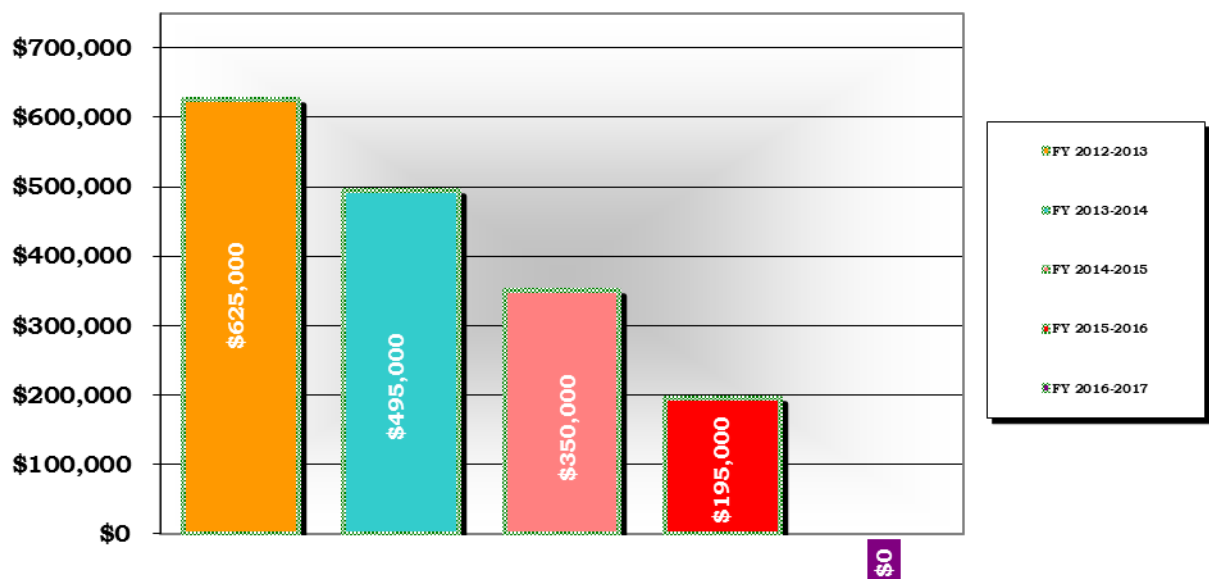


FUND BALANCE POLICY

General Fund - Several years ago, a policy was established by the BOF to reduce the General Fund's reliance on surplus to balance the budget. The original plan was to reduce use of the General Fund Fund Balance from \$3.66 million to zero in five years. Given economic realities, it was agreed the plan was too aggressive and unrealistic. The fiscal 2016-16 budget amount was \$195,000. This chart shows the five year downward trend of budgeting the use of General Fund Fund Balance. Fiscal year 2016-17 eliminates the use of Fund Balance to balance the General Fund budget.



Policy Initiatives - (continued)

Policy - General Fund - Fund Balances – Revised 2/25/14

Original Fund Balance Policy Adopted by the Board of Finance on December 20, 2000.

Purpose: Governments should maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time emergency expenditures.

Policy: The Board of Finance recognizes the importance of maintaining stable and adequate General Fund - Fund Balances and sets forth the following policy:

1. Maintain ending General Fund total Fund Balances as a percent of operating revenues at between 15% and 20%.

Policy Initiatives

2. Maintain General Fund Unassigned Fund Balances as a percent of operating revenues between 10% and 15%.

Example: For Balances as of FYE - Audit June 30, 2015

Fund Balances:

Unassigned	\$ 26,605,958
Total	\$ 31,716,983

Operating Budget 2015-2016	<u>\$185,005,865</u>
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Ratios: at FYE Audit June 30, 2015

(1) The total General Fund Balance as a percentage of operating budget: 17.14%

(2) Unassigned General Fund Balances as a percentage of operating budget: 14.38%

Exceptions: **Exceptions and/or changes to this policy may be allowed under certain unique conditions to maintain flexibility in case of emergencies and one-time opportunities.**

TOWN OF CHESHIRE
GENERAL FUND BALANCE POLICY

The objectives of this policy are to preserve the credit worthiness of the Town; provide working capital for the Town to meet cash flow needs during the year; funding of reserves; to ensure a stable tax rate; and to fund one-time, emergency, unanticipated expenditure requirements or revenue shortfalls.

