



Town of Milton

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I. Purpose

The Town intends to establish a fund balance policy tailored to the needs of the Town in accordance with sound financial management principles to provide a stable financial base for the Town at all times. It is essential that the Town maintain adequate levels of unassigned fund balance to: 1) mitigate financial risk that can occur from unforeseen revenue fluctuations and unanticipated expenditures; 2) provide cash flow liquidity for general operations; and 3) maintain investment grade bond ratings and good credit standing. In addition to Section 194-2 of the Town Code related to ensuring stable tax rates to maintain fiscal operations, reserves support a strong bond rating, signaling that the local government has resources to pay back debt even in times of potential disruptions to the financial position.

II. Definitions

Fund Balance is the cumulative difference over time of all revenues and expenditures. It is also the *net assets* in the fund or the difference between assets and liabilities. In an enterprise fund, the fund balance is the same as retained earnings. In accordance with GASB 54, fund balance is classified according to its availability for use into the following categories:

Non spendable Fund Balance are inventories, prepaid items, accounts receivables and other current assets that are consumed in the course of operations that cannot be converted to cash due to the non spendable form, or they are legally or contractually required to be maintained intact.

Restricted Fund Balances are the resources of a governmental fund that are subject to constraints imposed by the Town Charter, state or federal law, or externally imposed conditions by grantors and creditors. Grants, and real estate transfer taxes are examples of Restricted Fund Balance.

Committed Fund Balance represents amounts that have been designated by the Mayor and Town Council through policy, resolution or by town ordinance. These

funds may only be spent for the purpose intended by the policy, resolution or ordinance. Community enhancement fees, emergency services fees, and water impact fees are examples of a Committed Fund Balance.

Assigned Fund Balance represents the net resources of governmental funds that the government intends for a specific purpose. Assigned resources do not require formal action of the governing body. The permanent funds net resources would be assigned fund balance as well as any net resources remaining in some special revenue funds, capital project funds and debt service funds. Assigned Fund Balance can also be open purchase orders at the end of a fiscal year for goods or services that have not been received.

Unassigned Fund Balances are available for any purpose and represent expendable financial resources that can be used to meet contingencies and cash flow requirements. (Negative unassigned amounts could occur in funds other than the general fund when assigned, committed, or restricted amounts are too high. If a negative unassigned occurs, the assigned, committed and other amounts should be reduced until the negative amount is cleared.)

III. Policy

Expenditures shall be charged first to unassigned fund balances for budgeted expenditures, and then to other more restricted classifications. Accordingly, if the expenditures are directly relational to a restricted fund, said restricted-grant fund is the first to be charged.

The Town Manager, in consultation with the Town's Auditor and/or Financial Consultant, and with approval by the Mayor and Town Council, shall determine funds to be classified as assigned.

Except in extraordinary circumstances, unassigned fund balance should not be used to fund any portion of the ongoing and routine year-to-year operating expenditures of the Town. The unassigned fund balance should be used primarily to ensure adequate reserves, to respond to unforeseen emergencies, to provide cash flow, and to provide overall financial stability.

IV. Fund Balance Goals

General fund

Unassigned Reserve Fund. The Town shall seek to maintain an unassigned fund balance between 30-50% of general fund revenues in the preceding fiscal year. If the unassigned fund balance, after conclusion of the annual audit, exceeds 50%, a review shall be conducted

and appropriate actions shall be taken. If the unassigned fund balance is less than 30%, a plan shall be developed to restore the reserves within the next fiscal year.

Special District Fund. Special District Fund shall be created in the amount equivalent to 25% of General Fund revenues to mitigate risk related to the Granary Special Development District to set aside if/when revenues fall short of expectations from the special district. This fund will sunset once all units from the Granary District are sold and the Town has upscaled its operations.

Capital Reserve Fund. Capital Reserve Fund shall be created to account for resources designated for the purpose of constructing and/or acquiring fixed assets and improvements. All real estate transfer tax funds collected are dedicated to this restricted Capital Reserve Fund. No specific reserve requirement is established for the Capital Reserve Fund. However, at a minimum, the fiscal year end assigned, restricted or committed fund balance plus estimated revenues for the ensuing fiscal year must be sufficient to meet all outstanding contractual obligations of the project. Capital projects may extend beyond a single fiscal year.

Proprietary Fund

Unrestricted Reserve Fund. The Town shall seek to maintain unrestricted fund balance between 30-50% of proprietary fund revenues in the preceding fiscal year. If the unassigned fund balance, after conclusion of the annual audit, exceeds 50% a review shall be conducted and appropriate actions shall be taken. If the unassigned fund balance is less than 30%, a plan shall be developed to restore the reserves within the next fiscal year.

Capital Reserve Fund. Capital Reserve Fund shall be created to account for resources designated for the purpose of constructing and/or acquiring fixed assets and improvements. All water impact fees collected are dedicated to this restricted Capital Reserve Fund, i.e., “Water Impact Savings.” No specific reserve requirement is established for the Capital Reserve Fund. However, at a minimum, the fiscal year end unrestricted and restricted fund balance plus estimated revenues for the ensuing fiscal year must be sufficient to meet all outstanding contractual obligations of the project. Capital projects may extend beyond a single fiscal year.