TOWN OF BEACON FALLS

FINANCIAL POLICY MANUAL

As revised approved March 13, 2017
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INTRODUCTION

The purpose of this Manual is to provide guidance regarding all financial matters. This Financial Policy Manual must be followed by all Town departments. The policies support the financial goals of the Town including, proper control of Town assets, good budgeting practices, timely and accurate financial reporting and ongoing financial stability.

Any violations of the financial policies of the Town are to be reported to the First Selectman, the Board of Finance and the Town’s auditing firm.
SECTION I
BUDGETING

The budget identifies the services to be provided and how the services will be paid for.

a. Expenditures Budget

The expenditures budget is for the fiscal year of the Town which begins July 1 and ends June 30.

The Board of Finance will provide a budget preparation schedule which outlines the timeline for preparation and approval of the budget. The budget will contain the following:

a) Revenue estimates by major category;
b) Expenditure estimates by department and account;
c) Proposed staffing levels by department;
d) Proposed non-recurring project expenditures;
e) Debt service.

For each budgeted revenue and expenditure item, the budget document will also show the prior year actual, current year budget and year to date expense for the current year.

The expenditure and non-recurring budget for each Town department is to be prepared by department heads and submitted to the First Selectman and the Finance Committee. After approval by the Board of Selectmen the Selectmen present their budget requests to the Board of Finance.

Non-recurring budget requests will be prepared as part of the annual budget process. Each department may submit a list of proposed non-recurring projects to the First Selectman. The projects recommended by the First Selectman require the review and approval of the Board of Finance.
The Town may annually appropriate a contingency fund to provide for unanticipated expenditures. The amount of the contingency fund will not exceed three (3%) percent of the total expenditures for the fiscal year.

Multi-year financial plan – the Town will have a financial planning process that assesses long-term financial implications of current and proposed policies, programs and assumptions that develop appropriate strategies to achieve its goals and anticipate future needs. Revenue and expenditure forecasting provides the following:

- Provides an understanding of available funding;
- Evaluation of financial risk;
- Assesses the likelihood that services can be sustained;
- Identifies future commitments and resource demands;
- Identifies the key variables that may change in the level of revenue.

Non-recurring Budget

The Non-recurring Budget allows the Town to assess the expected capital requirements of the departments in upcoming years, and serves as an input into the overall multi-year financial plan.

The budget will be a multi-year plan which will include the projected life of existing assets and proposed capital expenditures by project and should include an evaluation of the current condition of capital assets that is updated annually.

All assets that are within 5 years of anticipated replacement will be costed for planning purposes.

Only items on the Capital Asset Plan may be requested for replacement. Capital items requested not on the asset plan should only be considered as a new investment by the town and assessed accordingly as an expansion of current capabilities.
SECTION II
PROCUREMENT

The Town’s procurement process is designed to promote the maximum value and economy while maintaining efficiency and ease of running day to day operations and to eliminate bias in the selection of vendors.

Expenditures will be controlled by the annual budget at the budget line item level.

Department heads have authority to expend funds within a budgeted line item for the purpose the item was budgeted for at their discretion. Department heads are expected to source goods and services from the vendor who provides the highest quality at a competitive price. They may consider timeliness of delivery, past performance and recommendations from peers. They will at all times consider the best interests of the Town in all their decisions. Department heads are encouraged to consult with the Finance Manager and/or First Selectman for clarification of the purpose of a budgeted line.

Purchases of goods and services with an annual value of under $1,000 may be made without the issuance of written Purchase Orders (PO). Purchases of utility services and personnel costs are excluded from the requirement to issue POs. In all other cases a duly authorized PO is required before a commitment is made to a vendor. Signed POs will be delivered to the Finance office for confirmation that sufficient funds are available within a budget line after which they will be forwarded to the First Selectman for approval. After written approval by the First Selectman they will be entered into the accounting system to encumber the line item.

