

TOWN OF SIMSBURY, CT

General Fund Balance Policy

Updated for GASB54 Fund Balance Reporting and Governmental Type Definitions
Adopted by the Board of Finance on 10/21/2014

1.0 POLICY STATEMENT

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. Serves as a contingency fund that enables the Town to respond to unanticipated emergencies or opportunities: and
3. Provides funds that can be used periodically to lower taxes to smooth out major fluctuations in the property tax rates.

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 important but not the only consideration in the Town's rating. Other important factors include 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.

This policy (the "Policy") is intended to provide for a fund balance which satisfies the cash flow and contingency needs of the Town while at the same time avoiding over taxation with an excessively large fund balance.

2.0 GOVERNMENTAL FUND TYPE DEFINITIONS

- General Fund (Operating budget, taxes, police, etc.)– All funds not reported in another fund.
- Special Revenue Funds (Simsbury Farms, etc.)– 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.
- 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.
- Capital Project Funds (High School Renovations, etc.)– 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.
- Permanent Funds (School lunch, etc.)– 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 Town's programs – that is for the benefit of the government or its citizenry. Permanent funds do NOT include private purpose trust funds.

3.0 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

3.1 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.

3.2 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.
- 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. 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.

4.0 GUIDELINES (Minimum Target Level of 10%)

The Town Boards shall propose budgets that provide for an unrestricted general fund balance of a minimum of (10) percent of the total operating general fund expenditures.

In the event the fund balance is greater than twelve (12) percent 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 Capital or the Capital Nonrecurring Fund for future capital projects.
3. Transfer such excess to the Pension and/or OPEB trust funds
4. Transfer such excess to Special Revenue funds to offset deficits or future costs

The following circumstances may justify maintaining a fund balance exceeding 12%:

- 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.

Exigent circumstances may justify a “spend down” of the fund balance to under 10%. Examples of such circumstances include:

- Operating emergencies
- Unanticipated budgetary shortfalls

The Board of Finance shall monitor and modify the minimum fund balance requirements based on these criteria. If at the end of a fiscal year, the unrestricted general fund balance is below ten percent of the total operating general fund expenditures for reasons other than the timing of receipt of disaster recovery funds that have been approved by the federal or state government (provided the town’s receipt of such funds is reasonably expected to occur within three to six months), the Finance Director shall prepare and submit a plan for expenditure reductions and or revenue increases. The Board of Finance shall take action necessary to restore the unreserved, undesignated fund balance to acceptable levels within one year or the next budget cycle or a reasonable time period.

5.0 Investment Policy Adoption

The Policy shall be adopted by the Town Board of Finance. The Policy shall be reviewed biannually by the Director of Finance and any modifications made thereto must be approved by the Town Board of Finance.