

## **Fund Balance Policy**

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Town of Bar Harbor

Since an indicator of good financial management is to end the fiscal year with revenues in addition to those budgeted and expenses less than those budgeted, resulting in a budget surplus, and

Since the Town of Bar Harbor typically ends the fiscal year with a budget surplus, and

Since this Town Council feels it would be helpful to establish a policy to guide the Town Manager in administering these leftover funds, and

Since the Town of Bar Harbor has a number of very substantial capital improvement needs, the Town Council hereby establishes the following Fund Balance Policy.

Fund Balance shall be maintained at reasonable levels at all times to ensure the financial wellbeing of the Town of Bar Harbor, to lessen the need for borrowing, to protect the Town's bond ratings and to provide the funds necessary to meet the Town's financial operating working capital. A strong Fund Balance may also allow Bar Harbor to provide for a fallback of its tax rate in times of temporary economic uncertainty, provide for unexpected capital expenditures, provide for unanticipated mandatory expenditures and provide for one-time expenses that do not create an ongoing financial obligation in future years.

Fund Balance is comprised of five classifications, in accordance with Governmental Accounting Standards Board (GASB) Rule 54, as follows:

*Non spendable:* Fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. (e.g., trusts)

*Restricted:* Fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation. (e.g., governmental grants, dog funds)

*Committed:* Fund balance amounts that are constrained for specific purposes that are internally imposed by the government through Town Meeting voting and does not lapse at year end. (e.g., C.I.P. fund)

*Assigned:* Fund amounts that are intended to be used for specific purposes that are neither considered Restricted or Committed. Fund balances may be assigned by the Town Council. (e.g., working capital needs, encumbrances)

*Unassigned:* Positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balance in other governmental funds.

An amount equal to at least 10% of the Town's latest year's audited total General Fund revenues shall be assigned by the Town Council as "*Assigned For Working Capital*".

The Town considers *restricted, committed, assigned* and *unassigned* amounts to be already spent in that order when new expenditures are incurred for a purpose for which amounts are available in these multiple fund balance classifications.

Annually, following completion of the Town audit, the Town Manager shall review the balance of the General Fund "*Unassigned Fund Balance*" and propose to transfer through the annual budget process any funds deemed surplus from the past year's operations for purposes of funding necessary projects in the Capital Improvement Program Fund.

It is recognized, as part of this policy, that good budgeting practices suggest that fund balance shall not be routinely used to reduce taxes in the following year. Accordingly, use of fund balance to fund operating expenses shall require a two-thirds vote of the Town Council.

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LEGISLATIVE HISTORY

1/21/97	Original policy adopted by Town Council.
5/1/01	Policy amended by Town Council
2/18/03	Policy amended by Town Council
1/3/06	Policy amended by Town Council
8/10/12	Staff proposed update to conform to GASB 54
8/21/12	Policy amended by Town Council