

Town of Limerick, Maine

FUND BALANCE POLICY

Purpose of Fund Balance:

The purpose of this policy is to establish a key element of the financial stability for the Town of Limerick by setting guidelines for the General Fund Balance.

The General Fund Balance provides the Town of Limerick with a “rainy day” fund for use in unforeseen, unbudgeted emergency situations. The General Fund Balance and all Fund Balances are an important measure of economic stability. It is essential that the Town maintain adequate levels of unreserved fund balance to migrate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures and similar circumstances.

Fund Balance:

Net assets, or the difference between assets and liabilities in a governmental fund, are considered Fund Balance.

The Governmental Accounting Standards Board (GASB), who establishes financial reporting rules for governments, separates fund balance into five classifications that comprise a hierarchy based primarily on the restrictions placed on the funds.

1. **Non-spendable.** This classification represents funds that are inherently non-spendable. Resources that must be maintained intact pursuant to legal or contractual requirements are non-spendable, such as the capital of a revolving loan fund. This can include assets that will never convert to cash such as inventory, or will not convert to cash within the current fiscal year such as the long term portion of accounts receivable.
2. **Restricted.** These funds are limited by externally enforceable limitations on use. This includes limitations from the entity providing the money, such as grantors. Also, this classification includes funds with limitations placed by law or enabling legislation, such as charter or state law
3. **Committed.** Funds in this classification are those with limitations the government places on itself. The committed fund balance classification reflects specific purposes pursuant to constraints imposed by formal action require townspeople approval for expenditure.
4. **Assigned.** Assigned fund balance has limitations based on the intended use of the funds. The assigned fund balance classification reflects amounts that are constrained by the government’s intent to be used for specific purposes, but meet neither the restricted nor committed forms of constraint. Selectperson oversee this type of fund and determine its purpose.
5. **Unassigned.** Residual net resources, or the balance after restricted, committed and assigned, are classified as unassigned fund balance. This is the amount of fund balance, formerly referred to as “unreserved, undesignated” fund balance that is available to address emergencies and provide fiscal stability. This is the classification governed by this Fund Balance Policy.

Considerations:

This Fund balance also provides proof of financial stability to credit rating agencies and bond holders who offer the potential of low interest rates for long term financing. Credit rating agencies determine the adequacy of the unassigned fund balance using a complex series of financial evaluations. The size of the fund balance is an important, but not the only consideration in the town's rating. Other important factors are the reliability of a government's revenue sources, economic conditions, community wealth factors, cash position, debt ratios, management performance, and fiscal decisions made by the legislative body.

Also, GFOA recommends that towns of any size maintain an unrestricted General Fund balance of no less than two months of regular general fund operating revenues or expenditures, whichever is more predictable.

The Town of Limerick recognizes the importance of maintaining an appropriate level of Undesignated Funds. After reviewing our financial operations and consulting with our Municipal Auditor, the following goal was established with regard to these funds.

The level of Undesignated Funds the town of Limerick is to maintain is equal to 3 (three months of the previous year's total budget as reported in the towns audited December 31 year end financial report.

Once the town achieves its goal of an appropriate level in the Undesignated Fund Account, of any excess funds may be utilized for capital improvements, unforeseen emergency purchases or loan debt reduction purposes.

Other Provisions:

Maintenance - In the event that the unassigned general fund balance is so calculated to be less than the policy anticipates, the town shall plan to adjust budget resources in the subsequent fiscal years to restore the balance. Except in extraordinary circumstances, unassigned fund balance should not be used to fund any portion of the ongoing and routine year-to-year operating expenditures of the town. It should be used primarily to insure adequate assigned balances, to respond to unforeseen emergencies, to provide cash flow, and to provide overall financial stability.

Administrative Responsibilities-*The Town of Limerick Treasurer shall be responsible for monitoring and reporting the town's various assignments.*

Annual Report - The Town of Limerick Treasurer and the Board of Selectman shall annually submit a report to the Budget Committee outlining the status of the town's various components of the fund balance. This report shall be submitted within thirty days of the receipt of the annual financial audit.

Policy:

It is the goal of the town to achieve and maintain an unassigned General Fund Balance equal to 10% of expenditures. The town considers a balance of less than 5% to be cause for concern, and will work to restore the balance as soon as possible (see Maintenance).

In the case of a serious, unexpected municipal event, the Board of Selectman may reduce the undesignated fund balance below the 5% minimum to compensate for these losses. A written plan to replenish the fund in a maximum of three fiscal years must be approved by the townspeople at the time of the emergency fund balance appropriation.

Upon receipt of the audit from the previous fiscal year, the Treasurer and the Town Auditor shall calculate the percentage of undesignated fund balance. The Board of Selectman may then, by order, transfers 10% of the excess amount from the towns undesignated fund balance to the Capital Projects account.

Adopted: March 4, 2013

LIMERICK BOARD OF SELECTMEN

Wendy M. Thorne

C. Robert DeVilleneuve

Dean P. LePage