

## **Town of Windham, Maine Fund Balance Policy**

### **Purpose:**

The purpose of this policy is to establish a target level of fund balance for the general fund and certain special revenue funds, 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 unrestricted 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 fund balance. This policy applies to the general fund, recreation program special revenue fund, and sewer special revenue 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 are as follows:

1. *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 in tact. Examples: inventory, long-term loans and notes receivable, principal amount of permanent funds
2. *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. Examples: grants, revolving loan fund, TIFs, impact fees
3. *Committed* -- resources which are subject to limitations the government imposes upon itself at its highest level of decision-making authority, and that remains binding unless removed in the same manner. Examples: funds set aside by council action to fund Part II budget capital equipment and projects, Council actions to set aside funds for projects
4. *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. Examples: year-end balance transfers to capital, encumbrances.
5. *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.

A negative residual amount should not be reported for restricted, committed, or assigned fund balances in any fund.

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.

**Policy:**

It is the policy of the Town of Windham to maintain a combined unrestricted fund balance in the general fund and the specified special revenue funds at 16.67% of the subsequent year's budget, defined as the total of municipal appropriations, school district assessment, and county taxes. In the event that the unrestricted fund balance drops below the target of 16.67% the Town will develop a plan, implemented through the annual budgetary process, to bring the balance to the target level. Once the target of 16.67% is reached, any portion of the *unassigned fund balance* above the target may be used to fund the capital needs of the community or reduce property taxes in any subsequent year as deemed appropriate by the Town Council.

The Town Council will consider using unrestricted fund balance for emergencies that cannot be addressed through a normal budget process. The Town Council will consider using unassigned fund balance first to address any emergency. However, the use of assigned or committed fund balances, in that order, will be considered only as a last resort.

**Policy Administration:**

Annually the Town Manager shall report the Town's fund balance and the classification of the various components in accordance with GAAP and this policy.

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

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