Any expenditure, regardless of value, that is projected to cause a line item to exceed its budgeted amount must be approved in writing by the First Selectman. A department’s spending per line item may not exceed the total budgeted expenditures without first obtaining the approval of the Board of Selectmen and the Board of Finance. It is the
responsibility of the First Selectman to obtain permission from the Board of Finance and deliver that approval to the Finance Office.

Any budget expense lines which are anticipated to go over budget by $20,000 or more must be approved at a Town Meeting prior to committing the Town to the expenditure.

For all purchases of non-recurring projects in excess of $10,000 but less than $20,000, three quotes are required. When quotes are available from the state bid list or Capital Region Purchasing Council for goods or services, such goods or services may be purchased without additional quotations or bids. Department Heads must consult with the Finance Manager and First Selectman in selecting the contractor. The First Selectman will have final approval of all bid awards.

For non-recurring projects expected to exceed a total cost of $20,000, formal written bids based on written specifications are required. The sealed bids will be received at a date, time and place specified in the bid and publicly opened with the following exceptions –

- professional, consulting and specialty services; *
- specialty items, including without limitation those where only one reasonable or qualified source can be identified;
- emergencies; **
- where the price of the goods or services are federally or state regulated;
- non-competitive categories may be excepted from the above bid procedures if favorable to the Town and approved by the Board of Selectmen and the Board of Finance.

When quotes are available from the state bid list or Capital Region Purchasing Council for goods or services, such goods or services may be purchased without additional quotations or bids.

See the Capital Asset section regarding purchases of capital assets.
Purchases may not be split to avoid these requirements unless specifically authorized by the Board of Finance in advance of the expenditure.

The lowest responsible, qualified bidder will be awarded the bid unless it is decided that it is not in the best interests of the Town. The Town may consider the cost, quality, timeliness of delivery, skill, ability, experience, financial responsibility, terms and other conditions required by the purchase in assigning the winning bid. If, at the sole discretion of the Town, none of the bids are considered to be in the best interests of the Town the request for bids may be withdrawn or reissued.

* Professional, consulting and specialty services include but are not limited to attorneys, actuaries, engineers, computer services, real estate appraisers and repair services where the nature of the repair cannot be defined in advance by bid specifications and the professional expertise of the service provider is more important than the lowest cost. Emergencies are defined as situations requiring the purchase of goods or services which, if not purchased or ordered immediately, can result in injuries or damage to property, inefficient use of personnel or cause disruption in town operations. This includes all goods or services needed on an emergency basis to comply with federal, state or local public health, safety or housing codes and emergency repair of Town-owned property, buildings, infrastructure, equipment and vehicles. The Chairperson of the Board of Finance will be notified of an emergency expenditure at the earliest possible time after the incident.
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SECTION III
RISK MANAGEMENT

The Town will manage its risk and limit risk exposure in a professional and prudent manner.

The Town will protect and preserve Town assets against losses that could deplete its resources or impair the ability to provide services to its citizens.

The Town will reduce its exposure to liability through employee training, emphasis on safety and insuring against loss.

The Town will manage its exposure to risk through the purchase of insurance in the following areas:

- general liability;
- vehicle liability;
- public officials’ errors and omissions;
- property loss and workers’ compensation.

Insurance coverages will be reviewed on an annual basis in conjunction with the Town’s insurance broker to ensure coverages are adequate and costs consistent with prevailing market rates.

The Town will control its exposure to risk by requiring all contractors which provide a service to the Town to carry liability insurance. A certificate of insurance will be obtained from all contractors designating the Town of Beacon Falls as an additional insured. The certificates will be obtained by the department head making the purchase. The certificates will be kept permanently on file.
SECTION IV
REVENUES AND COLLECTIONS

The Town collects revenue, primarily in the form of property taxes, to provide services and meet operational needs. The structure, fluctuation and collection of revenues are examined by rating agencies to determine the Town’s credit rating.

The Town will monitor all taxes to insure they are equitably administered and collections are timely and accurate. The Tax Collector will use all statutory authority to collect property taxes, interest, costs and penalties.