In order to achieve the objectives of this policy, the following guidelines shall be adhered to:

1. Maintain minimum General Fund Balance on a budgetary basis¹ of 9.25% of the previous year's budgetary expenditures.
2. As part of the annual budget process, the Finance Director will estimate the surplus or deficit for the current year for all funds and prepare a projection of the year-end General Fund Balance. This analysis coupled with an estimate of long-term liabilities will be studied in conjunction with the annual audit to understand the full state of the Town. Any anticipated balance in excess of the minimum General Fund Balance may be allocated/budgeted to accomplish the following goals:
 - a. Fund reserves
 - b. Avoid future debt
 - c. Reduce debt service
 - d. Provide direct mill rate relief
3. Withdrawal of any amount of General Fund Balance in excess of the targeted minimum of the amount budgeted under (2) above, for the sole purpose of reducing the ensuing year's property tax levy, may be made only upon a specific vote of the Town Council.
4. The Town Council, by vote, can declare a fiscal emergency and withdraw any amount of General Fund balance for purposes of addressing the fiscal emergency. Any such action must also provide a plan to restore General Fund Balance to the minimum balance within a five-year period.
5. This policy will be reviewed by the Budget Committee every two (2) years following adoption or sooner at the direction of the Town Council.

¹ *General Fund Balance on a budgetary basis* is defined as the general fund balance net of amounts assigned for the subsequent year's budget.

6. For financial reporting in accordance with Generally Accepted Accounting Principles (GAAP), fund balance will be reported in governmental funds under the following categories:

Non-Spendable fund balance – Amounts which cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

Restricted fund balance – These amounts are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislations.

Committed fund balance – This represents amounts constrained prior to year-end for specific purpose by a government using its highest level of decision-making authority (Town of Cheshire Town Council).

Assigned fund balance – Amounts constrained for the intent to be used for a specific purpose by a governing board or a body or official that has been delegated authority to assign amounts. The Town Council delegates the Town Manager / Finance Director the authority to assign amounts to be used for specific purposes as per the Town Charter.

Unassigned fund balance – The residual amount not allocated to any other fund balance category in the General Fund and any residual deficit balance of any other governmental funds.

7. When both restricted and unrestricted amounts are available for use, it is the Town of Cheshire's policy to use restricted resources first. Additionally, the Town of Cheshire would first use committed, then assigned, and lastly unassigned fund balances.

(Update - Adopted January 15, 2019)

(66)

City of Danbury, Connecticut
FUND BALANCE POLICY
(In accordance with GASB Statement No. 54)

Purpose and Scope

The following policy has been adopted by the City of Danbury, Connecticut in order to address the implications of Governmental Accounting Standards Board ("GASB") Statement No. 54, Fund Balance Reporting and Governmental Fund Definitions. The policy is created in consideration of the continuation of necessary public services. This policy will ensure that the City maintains adequate fund balances and reserves in order to:

- a. Provide sufficient cash flow for the daily financial needs,
- b. Secure and maintain investment grade bond ratings,
- c. Offset significant economic downturns or revenue shortfalls, and
- d. Provide funds for the unforeseen expenditures related to emergencies.¹

This policy and the procedures promulgated under it supersede all previous Policies regarding the City's fund balance and reserves.

Definitions

Fund type definitions: The following definitions will be used in reporting activity in governmental funds across the City. The City may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

- **General Fund** is used to account for all financial resources not accounted for and reported in another fund.
- **Special Revenue Funds** are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.
- **Enterprise Funds** are used to account for the City's business type activities where goods and/or services are provided to the general public and a user fee is charged.
- **Capital Projects Funds** are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.
- **Permanent Funds** are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's purposes.

Fund balance reporting in governmental funds. Fund balance will be reported in governmental funds under the following categories using the definitions provided by GASB Statement No. 54:

Non-spendable	<i>Not available for appropriation.</i> Not available for spending either now or in the future because they are legally or contractually required to be maintained intact.	
Restricted	<i>Available for spending for a specific purpose.</i> Constraints on spending that are legally enforceable as stipulated in the charter, by outside parties or enabling legislation.	
Unrestricted	Committed	<i>Not available for appropriation.</i> Constraints on spending that the City has imposed upon itself by the highest level formal action. Majority vote is required to approve a commitment however two thirds vote is required to remove a commitment.
	Assigned	<i>Available for appropriation.</i> Resources intended for spending for a specific purpose set by the governing body itself or by some person or body delegated to exercise such authority in accordance with policy established by the Council.
	Unassigned	<i>Available for appropriation.</i> Residual amounts not contained in any other classification. Reported in the general fund only.

