

## TOWN OF MERCER, 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 Mercer by setting guidelines for the General Fund Balance.

The General Fund Balance provides the Town of Mercer 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 unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures and other 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 funds balance into five classifications that comprise a hierarchy based primarily on the restrictions placed on the funds.

- **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.
- **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 a charter or state law.
- **Committed.** Funds in this classification are those with limitations the government, (The Town), places on itself. The committed fund balance reflects specific purposes pursuant to constraints imposed by formal action, and requires approval by the townspeople
- **Assigned.** Assigned fund balance have limitations based on the intended use of the funds. The assigned fund balance classification reflects the amounts that are constrained by the government’s intent to be used for specific purposes, but meet neither the restricted or committed forms of constraint. The Selectboard oversee this type of fund and determine its expenditure.
- **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” or “undesigned,” 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 shows 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 important, but not the only consideration of the Town's rating. Other important factors are the reliability of a government's revenue sources, economic conditions, community wealth factors, cash position, debt ratio, management performance, and fiscal decisions made by the legislative body.

Also, the GFOA recommends that towns of any size maintain an unassigned fund balance of no less than two months of regular general fund operating revenues or expenditures, whichever is more predictable. While the two month's figure is the minimum recommended, three months is more generally accepted as the target amount for towns. (This assumes that the Town's taxes are due in two equal payments).

The Town of Mercer recognizes the importance of maintaining an appropriate level of Undesignated Funds. After reviewing our financial operations, and consulting with our municipal auditor, the following goals was established with regard to these funds:

**The level of Unassigned Fund Balance the Town of Mercer is to maintain is equal to three (3) months of the previous year's total budget as reported in the Town's fiscal yearend financial report.**

**Once the Town achieves its fund balance goal, and funds over that target amount can be used for capital improvements, unforeseen emergency purchases, loan debt reduction, or to reduce municipal property taxes.**

**The initial minimum amount recommend by the auditor for the unassigned fund balance is \$365,000, this represents three months of expenditures.**


**This fund balance level must be reviewed to ensure it remains relevant to the Town's needs. This number needs to be reviewed at least every three (3) years, but may be updated annually.**

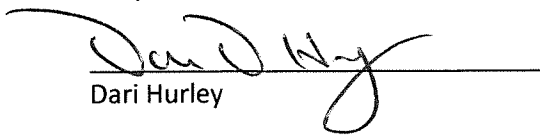
#### Other Provisions

Maintenance. In the event that the unassigned general fund balance is calculated to be less than the policy anticipates, the Town shall plan to adjust budget resources in subsequent years.

Adopted 02/24/2022

  
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