BOARD OF FINANCE
POLICY REGARDING SUBMISSION OF AGENDA ITEMS

The Board of Finance agenda is typically issued one (1) week before the meeting. Agenda items and supporting documentation should be sent to the Board of Finance Secretary by noon one week prior to the meeting date.

On the rare occasion that a late agenda submission is unavoidable, the Board of Finance may vote to add the item to the regular meeting agenda or defer the item to the next scheduled meeting. The request to add the item to the agenda must be accompanied by an explanation as to why the submission was late. Please note that State Statute Section 1-225 (c) requires an affirmative vote of 2/3 of the Board members present.

If there is a need to provide additional information to the Board after the agenda has been sent, please send or give it to the Board of Finance Secretary. Do not distribute the information to the members prior to the start of the meeting as this does not allow for review of the information.

If you are requested to provide additional information by the Board, please send that information to the Board of Finance secretary who will distribute the information to the members. Do not send the information directly to the Board of Finance members.

Adopted: May 18, 2016

POLICY REGARDING EXPENDITURE OF FUNDS FOR SERVICES OR ITEMS NOT DISCLOSED IN ANNUAL BUDGETS

All expenditures of funds for services or items must be in conformance with budget justification disclosure or properly approved labor contracts. Exceptions: Expenditures for services or items not disclosed in the budget and which (1) are not emergencies (2) are in excess of $1,000 **but less than $10,000**,and (3) will not require an additional appropriation, shall not be made until the following procedure has been completed.

It is the responsibility of the requesting agency to set a meeting with the Director of Finance, First Selectman, and a member of the Board of Finance (preferably the liaison). The requesting agency will give justification for such expenditure at that meeting. Upon majority approval of the Board of Finance representative, the First Selectman and the Director of Finance, the expenditure shall be made. Without such approval, the expenditure cannot be made unless approved by the Board of Finance. **Note; No non-budgeted expenditure exceeding $10,000 shall be made without Finance Board approval.**

Approved 12/12/2007
Amended: May 18, 2016

GRANTS ACCOUNTING POLICY

The Representative Town Meeting hereby authorizes the Board of Selectmen, or the First Selectman acting as the Board of Selectmen's agent, to apply for and enter into agreements with State. Federal and non-profit agencies to receive and expend grant funds when such grant funds would not incur additional financial obligations to the Town; said grant funds to be accounted for within a designated Special Revenue Fund.

JUSTIFICATION

1) This procedure will allow the Town to apply for and accept grants available for a limited time only through State and Federal revolving funds. So many times, Waterford is not eligible to receive these funds due to the period of time it takes to get through the appropriation process.

2) Currently, we appropriate grants by using existing line items. These line item designations do not necessarily fit the description of the approved budget lines of the grant. The auditing requirements for grants mandate compliance with level of expenditure to budget. This is difficult to determine when operational and grant funds are expended through the same line items. It requires that a subsidiary ledger be maintained.

3) Grant award periods do not always nicely comply with budgeted fiscal years. This mandates year-end encumbrances and skews the level of expenditure by department year to year.

4) Co-mingling grant funds with General Funds can disqualify the Town from receiving many Federal grants. The Federal Government requires a segregation of grant funds to insure that the Town is not supplanting its operations with the use of these funds.

5) The most important reason to segregate the appropriation process of grants is to allow for comparative analysis of operational expenses dependent on the tax dollar. When grant funds and expenses are appropriated through the General Fund, there are significant variances year to year due to the levels of grant funding. It is difficult to determine the actual growth of the level of appropriation to those lines affected by grant appropriation, and totally impossible to do a budget comparison restricted to operations funded solely by the tax dollar and user fees.

Approved by RTM 02/04/02 – Effective Date: 02/19/02.

BOARD OF FINANCE
CAPITAL PROJECT REVIEW POLICY

During the month of June, the Board of Finance shall conduct a review of the status of outstanding approved capital projects to include date appropriated, amount appropriated, amount expended, expected completion date and current project fund balances. The review will occur at either the regular or a special meeting of the Board of Finance.

If a project is completed prior to the June BOF review, the department head will notify the Director of Finance and copy the Board of Finance and any remaining funds will be returned to the appropriate unassigned fund balance.

To support the review above, all department heads, boards, agencies and commissions shall provide to the Board of Finance the following information:

1. Status of capital projects either currently outstanding or completed in the previous calendar year. Data to include:
    a. Amount(s) designated,
    b. date(s) appropriated,
    c. amount appropriated,
    d. amount expended,
    e. amount outstanding,
    f. estimated or actual completion date
    g. amount over/under appropriation for completed projects
    h. amount to be returned to unassigned fund balance for completed projects

2. Justification for keeping a project open.

After reviewing each project, the Board of Finance may approve:
1) keeping a project open (Current Year Capital or Capital Non-Recurring)
2) direct its closure with monies remaining returned to the appropriate (General (Current Year Capital) or Capital Non-Recurring) Unassigned Fund balance
3) transfer a Current Year Capital project to the Capital Non-Recurring project list.

