APPENDIX D

FUND BALANCE POLICY

TOWN OF FALMOUTH
FUND BALANCE POLICY

The purpose of this policy is to establish guidelines for preserving an adequate Undesignated Fund Balance in order to sustain financial stability for the Town and to provide for prudent management of the Town's financial reserves. The Town's Undesignated Fund Balance is a surplus of funds which have accrued from unexpended operating budgets and unanticipated excess revenues.

The Undesignated Fund Balance provides the Town with a "rainy day" fund for use in unforeseen, unbudgeted emergency situations, such as rapidly declining real estate values and tax collection rates; the loss of a major taxpayer; sudden changes in revenues or spending requirements imposed by the state or federal government; natural disasters or emergency infrastructure failures; or unplanned litigation. The Undesignated Fund Balance also provides proof of financial stability to bond holders and credit rating agencies, which offers the potential for lower interest costs on long-term financings.

The Town of Falmouth therefore recognizes the importance of maintaining an appropriate level of Undesignated Fund Balance. After evaluating the Town's operating characteristics, diversity of tax base, reliability of non-property tax sources, working capital needs, impact on bond rating, State and local economic outlooks, emergency and disaster risk and other contingent issues, the Town establishes the following goals regarding the Undesignated Fund Balance for the Town of Falmouth, Maine:

The level of fund balance that the Town strives to maintain as undesignated is an amount equal to sixteen-point-seven percent (16.7%) of the Town's General Fund Budget, i.e., an amount equal to two (2) months operating expenditures from the current operating budget. The calculation will be based on the Undesignated Fund Balance number as reported in the Town's audited June 30 fiscal year-end financial report. Additionally, the Town Manager shall report to the Town Council an estimated, unaudited Undesignated Fund Balance amount as of December 31 during each fiscal year.

Once the Town achieves its goal of an appropriate level of Undesignated Fund Balance, any excess funds may be utilized for other municipal fiscal purposes, including, without limitation, additional capital improvement needs or debt reduction purposes.

In accordance with prudent budgeting practices, the Undesignated Fund Balance will not be used on a routine or one-time basis to lower taxes or to offset normal operating expenditures, unless done as part of a planned drawdown with a minimum drawdown period of five years.

This policy has been adopted by the Town to recognize the financial importance of a stable and sufficient level of Undesignated Fund Balance. However, the Town reserves the right to appropriate funds from the Undesignated Fund Balance for emergencies and other requirements the Town Council believes to be in the best interests of the Town.