The Tax Assessor will assess all property annually as of October 1. Real property assessments will be based on fair market value and follow standards established by the International Association of Assessing Officers. Personal property assessments will be based on percentages of original cost which reasonably reflect approximate market value.

On a monthly basis, the Finance Manager will provide a report to the Board of Finance of year-to-date revenues which clearly states the amounts and percent of total taxes billed by category and by year. In addition, on an annual basis, the Tax Collector will present to the Board of Finance, a list of uncollectible accounts (the “Suspense List”) for approval.
SECTION V  
CASH MANAGEMENT

Cash management is the practice of safeguarding cash and maximizing the income earned on liquid assets while maintaining low risk.

All incoming payments will be deposited at least weekly.

All disbursement checks will be signed by the Town Treasurer and a majority of the Board of Selectmen as required by Connecticut General Statute 7-81 and 7-83.

All Town bank accounts will be reconciled by the Finance Manager. Any differences or unusual reconciling items will be brought to the attention of the First Selectman and the Board of Finance.

The Town Treasurer will invest all available funds of the Town based on three criteria, in order of importance – safety, liquidity and yield. The Town Treasurer will maintain a written Investment Policy approved by the Board of Finance. The Investment Policy will identify appropriate types of investment vehicles and address diversification, liquidity, maturity, and risk of default and investment return. The Treasurer must carefully evaluate the creditworthiness of depositories and credit insurers.

An annual review of banking services will be undertaken by the Treasurer to ensure that services are provided at reasonable costs.

Monthly investment reports will be presented to the Board of Finance for their review.
SECTION VI
CAPITAL ASSETS

The Town’s assets are primarily in the form of infrastructure, such as land, roads and bridges, and buildings and equipment. Sound infrastructure is an important aspect of the quality of life, economic development and the credit quality of the Town. Committing to and implementing a capital improvement program protects its capital assets and minimizes future maintenance and replacement costs.

Capital assets are defined as those with a useful life greater than one year, a cost of more than $5,000, and that are not purchased on an annual basis. They consist of Non-recurring Projects and Bonded Projects. Non-recurring projects are capital assets paid for from the General Fund. They are items which are unusual and periodic – for example, a major repair, or replacement of an existing asset that has reached its end of life. Bonded Projects are major improvements which the Town has elected to finance through the issuance of long term debt, defined as debt which has a maturity date of more than one year. The Town may, at its option, issue short term debt to temporarily finance Bonded Projects provided its intention is to issue long term bonds in the future. Such financing must conform to applicable state statutes.

Spending on capital projects is to be monitored by the department purchasing the items and the Finance Department. Any potential overspending must be brought to the attention of the Board of Selectmen and Board of Finance for appropriate action.

Upon completion of any capital project financed by long term debt, remaining appropriated funds in that project will be used to make additional principal bond payments. If approved by a Town Meeting, remaining project funds may be repurposed to other capital projects.

The Town’s Finance Manager will maintain a listing of all capital assets acquired through either purchase or donation. Capital assets will be recorded at the historical cost or fair market value in the case of donations and also include an expected end of life date and current
cost to replace (for those assets within 5 years of estimated end of life), both of which should be reviewed by the Finance Manager for accuracy and completeness. The Department heads are responsible for providing the Finance office with all receipts associated with the purchase, which must include a unique identifier for the asset, such as a Vehicle Identification Number or serial number. The Finance Manager is responsible for ensuring all necessary updates are made to the appropriate insurance vendors and for the submission and maintenance of all associated warranties provided by the manufacturer and/or 3rd party vendor.

Department heads are responsible for informing the Finance Manager of any capital asset disposals and provide the finance office with any associated forms or paperwork. A disposal represents the physical removal of an asset whether it be a sale, trade-in, theft, etc.

The listing of capital assets will be reviewed annually by the each department head.
SECTION VII
DEBT MANAGEMENT

The purpose of the Town’s debt management policy is to establish parameters and guidance in making decisions on capital spending and the issuance of debt to fund it.