¹ The term "emergencies" does not include the offsetting of property taxes or mismanagement of funds.

Operational Guidelines

The following guidelines address the classification and use of fund balance in governmental funds:

Classifying fund balance amounts – Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include non-spendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.

Encumbrance reporting - Encumbering amounts for specific purposes for which resources have already been restricted, committed, or assigned should not result in separate display of encumbered amounts. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned, will be classified as committed or assigned, as appropriate, based on the definitions and criteria set forth in GASB Statement No. 54.

Prioritization of fund balance use - When expenditure is incurred for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the City to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the City that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

Unassigned Fund Balance Range - The City will maintain a minimum unassigned fund balance in its General Fund ranging from 8 percent to 17 percent of total expenditures as reported in the prior year for the City, and Board of Education collectively. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

Replenishing deficiencies - Should the Unassigned Fund balance fall below the 8 percent minimum, the Director of Finance will develop a plan to replenish shortages/deficiencies for City Council approval. Such plan for restoration should be reviewed and updated on an annual basis until the policy level guidelines are achieved.

Surplus fund balance - Should the Unassigned Fund Balance exceed the 17 percent maximum, the City will consider such fund balance surpluses for one-time expenditures that are nonrecurring in nature. Maintenance expenses and staffing increases occasioned by such uses of surplus should be evaluated as part of the planned expenditures. If the surplus increase is due to ongoing operational savings or projected permanent reduction in costs, a planned reduction in taxes by use of surplus may be appropriate.

Implementation and review. Upon adoption of this policy the Danbury City Council authorizes the Director of Finance establish any standards and procedures which may be necessary for its implementation. The Director of Finance shall review this policy and provide a report of any recommendations for changes to the Danbury City Council at the following times:

1. At least bi-annually;
2. If there is a change in Government Accounting Standards concerning the Unassigned Fund Balance;
3. If, due to any circumstances, the Unassigned Fund Balance exceeds 17 percent in the current or next budget cycle.

Rationale for Fund Balance Policy

In recent years there has been a growing emphasis on the importance of formal fiscal policies in regulating the financial affairs of local governments. Formal policies are now viewed as strategic foundations of sound fiscal administration by promoting stability and guidance for policy makers. In addition, formal financial policies signal a municipality's commitment to adhering to strong financial management practices.

The most common type of a financial policy is a General Fund Reserve Policy or Fund Balance Policy. A key element of a municipality's financial condition is its level of available reserves since this directly demonstrates a community's ability to meet its obligations. A well-funded reserve fund serves several purposes including;

1. Ensures adequate levels of liquidity and working capital
2. Improves budget flexibility and ability to withstand economic downturns
3. Enhances a community's credit rating

A good Reserve Fund Policy would contain the following features;

1. Definitions of Reserves in accordance with GASB
2. Target Level of Reserves
3. Funding Sources
4. Authority over Reserves
5. Allowable uses of Reserves
6. Replenishment of Reserves

In terms of determining an appropriate amount of reserves to maintain there are several industry benchmarks to rely on. The Government Finance Officers' Association, (GFOA), recommends that a municipality maintain minimum reserves equal to at least two months of standard operating expenses.ⁱ

Also, Standard & Poor's has published the following guidelines for evaluating the amount of available reserves;

- | | |
|---------------|-----------|
| • Low | Below 0% |
| • Adequate | 1-4% |
| • Good | 4-8% |
| • Strong | 8-15% |
| • Very Strong | Above 15% |

In making the final determination of suitable reserve levels, City officials should consider a variety of elements such as its cash flow requirements, its existing debt burden as well as any unfunded liabilities and future borrowing plans. Needless to say, a larger fund balance would be a principal ingredient towards the City's efforts to maintaining and improving its credit rating and in turn the lower its borrowing costs.

ⁱ http://www.gfoa.org/index.php?option=com_content&task=view&id=1450

Town of Fairfield
General Fund Balance Policy
Adopted by the Board of Finance on November 13, 2014

POLICY STATEMENT

A positive Unassigned fund balance serves three important functions:

1. Eliminates the need for short term borrowing to handle cash flow between the start of the fiscal year and receipt of revenue from taxes;
2. Can be periodically used to lower taxes to smooth out major fluctuations in the property tax rates;
3. Serves as a contingency fund that enables the Town to respond to unanticipated emergencies or opportunities.

