

# Newtown Fund Balance Policy

## I. PURPOSE

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

This Policy is established by the Board of Finance under Charter Chapter 2 Section 125, to institute the town's preferred financial practices and obligations. This policy reflects GASB54 Fund Balance Reporting and Governmental Type Definitions.

A positive 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 unreserved fund balance using a complex series of financial evaluations. The size of the 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 legislative body.

A town's ability to accurately plan and develop sufficient fund balance is a common characteristic of highly rated municipalities.

## II. GOVERNMENTAL FUND TYPE DEFINITIONS

The books of account of the Town are subject to the regulations adopted by the Board of Finance and approved by the Legislative Council per. Newtown's Charter Chapter 4 Section 05 Finance Director

- A. General Fund – This fund is the Town's primary operating fund. It accounts for all funds not reported in another fund. Funded principally by property tax, user fees and grants from other government units.
- B. Bonded (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. e.g. High School Auditorium, Police Facility, Road Program, and Hawley School Boiler,
  - o Bonded Projects (various) – to account for bond proceeds, grants, and other resources used for the acquisition or construction of major capital projects as authorized through the Capital Improvement Plan (CIP)
- C. Other Governmental Funds

1. 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 are the foundation for a special revenue fund. e.g. Children’s Adventure Center, Edmond Town Hall (movies etc.), Eichler Cove, School Lunches and Dog License
2. Capital Projects & Capital and Nonrecurring Fund
  - Capital and Nonrecurring Fund - Town – A multiyear fund where funding can accumulate enabling the Town to acquire larger capital assets, on a pay-as-you-go basis. Mainly funds are transferred from the General Fund in the Annual Budget or as a budget transfer.
  - Capital and Nonrecurring – Non Lapsing – An account established under CT Chapter 171 Section 10-248a. Any unexpended funds from the prior fiscal year from the Board of Education budgeted appropriation may be deposited into this Non-Lapsing Educational Fund.
  - Land Use – Open Space
  - Parks & Recreation Surcharges
3. 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. Excess bond proceeds are deposited into this fund.
4. 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. e.g. Hawley School Trust, Edmond Town Hall Endowment and Newtown Flagpole Fund,

### III. FUND BALANCE DEFINITIONS

- A. Fund Balance - The Town’s current assets (cash, short- term investments, receivables) expected to be available to finance operations in the immediate future less its current liabilities and less Deferred Inflows of Resources.
- B. Fund balance is initially characterized as being Restricted and Unrestricted.
- C. Restricted Fund Balance Categories
  1. Non-spendable 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).
  2. 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

3. Committed Fund Balance— Amounts constrained to specific purposes by The Board of Finance to be reported as committed, amounts cannot be used for any other purposes unless the Board of Finance approves removal or change to the constraint.
  - a. The decision making authority for purposes of this policy is the Board of Finance.
4. Assigned Fund Balance – Amounts the Town intends to use for a specific purpose; intent can be expressed by the Town or by an official or body to which the Town delegates the authority. e.g., open P.O.s at the end of the year.
  - a. 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.
  - b. The body authorized to assign amounts to a specific purpose for purposes of this policy is the Board of Finance.
  - c. 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.

D. Unrestricted Fund Balance

1. Unassigned Fund Balance amounts that are available for any purpose as defined in this policy; these amounts are reported only in the general fund. In other governmental funds, if expenditures incurred exceed the amounts restricted, committed or assigned it may be necessary to report a negative unassigned fund balance.
2. Unrestricted Fund Balance and Unassigned General Fund Balance are synonymous.
3. 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.

IV. GENERAL FUND POLICY STATEMENT

- A. The Unassigned General Fund Balance shall be no less than eight (8) percent nor more than twelve (12) percent of the Town Budget (Charter Section 6-25)
- B. The Board of Finance Consolidated Budget (Charter Section 6-15), shall provide for an Unrestricted General Fund Balance within the range above.
- C. In the event the Unrestricted General Fund Balance is greater than the range in IV.A. above at the end of any fiscal year, the Board of Finance shall, in consultation with Town Executives, and in coordination with the Finance Director, prepare and submit to the Legislative Council for approval, one or a combination of the following means to account for the excess:

1. Transfer such excess to the Capital and Nonrecurring Fund - Town for future capital projects.
  2. Transfer such excess to the Debt Service Fund for future debt payments.
  3. 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.
- D. If at the end of a fiscal year, the Unrestricted Fund Balance falls below the range in IV.A. above the Board of Finance shall in consultation with Town Executives, and in coordination with the Finance Director, prepare and submit a plan for expenditure reductions and or revenue increases. The Board of Finance shall take action necessary to restore the Unrestricted Fund Balance to acceptable levels determined by this policy.
- E. The following circumstances may justify a significantly higher minimum target levels:
1. Significant volatility in operating revenues or operating expenditures.
  2. Potential drain on resources from other funds facing financial difficulties.
  3. Exposure to natural disasters (e.g. hurricanes).
  4. Reliance on a single corporate taxpayer or upon a group of corporate taxpayers in the same industry.
  5. Rapidly growing budgets.
  6. Disparities in timing between revenue collections and expenditures.
- F. The use of Unrestricted General Fund Balance will be allowed under the following circumstances:
1. Operating emergencies
  2. Unanticipated budgetary shortfalls
  3. Over the limit in IV.A

#### V. Policy Review

This policy shall be reviewed by the Board of Finance at a minimum, on a bi-annual basis, during the month of January in each odd numbered year. Recommendations for change, if any will be presented to the Legislative Council for approval. The Board of Finance in this review process shall collaborate with the Board of Selectmen, Board of Education and Legislative Council.

Approved by Legislative Council Finance and Administration Committee February 23, 2021

Approved by the Legislative Council March 3, 2021