

#22: Unassigned Fund Balance Policy

I. PURPOSE

The purpose of this policy is to establish guidelines for the maintenance and preservation of unassigned fund balance for the County of Cumberland. Maintaining a sufficient unassigned fund balance promotes financial stability and provides for prudent management of the County's General Fund, including by allowing the County to:

- Cover unanticipated budget expenses with existing resources, as opposed to borrowing or covering a budget shortfall by increasing County taxes.
- Maintain or improve a strong bond rating.
- Maximize investment earnings.

II. DEFINITIONS

A. General Fund- the primary operating fund for the County, including funding for the jail.

B. Fund Balance- the cumulative difference of all revenues and expenditures of the General Fund at the close of the fiscal year.

The County shall comply with the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, issued February 2009. Board Statement No. 54 establishes five fund balance classifications, as summarized below:

Restricted Components

1. **Nonspendable Fund Balance** – Funds that cannot be spent because they are either not in a spendable form or are legally/contractually required to be maintained intact.
2. **Restricted Fund Balance** – Funds that can only be spent according to the terms imposed by their provider or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Components

1. **Committed Fund Balance** – Funds that are subject to limitations imposed by the County Commissioners, and remain so unless removed in the same manner.
 2. **Assigned Fund Balance** – Funds that are constrained by the County Commissioners through a stated intended use, but are neither restricted nor committed.
 3. **Unassigned Fund Balance** – Any remaining funds not classified in one of the other categories and that have not been restricted, committed, or assigned to specific purposes within the General Fund.
- C. Unencumbered Surplus Funds** –the actual revenue in excess of estimates, as filed with the Office of the State Auditor for the fiscal year; all unexpended account balances at the end of the fiscal year, except for capital reserve accounts; all overlay permitted under 30-A M.R.S. § 706; and any unexpended balances carried forward from prior fiscal years, including amounts retained as working capital. See 30-A M.R.S. § 924(4).

III. POLICY

- A. As recommended by the Government Finance Officers Association (GFOA), Cumberland County strives to maintain an Unassigned Fund Balance that is at least 16.7% of the County's General Fund annual operating budget, or 2 months of operating expenditures.
- B. If the Unassigned Fund Balance drops below the 16.7% level, based on the most current financial statement, the fund must be restored to the target level over a period of not more than two (2) fiscal years through the annual budget and/or tax commitment process.
- C. If the Unassigned Fund Balance exceeds 20% of the County's General Fund annual operating budget during the fiscal year all or part of the excess may be used to establish or fund a capital reserve account or the County may retain the funds as working capital for the use and benefit of the County, except correctional unencumbered surplus must carry forward in the correctional services fund balance.
- D. If Unencumbered Surplus Funds exceed 20% of the amount to be raised by taxation in the following fiscal year, after restoring the contingent account, any remaining excess funds over the 20% threshold must be used to reduce the tax levy per 30-A M.R.S. § 924 (Surplus Funds).

IV. ADMINISTRATION

- A. Annually, during the presentation of the Annual Comprehensive Financial Report (ACFR), the Finance Director shall report on the status of the various components of the Fund Balance in accordance with this Policy.
- B. The Finance Director shall calculate the amount of Unassigned Fund Balance necessary to comply with this Policy at the annual reporting time above and report that amount to the County Manager.
- C. Should the Unassigned Fund Balance fall below the 16.7% level, the County Manager shall propose to the County Commissioners a plan to restore the balance to the target level as provided in this Policy and State law.

AMENDMENT EFFECTIVE: OCTOBER __, 2025