

Town of Falmouth

Fund Balance Presentation

February 8, 2010

What is a Fund Balance or Reserve?

- In simple accounting terms, fund balance represents the difference between assets and liabilities in a particular fund.
- General fund balance is a critical measure of a town's financial health and is the primary measure used by credit rating agencies, such as moody's and standard & poor's, to evaluate the town's fiscal health.
- As a result of its healthy general fund balance, Falmouth enjoys a high "AA+" credit rating, which has saved the town hundreds of thousands of dollars in interest costs on its bond issues.
- In accordance with national "best practice" standards, the Town Council adopted a written policy in 2005 governing the use of fund balances. Written policy is also strongly recommended by the credit rating agencies.

What are the components of Falmouth's Fund Balances?

- **Designated**: indicates that portion of fund balanced earmarked, by the Town Council and Staff for specific uses on a multi-year basis. It includes:
 - CIP (capital improvement plan)
 - School Departments carry-forward fund balance
- **Undesignated**: indicates the unallocated fund available for general use by the Town Council

Current Fund Balance

June 30, 2009

Designated	\$ 7,702,412
<u>Undesignated</u>	<u>\$ 9,892,643</u>
Total:	\$17,595,055

What is the appropriate level of Undesignated Fund balance?

- It is recommended that municipalities hold in reserve a minimum level of undesignated fund balance equal to two (2) months of annual operating budgets for Town, School and County.

Total FY10 operating budget: \$36,653,320

Total needed in reserve: \$ 6,118,098 (16.7% of total)

- In addition, we subtract out various other non-cash assets, such as receivables not yet collected.

Total non-cash assets: \$ 538,718

What amount of the undesignated funds are actually available for use by the town?

Total Undesignated Funds:	\$ 9,892,643
Two months reserve:	(6,118,098)
Receivables not yet collected:	<u>(538,718)</u>
Remainder “available”	\$ 3,235,827

What is the appropriate use of the remaining funds?

- The Town policy directs that these funds be used primarily for capital or “one-time” (non-operating) expenditures.
- The funds can also be use for tax reduction over a multi-year drawdown period. For example using \$200K year for five years.
- In the past, we have used this fund as an alternative to borrowing, saving the Town significant interest costs.
- The fund balance has been built to a healthy level over a 20 year period. Due to the recent economic downturn, it is under severe pressure. If it is drastically cut, it will take a number of years to re-build.

Summary

- Based on the current Town Council Fund Balance Policy, the total amount of “available” fund balance, as of June 30, 2009, is \$3,235,827.
- Fund balance represents a critical measure the Town’s fiscal health. It provides the Town with a strong credit rating that allows us to borrow, when necessary, at reduced interest rates. Finally, it provides the Town with an option to address “one-time” capital expenses and unexpected circumstances.

Questions?