

FUND BALANCE POLICY

Effective Date:

Approved Date:

Purpose

The purpose of this policy is to set guidelines for fund balance to ensure financial security through the maintenance of a healthy reserve fund. The primary objective is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures. The Town also seeks to maintain the highest possible credit ratings which are dependent, in part, on the Town's maintenance of a healthy fund balance.

General Policy

Fund Balance is essentially the difference between the assets and liabilities reported in a governmental fund. There are five separate components of fund balance, each of which identifies the extent to which the Town is bound to honor constraints on the specific purpose for which amounts can be spent.

- Nonspendable fund balance (inherently nonspendable, i.e. inventory)
- Restricted fund balance (externally enforceable limitations on use, i.e. grants)
- Committed fund balance (self-imposed limitations on use)
- Assigned fund balance (limitation resulting from intended use)
- Unassigned fund balance (residual net resources)

The first two components listed above are not addressed in this policy due to the nature of their restrictions. This policy is focused on the last three components comprising the unrestricted fund balance.

Provisions

The Town will strive to maintain an unrestricted fund balance of seventeen (17) percent of the general fund operating budget, with up to two (2) percent ~~of that amount~~ accounted for in unrestricted fund balance of other governmental funds. Any year-end operating surpluses will revert to unassigned fund balance for use in maintaining reserve levels.

1. Committed Fund Balance

The Town Council, as the Town's highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by the formal actions taken, such a majority vote or resolution. These committed amounts cannot be used for any other purpose unless the Town Council removes or changes the specific use through the same type of formal action taken to establish the commitment. Town Council action to commit fund balance needs to

occur within the fiscal reporting period, no later than June 30th; however, the amount can be determined subsequent to the release of the financial statements.

2. Assigned Fund Balance

Assigned Fund Balance includes amounts *intended* to be used for a specific purpose. The Finance Director is the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy for the purpose of reporting these amounts in the annual financial statements. The primary use of this category for the General Fund is open encumbrances.

3. Unassigned Fund Balance

This is the residual classification of the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

If the unrestricted fund balance falls below the goal or has a deficiency, the Town will develop a budgetary plan to return the reserve to the minimum level as soon as economic conditions allow. Revenue sources that will be considered to aid in the replenishment of fund balance will include but not be limited to: non-recurring revenues and yearend budget surpluses. The budgetary plan shall also identify the target timeframe, including milestones until reaching full replenishment.

INVESTMENT POLICY

Effective Date:
Approved Date:

Purpose

The purpose of this policy is to establish guidelines for the investment of operating, capital and non-recurring funds. The Town recognizes that effective cash management is an integral component of good financial management.

General Policy

Investments shall be made in accordance with the following principles in order of priority:

1. Safety – Investments shall be undertaken in a manner that seeks to ensure the preservation of principal above all else.
2. Liquidity – Investments shall remain sufficiently liquid to meet all operating requirements that may be reasonable anticipated.
3. Yield – Investments shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to safety and liquidity.

Provisions

1. Investments must be made in security authorized by CGS 3-27f or CGS 7-401-402 which include U.S. government obligations, U.S. government agency obligations and U.S. government instrumentality obligations, indirect investment in U.S. government and agency securities through the purchase of share in a custodial arrangement, pool or trust, State Treasurer's Investment Fund, repurchase agreements, certificates of deposits and money market mutual funds.
2. Investments will be made in an effort to match investments with anticipated cash flow requirements.
3. Where permissible by law, cash from separate funds and sources will be pooled to maximize investment yields. Interest will be credited to the General Fund except where prohibited by law. Interest on cash held in the Capital Non-recurring Fund or Capital Fund, will be credited to the Capital Non-recurring Fund.
4. An effort to diversify investments will be made to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual issuers or maturities. The Town shall only do business with qualified public depositories.

Conn. General State Statutes:

Sec. 3-27f. Investment by Treasurer in participation certificates. Legal investments.

Notwithstanding any other provisions of the general statutes or elsewhere to the contrary, the Treasurer may invest in participation certificates of the Short Term Investment Fund for the General Fund, any bond funds, the Special Transportation Fund, the Local Bridge Revolving Fund, the Municipal Abandoned Vehicle Trust Fund, the Special Abandoned Property Fund, any trust funds administered by the Treasurer, and all such other funds which by law the Treasurer is responsible for investing. Participation certificates of the Short Term Investment Fund issued by the Treasurer under the provisions of sections 3-27a to 3-27i, inclusive, are hereby made legal investments for the Connecticut Housing Finance Authority, Connecticut Student Loan Foundation and all agencies, instrumentalities and political subdivisions of the state.

