policy adopted by Council Order 98-16, on September 13, 2016:

### **Town of Standish Maine General Fund - Fund Balance Policy**

#### **Purpose of this Policy**

The purpose of this policy is to establish a target level of fund balance for the general fund and to establish a process and criteria for the continued evaluation of that target level as conditions warrant. This policy shall also establish a process for reaching and maintaining the targeted level of unassigned fund balance, and the priority for the use of amounts in excess of the target. Finally, this policy shall provide a mechanism for monitoring and reporting the Town's general fund balance. This policy applies only to the general fund.

#### **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.

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 balance for the General fund are defined as follows.

- *Non-spendable* – resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact.
- *Restricted* – resources with constraints placed on the use of resources which are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.
- *Committed* – resources which are subject to limitations the government imposes upon itself at its highest level of design making, and that remain binding unless removed in the same manner.
- *Assigned* – resources neither restricted nor committed for which a government has a stated intended use as established by the Town Council, or a body or official to which the Town Council has delegated the authority to assign amounts for specific purposes.

- *Unassigned* – resources which cannot be properly classified in one of the other four categories. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

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 as well as others monitor the level of fund balance in the general fund as an important indicator 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*. All of these events have prompted the Town of Standish to evaluate its circumstances and develop this policy.

In establishing an appropriate level of fund balance the Town of Standish 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. In analyzing the health of the tax base it is necessary to look at the diversification of the tax base and its potential for growth.
- *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.
- *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.
- *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 higher levels of fund balance.
- *Future uses*. The Town's adopted capital improvement program anticipates future uses of fund balance to fund minor capital improvements. Those planned uses should be considered in evaluating the appropriate level of fund balance.

- *Employment base.* Although the Town does not have any revenues directly tied to payroll, its revenues are indirectly affected by the strength and diversity of its employment base. A review of the employment base should be considered in the development of an appropriate fund balance target.
- *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."

## **Policy**

It is the policy of the Town of Standish to maintain ~~undesignated~~ unassigned fund balance in the general fund at a range of between two twelfths and three twelfths of the approved appropriation for the municipal budget, the Town's portion of MSAD #6 local assessment, the county and overlay, or **16.67% to 25.0%**. In the event that the ~~undesignated~~ unassigned fund balance drops below this level, the Town will develop a plan, implemented through the annual budgetary process, to bring the balance within the approved range over a period of no more than three (3) years. Any excess in the ~~Undesignated~~ Unassigned Fund Balance identified in the Town's audited financial statements that exceeds the **25.0%** may be used to adjust the mil rate upon the recommendation of the Town Manager and the Town Council with the approval of the Town Meeting. The recommendation should include recognition of the timing of transfers and accounts receivable as they relate to cash flow requirements as reported by the Finance Director.

The Finance Director, 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.

*Encumbrances.* Amounts encumbered at year-end by purchase order or another means shall be classified as assigned.

*Ongoing Capital Projects.* Amounts designated as capital items that are identified in the Town's capital improvement program ("CIP") as appropriations and are ongoing projects not funded with bond proceeds shall be classified as assigned.

*Ongoing Engineering/Consulting Appropriated Projects.* Amounts determined to be used for engineering or consulting projects that are ongoing between fiscal years.

*Use of Fund Balance.* Any amount approved from unassigned fund balance for use in the next fiscal budget year.

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

## **Policy Administration**

Annually the Town's Auditor will report in his/her Financial Statements presentation to the council with the Finance Director the Town's fund balance and the classification of the various components in accordance with GAAP and this policy.

The Finance Director in conjunction with the Town Manager and Finance Committee shall periodically review this policy and the considerations used in establishing the unassigned fund balance target. The Finance Director shall report whether changes in those considerations or additional considerations have been identified that would change the recommended

level of unassigned fund balance. Should the Town fall below the target level, the Finance Director shall prepare a plan to restore the unassigned fund balance to the target level within three (3) years.

APPROVED \_\_\_\_\_DISAPPROVED\_\_\_\_\_

ROLL CALL	YEA	NAY	ABSTAIN
BLANCK	_____		
DELCOURT	_____		
HIGGINS	_____		
NESBITT	_____		
POMERLEAU	_____		
SARGENT	_____		
SIRPIS	_____		

CLERK/SECRETARY \_\_\_\_\_