Credit rating agencies determine the adequacy of the Unassigned fund balance using a complex series of financial evaluations. The size of the Unassigned fund balance is an important, but not the only consideration in the Town's rating. Other important factors are the reliability of a government's revenue sources, economic conditions, community wealth factors, cash position, debt ratios, management performance, and fiscal decisions made by the various town bodies.

This policy is intended to provide for a fund balance which satisfies the cash flow and contingency needs of the community at the same time avoid over taxing the citizens through an excessively large fund balance.

GOVERNMENTAL FUND TYPE DEFINITIONS

- General Fund – all funds not reported in another fund
- Special Revenue Funds – Used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt and capital projects. *Restricted or committed revenues is the foundation for a special revenue fund.*
- Capital Project Funds – Used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.
- Debt Service Funds – Used to account for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest, including resources being accumulated for principal and interest maturing in future years.
- Permanent Funds – Used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is for the benefit of the government or its citizenry. Permanent funds do NOT include private purpose trust funds.

FUND BALANCE DEFINITIONS

- Fund Balance is the difference between the Town's current assets (cash, short-term investments, receivables) expected to be available to finance operations in the immediate future and its current liabilities.
- Fund balance is initially characterized as being restricted and unrestricted. Unrestricted Fund Balance is calculated as follows:

	Total Fund Balance
Less:	Nonspendable fund balance
Less:	<u>Restricted fund balance</u>
	Unrestricted Fund Balance

Restricted Fund Balance Categories

- Nonspendable fund balance– Amounts that cannot be spent because they are (a) not in spendable form (such as inventory, prepaid items, long term portions of notes receivables), or (b) legally or contractually required to be maintained intact (such as the corpus of an endowment fund).
- Restricted fund balance- Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Unrestricted Fund Balance Categories

- Committed fund balance– Amounts constrained to specific purposes by the Town itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purposes unless the government takes the same highest-level action to remove or change the constraint.

The decision making authority for purposes of this policy can be any one of the following:

Decision making authority	Formal Action To Be Taken
Board of Finance	Adoption of Resolution
Board of Selectman	Adoption of Resolution
Representative Town Meeting	Adoption of Resolution

- Assigned fund balance– Amounts the Town intends to use for a specific purpose; intent can be expressed by the Town or by and official or body to which the Town delegates the authority. Appropriations of existing fund balances to future budgets are considered assigned fund balance. The Town shall not report an assignment that will result in deficit in Unassigned fund balance. Negative fund balances cannot be considered assigned.

The body authorized to assign amounts to a specific purposes for purposes of this policy is the Board of Finance.

- Unassigned fund balance – Amounts that are available for any purpose; these amounts are reported only in the general fund. In other governmental funds, if expenditures incurred exceeded the amounts restricted, committed or assigned it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Town considers the restricted fund balance amount to have been spent first until exhausted and then any available unrestricted fund balance.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts are available, the Town considers the fund balance to be spent in the following order: committed, assigned, and then unassigned.

GUIDELINES

The appropriate level of Unassigned fund balance to be maintained in the general fund.

The Town Boards shall propose budgets that provide for an Unassigned fund balance of not less than 7.25% (hereinafter "Floor") nor more than 11% (hereinafter "Ceiling") of the total operating general fund expenditures. Beginning in Fiscal Year 2016, the Floor shall be increased to 7.5% and the Ceiling shall remain unchanged. Further, once the Unassigned fund balance is greater than 8% the Board of Finance may transfer any excess above the 8% to the Town's Internal Service Fund.

In the event the Unassigned fund balance is greater than 11% at the end of any fiscal year, the excess may be used in one or a combination of the following ways:

1. Transfer such excess to the Debt Service Fund for future debt payments.
2. Transfer such excess to the Town's Internal Service Fund, Pension Fund(s) and/or Other Post Employment Benefits (OPEB) Fund(s).
3. Transfer such excess to the Capital or Nonrecurring Fund for future capital projects.
4. Use directly to reduce the tax rate in the subsequent year provided that care is taken to avoid a major fluctuation in the tax rate in succeeding years.

During the yearly Town budget process, all Town bodies involved in the budget process shall budget to increase the Unassigned fund balance by budgeting an expenditure in the budget for surplus which will be no less than a dollar amount that is equal to the same percentage each body increases, if at all, the total expenditures from the prior year's expenditures budget, in order for the Unassigned fund balance to be maintained from year to year on a budgetary basis from the previous year.