Sec. 7-401. Definitions. As used in sections 7-402 and 7-403, the following words and terms shall have the following meanings unless the context indicates another meaning or intent:

- (1) "Deposit" or "deposits" means demand deposits, time deposits, certificates of deposit, share accounts, term share accounts and share certificate accounts;
- (2) "Municipality" means any town, city or borough, whether consolidated or unconsolidated, and any school district, regional school district, district, as defined in section 7-324, metropolitan district, and each municipal corporation, organization or authority and taxing district not previously mentioned in this subdivision;
- (3) "Out-of-state bank" means an out-of-state bank, as defined in section 36a-2;
- (4) "Public funds" means any moneys collected or received by, or in the custody of, any person and belonging to, or held in trust for, the municipality, including, but not limited to, moneys held in trust or for some public or charitable purpose by the municipality; and
- (5) "Qualified public depository" means a qualified public depository, as defined in section 36a-330.

Sec. 7-402. Deposit of public money and trust funds. (a) Any public official of any municipality may deposit any public funds received, held or controlled by such public official and belonging to such municipality, or otherwise held by such public official as such public official or as a custodian or trustee on behalf of such municipality, (1) in any qualified public depository, or (2) in an amount not exceeding the Federal Deposit Insurance Corporation insurance limit, in any out-of-state bank which is not a qualified public depository, designated by such public official; provided such deposit shall only be made in such public official's name as such public official, custodian or trustee or in the name of the municipality to which the money belongs. The interest or other pecuniary consideration such depository allows for or upon such deposit of public funds shall belong to and accrue to the benefit of such municipality. In no case shall the deposit by such public official in any one such depository exceed in the aggregate at any one time seventy-five per cent of the total capital of such depository, as determined in accordance with applicable federal regulations and regulations adopted by the Banking Commissioner under section 36a-332. Any qualified public depository receiving deposits of public funds pursuant to

this section is required to disclose such information relating to public deposits as the Banking Commissioner may require by regulations which the commissioner shall adopt in accordance with the provisions of chapter 54. The regulations shall include, but not be limited to, disclosure of the most current quarterly statement of condition and statement of income. Nothing in this section shall affect additional restrictions on the deposit of public funds imposed by the provisions of the charter of any municipal corporation.

(b) Any person, other than a public official, who receives, has control of, or is the custodian or trustee of, public funds promptly following the receipt or other acceptance of such public funds shall request the authority specified in this subsection to designate one or more depositories permitted under subsection (a) of this section as a depository for the whole or any part of such funds. The authority shall be (1) the board of selectmen, if the funds belong to a town that does not have a charter, special act or home rule ordinance relating to its government, (2) the first selectman, mayor or other chief executive officer described in a charter, special act or home rule ordinance relating to the government of a city, consolidated town and city, consolidated town and borough or a town having a charter, special act or home rule ordinance relating to its government, if the funds belong to such an entity, (3) the regional board of education, if the funds belong to a regional school district, (4) the warden, if the funds belong to a borough or (5) the chairman of the executive committee or other chief executive officer, if the funds belong to a district, metropolitan district or other municipal corporation. Such authority, upon the receipt of such request, may, in writing, designate one or more depositories and may, within the limitations of this section, specify the public fund or funds and the maximum amount thereof which may be deposited in each of such depositories. The instrument designating such depository or depositories shall be filed in the office of the town clerk in the case of a town and with the clerk of any other municipality. Such authority may, at any time, in writing, revoke such designation and may designate one or more other depositories. Prior to the designation by such authority of a depository, the person making such request may, within the limitations of this section, deposit public funds in any depository permitted under subsection (a) of this section. All deposits of public funds shall be in the name of the municipality or in the official name of the fund, person or trustee. The interest or pecuniary consideration such depository allows for or upon such deposit of public funds shall belong to and accrue to the benefit of the municipality or to the corpus of the fund held in trust.

(c) If the laws of this state have, in all other respects, been complied with, any person acting on behalf of, or as custodian or trustee for, any municipality, who deposits public funds in any depository shall, because of failure, insolvency, receivership, forced closing or restricted operation of such depository, or a bank and credit union holiday or banking emergency proclaimed under the provisions of the laws of the United States or of this state, be relieved of personal responsibility for public funds so deposited and the surety or sureties upon the bond of such person shall be likewise relieved to the same extent as such person. The provisions of this section shall not be construed to relieve any such person or such person's surety or sureties from the obligation to account for the whole or such part of public funds so deposited as and when the same may be obtained by such person from such depository.