Purposes for which debt may be issued:

- The Town may not issue debt to fund current operating expenditures unless required to do so pursuant to Connecticut General Statute 7-348;
- The Town will issue long-term bonds only for the purposes of financing major capital improvements or purchases of land or other property;
- The Town may issue debt to fund emergency projects.

The Town may issue the following types of debt:

- General obligation bonds;
- Bond anticipation notes (short-term/temporary financing);
- Short term borrowing;
- State and federal loan programs;
- Lease-purchase financing.

The following guidelines will be followed when issuing bonds:

- No bond issue will be contemplated without first consulting with the Town’s financial advisers, town counsel and bond counsel.
- Unless otherwise determined, the Town will issue debt via competitive sale;
- General obligation bond issues will be structured to allow a portion of the principal amount to be retired each year over the life of the issue;
Connecticut General Statutes limit the amount of indebtedness the Town may have outstanding to seven times the total annual tax collections including interest and lien fees plus the reimbursement for revenue loss on tax relief programs with additional limitations depending on the purpose;

The term of any bond or lease-purchase obligation issue will not exceed the useful life of the capital asset for which the borrowing is intended.

The Town will comply with the following secondary market disclosure practices:

- In accordance with State law, the Town will file its annual independent audited financial statement with the State Office of Policy and Management within six months of the end of the fiscal year.
- The Town will comply with SEC regulations to provide annual financial information and operating data and notices of material events with respect to bond issuances pursuant to Continuing Disclosure Agreements executed at the time of issuing bonds.
- The Town will maintain frequent communications about its financial condition with the credit rating agencies.
SECTION VIII
FUND BALANCE

This Fund Balance Policy establishes the procedures for reporting unrestricted fund balance in the General Fund financial statements. Certain commitments and assignments of fund balance will help ensure that there will be adequate financial resources to protect the Town against unforeseen circumstances and events such as revenue shortfalls and unanticipated expenditures. The policy also authorizes and directs the Town Finance Manager to prepare financial reports which accurately categorize fund balance as per Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

Per GASB No. 54, fund balance consists of five categories: Nonspendable, Restricted, Committed, Assigned, and Unassigned:

- **Nonspendable fund balance** consists of funds that cannot be spent due to their form (e.g. inventories and prepaids) or funds that legally or contractually must be maintained intact.
- **Restricted fund balance** consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.
- **Committed fund balance** consists of funds that are set aside for a specific purpose by the town’s highest level of decision making authority (governing board). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.
- **Assigned fund balance** consists of funds that are set aside with the intent to be used for a specific purpose by the town’s highest level of decision making authority or a body or official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in unassigned fund balance.
- **Unassigned fund balance** consists of excess funds that have not been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.
Nonspendable and Restricted Funds

Nonspendable funds are those funds that cannot be spent because they are either:

1) Not in spendable form (e.g. inventories and prepaids)
2) Legally or contractually required to be maintained intact

It is the responsibility of the Town Finance Manager to report all Nonspendable funds appropriately in the Town’s Financial Statements.

Restricted funds are those funds that have constraints placed on their use either:

1) Externally by creditors, grantors, contributors, or laws or regulations or other governments
2) By law through constitutional provisions or enabling legislation.

It is the responsibility of the Town Finance Manager to report all Restricted funds appropriately in the Town’s Financial Statements.

Authority to Commit Funds

The Town’s Board of Selectmen with the approval of the Board of Finance have the authority to set aside up to $19,999 in funds for a specific purpose and to commit revenue sources in special revenue funds. Amounts exceeding $19,999 require the further approval of the Legislative body of the Town. Any funds or revenues set aside as Committed require the passage of a resolution by a simple majority vote. The passage of a resolution must take place prior to June 30th of the applicable fiscal year. If the actual amount of the commitment is not available by June 30th, the resolution must state the process or formula necessary to calculate the actual amount as soon as information is available.
Authority to Assign Funds

The responsibility to maintain proper and appropriate designation of Fund Balances is given to the Town Finance Manager.