The following circumstances often justify a significantly higher minimum target levels:

- Significant volatility in operating revenues or operating expenditures;
- Potential drain on resources from other funds facing financial difficulties;
- Exposure to natural disasters (e.g. hurricanes);
- Reliance on a single corporate taxpayer or upon a group of corporate taxpayers in the same industry;
- Rapidly growing budgets; or
- Disparities in timing between revenue collections and expenditures.

The Board of Finance shall monitor and modify the minimum fund balance requirements based on these criteria. The Board of Finance will receive a report on the Fund Balance yearly at its Fourth Quarter Review Meeting. Every two (2) years the Board of Finance's Fund Balance Committee may re-convene, beginning in July 2016, in order to determine whether our Fund Balance Policy needs to be updated or revised in any way.

The circumstances in which Unassigned fund balance can be "spent down".

The use of Unassigned fund balance will be allowed under the following circumstances:

- Operating emergencies
- Unanticipated budgetary shortfalls
- Unanticipated shortfalls in the Internal Service Fund

The policy for replenishing deficiencies.

If the Unassigned fund balance is projected to go or actually goes below the Floor, the Board of Finance needs to be advised of this fact at its next scheduled meeting. If at the end of a fiscal year, the Unassigned fund balance falls below the Floor, the Board of Finance shall prepare and submit a plan for expenditure reductions and or revenue increases. The Board of Finance shall take action necessary to restore the Unassigned fund balance to acceptable levels within one year or the next budget cycle.

CITY OF MIDDLETOWN GENERAL FUND BALANCE POLICY

The objectives of this policy are to preserve the credit worthiness of the City; provide working capital for the City to meet cash flow needs during the year; funding of reserves; to ensure a stable tax rate; and to fund one-time, emergency, unanticipated expenditure requirements or revenue shortfalls.

Credit rating agencies determine the adequacy of the Unassigned fund balance using a complex series of financial evaluations. The size of the Unassigned fund balance is an important, but not the only consideration in the Town's rating. Other important factors are the reliability of a government's revenue sources, economic conditions, community wealth factors, cash position, debt ratios, management performance, and fiscal decisions made by the various town bodies.

This policy is intended to provide for a fund balance which satisfies the cash flow and contingency needs of the community at the same time avoid over taxing the citizens through an excessively large fund balance.

In order to achieve the objectives of this policy, the following guidelines will be adhered to:

1. Maintain minimum unassigned General Fund balance of 12-15% of the previous year's audited operating expenditures.
2. In the event the Unassigned fund balance is greater than 12% at the end of any fiscal year, the excess may be used in one or a combination of the following ways:
 - a. Transfer such excess to the Town's Internal Service Fund, Pension Fund(s) and/or Other Post-Employment Benefits (OPEB) Fund(s).
 - b. Transfer such excess to the Capital or Nonrecurring Fund for future capital projects.
 - c. Use directly to reduce the tax rate in the subsequent year provided that care is taken to avoid a major fluctuation in the tax rate in succeeding years.
3. Withdrawal of any amount of Unassigned General Fund balance in excess of the targeted minimum of the amount budgeted under (2) above, for the sole purpose of reducing the ensuing year's property tax levy, may be made only upon a specific vote of the City Council.
4. The City Council, by vote, can use Unassigned General Fund Balances for operating emergencies, unanticipated budgetary shortfalls and unanticipated shortfalls in the Internal Service Funds. Any such action must also provide a plan to restore Unassigned General Fund balance to the minimum balance within a two year period.
5. This policy will be reviewed by the Finance & Government Operations Committee every three years following adoption or sooner at the direction of the City Council.

6. Fund balance will be reported in governmental funds under the following categories:
 - a. Non- Spendable fund balance - Amounts which cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.
 - b. Restricted fund balance - These amounts are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislations.
 - c. Committed fund balance - This represents amounts constrained prior to year-end for specific purpose by a government using its highest level of decision-making authority.
 - d. Assigned fund balance - Amounts constrained for the intent to be used for a specific purpose by a governing board or a body or official that has been delegated authority to assign amounts. The City Council delegates the Finance Director the authority to assign amounts to be used for specific purposes as per the City Charter.
 - e. Unassigned fund balance - The residual amount not allocated to any other fund balance category in the General Fund and any residual deficit balance of any other governmental funds.
7. Unassigned fund balance will be used only after items 6a,6b,6c & 6d have been exhausted.

Status: APPROVED

**by Common Council, City of Middletown
at its meeting held on: FEBRUARY 1, 2016**