

UNDESIGNATED FUND BALANCE POLICY TOWN OF GRAY MAINE

As of February 17, 2004

SECTION I – PURPOSE

The purpose of the undesignated fund balance policy shall be to create a guideline to ensure the well being of the Town's financial administration in a manner that assists in providing for a positive cash flow, reducing short term borrowing costs and meeting the town's long term capital investment objectives while ensuring that year-to-year fluctuations do not allow accumulation of an excessive undesignated fund balance.

SECTION II – OBJECTIVE

- A. In addition to the Crisis Fund established as one twelfth (1/12) of the approved appropriation for the municipal budget, the Town's portion of MSAD #15 local assessment, county and overlay, the Town, through proper administration of the Undesignated Fund Balance, can work to assure the fiscal integrity of the Town.
- B. The Town shall strive to maintain the level of the undesignated fund balance at an amount no greater than two twelfths (1/6) of the approved appropriation for the municipal budget, the Town's portion of MSAD #15 local assessment, county and overlay. This is in addition to the Crisis Fund.
- C. The Undesignated Fund Balance will be determined upon completion of the fiscal year end audit and compared to the budget, as approved at the last June Town Meeting for the next fiscal year. Any excess in the Undesignated Fund Balance identified in the Town's audited financial statements that exceeds the target level in B above shall be transferred to the Town's most current Capital investment Plan schedules and/or distributed to the various reserves, upon the recommendation of the Town Manager and the Town Council and the approval of the Town Meeting. Such a recommendation should include recognition of the timing of such transfers and accounts receivable as they relate to cash flow requirements as reported by the Controller.

The excess in the fund balance may be distributed for the following activities or reserve accounts:

1. Replacement of aging capital assets including rolling stock that demonstrate a high maintenance record and has a useful life of ten (10) years or more.
2. Asset schedules related to buildings, roads, and other infrastructure that require capital maintenance or capital repairs to prevent further deterioration that if not done would cost more than if the intermediary work was not done.
3. Utilization of funds to pay off short term notes related to the Capital Investment Plan that would help save the Town funds or set the funds in a specific capital reserve to enable the Town to avoid incurring debt to fund the investment.
4. The following are the reserve accounts established or retained by the Town:
 - a. Road Resurfacing
 - b. Bridge Repair and Replacement
 - c. Fire and Public Safety
 - d. Public Works and Town Vehicles and Equipment
 - e. Sidewalks
 - f. Technology
 - g. Public Buildings
 - h. Land Acquisition
5. The Town Council may vote to add or delete a reserve to this list and recommend those actions for approval at the next annual or special Town Meeting with documentation as to the justification and proposed disposition of funds.