The Town’s Board of Selectmen with the approval of the Board of Finance have the authority to set aside up to $19,999 in funds for a specific purpose and to commit revenue sources in special revenue funds. Amounts exceeding $19,999 require the further approval of the Legislative body of the Town. Any funds or revenues set aside as Committed require the passage of a resolution by a simple majority vote. The same action is required to change or remove the assignment.

Classifying Fund Balance Amounts

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it.

When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second, and unassigned funds last; unless the Board of Selectmen with the approval of the Board of Finance have provided otherwise in its commitment or assignment actions.

Unassigned Fund Balance

Unassigned fund balance is the residual amount of fund balance in the General Fund. It represents the resources available for future spending. An appropriate level of Unassigned fund balance should be maintained in the General Fund in order to cover unexpected expenditures and revenue shortfalls.
FUND BALANCE POLICY (Continued)

Unassigned fund balance may be accessed in the event of unexpected expenditures up to the minimum established level upon approval of a budget revision by the Town’s Board of Selectmen with the approval of the Board of Finance. In the event of projected revenue shortfalls, it is the responsibility of the Town Finance Manager to report the projections to the Town’s Board of Selectmen and Board of Finance on a regular basis and shall be recorded in the minutes.

Any budget revision that will result in the Unassigned Fund Balance dropping below the minimum level will require the approval of 2/3 vote of the Town’s Board of Selectmen with the approval of the Board of Finance for amounts less than $20,000. Amounts exceeding $20,000 require the further approval of a simple majority vote of the Legislative body of the Town.

The Fund Balance Policy establishes a minimum Unassigned Fund Balance equal to 9.25% of total General Fund expenditures. In the event that the balance drops below the established minimum level, the Town’s Board of Selectmen and Board of Finance will develop a plan to replenish the fund balance to the established minimum level within two years.
SECTION IX
ACCOUNTING AND FINANCIAL REPORTING

Timely and accurate accounting and financial reporting are critical for the Town to control spending and maintain financial stability.

The Town will comply with generally accepted governmental accounting principles in its accounting and financial reporting as codified by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB).

Monthly financial reports will be provided to all department heads to assist them in managing their respective budgets and to the First Selectman and the Board of Finance. The reports will summarize financial activity by department and account and compare actual revenues and expenditures with budgeted amounts. The First Selectman will identify significant variations from budget for consideration and appropriate action by the Board of Finance.

A system of internal accounting controls will be maintained to adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions of the Town. The internal control system will be reported on annually by the Town’s outside auditing firm. Cross-training will be done in all accounting functions.

All cash accounts will be reconciled monthly by the Finance Manager and all other balance sheet accounts reconciled at least quarterly.

The Finance Manager will review and approve all Journal Entries.

Full disclosure will be provided in the Town’s annual financial and budget reports and bond documents. All required financial reports and information will be provided as necessary to the Board of Finance and external agencies.
SECTION X
ANNUAL AUDIT

An independent certified public accounting firm will be engaged to perform an annual audit of the financial statements prepared by the Finance Manager.

The auditing firm will be selected competitively through a formal, public RFP process. The Board of Finance is responsible for engaging the auditing firm. The annual audit must be completed prior to December 31 of each year and the audited financial report submitted to the State of Connecticut Office of Policy and Management by that date unless appropriate notification is given to the State.

The audit will include the preparation of Communication of Internal Control Related Matters. All comments in the Communication will be responded to by the First Selectman and the Finance Manager in writing and all deficiencies addressed prior to the end of the next fiscal year.
SECTION XI
FINANCIAL POLICY REVIEW

The Board of Finance will review and affirm by resolution the financial policies contained in this manual a minimum of once every two years.
SECTION XI
REVISION HISTORY

Initial approval: January 14, 2016
Revision 1: July 10, 2016 – revised Fund Balance to conform with GASB 54

Revision 2: March 13, 2017 – revision of bid requirements; addition of $10,000 to $20,000 tier requiring less stringent bidding process