Adopted by BOF - 05/ 10/ 06
Amended 10/ 11/ 06
Amended 8/ 08/ 07
Amended: May 18, 2016
Amended: September 9, 2020

TOWN OF WATERFORD

FUND BALANCE POLICY

OBJECTIVE
The Town of Waterford feels it necessary to maintain an adequate unrestricted fund balance in the General Fund to provide for a sound financial base for current and future budgets as well as mitigating risks such as revenue shortfalls or unexpected expenditures. An adequate level of unrestricted fund balance will also assist the Town in maintaining its bond rating.

DISCUSSION
Waterford recognizes the new Fund Balance components below in accordance with Government Accounting Standards Board (GASB) Pronouncement #54

- **Non Spendable Fund Balance** – Amounts that cannot be spent because they are either:
  - Not in a spendable form such as long-term receivables, inventory, or prepaid expenses
  - Legally or contractually required to be maintained intact. such as an endowment fund
- **Restricted Fund Balance** – Amounts that have legally enforceable constraints placed on their use by external parties or external laws and regulations.
- **Committed Fund Balance** – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's *highest level of decision-making authority (RTM)*
- **Assigned Fund Balance** – Amounts intended to be used for specific purposes, but are neither restricted nor committed
- **Unassigned Fund Balance** – Amounts that do not fall within any other classification.

POLICY
The Town will maintain an unassigned fund balance as of June 30th of each year between 10% and 13% of the subsequent fiscal year's budgeted General Fund revenue.

The use of General Fund Unassigned Fund balance in excess of the maximum level shall be limited to one-time, non-recurring purposes. Examples include Capital Projects, transfer to Capital Non-recurring fund, emergency/storm response, debt service mitigation, land acquisition, and other one-time, non-recurring uses determined to be in the best financial interest of the Town.

The General Fund Unassigned Fund Balance may be appropriated as authorized by the RTM, upon approval by the Board of Finance.

General Fund Unassigned Fund Balance in excess of the maximum level will not be allocated to ongoing operations to avoid a revenue gap in subsequent budget years.

For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly, unassigned fund balance.

If Unassigned Fund Balance falls below the minimum level, the Board of Finance will propose a plan to restore it to the minimum 10% level within three years..

EFFECTIVE DATE
Board of Finance approved this policy effective November 18, 2015.

TOWN OF WATERFORD
INVESTMENT POLICY

I. Introduction:

The purpose of this investment policy is to provide a written document that discusses the guidelines governing the short-term investing procedures and best practices for the Town of Waterford ("The Town"). This investment policy is designed to conform to standards set by the Government Finance Officers Association and the requirements of the Government Accounting Standards Board.

II. Governing Authority:

This investment program shall be operated in conformance with federal, state and other legal requirements. Specifically, the Treasurer of the Town of Waterford is responsible for managing short-term investments. The scope of those investments is mandated under Connecticut General Statutes 7-400 and 7-403a and 7-362, which outlines the type and term of permissible investments. (Exhibits A & B attached).

III. Scope:

This policy refers to the investment of all funds specifically excluding the investment of employees' retirement funds and post-employment benefit funds. Proceeds from bond issues as well as separate foundation or endowment assets are not specifically addressed in this policy.

Consolidation (though no co-mingling) of funds for investment purposes shall occur except for cash in certain restricted and special funds. The purpose of this is to maximize earnings potential, increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income is allocated to various funds dependent on their respective and proportional participation and in accordance with general accepted accounting principles (GAAP).

The Town of Waterford segregates individual endowments made to the Town over time to distinguish them from Town operating and administrative funds. The Town has the option to choose an outside investment manager to handle these funds or may handle them internally.

IV. General Objectives:

The primary objectives of the Town of Waterford Investment activities shall be safety, liquidity and yield. There may be other factors, which can influence investing decisions but none that would violate the inherent principles of safety, liquidity and yield.

1. Safety:

Safety of principal is the top objective of the Town of Waterford's investment program. Preservation of capital is the foremost objective in the overall portfolio. The methods of preserving capital are through limiting credit risk and interest rate risk.

A. Credit Risk including Concentration Risk:
Credit risk can be defined as the potential loss due to failure of the security issuer or backer. Pre-qualifying institutions with which the Town may do business limit credit risk. This authorization process will be defined in a later section.

1) Credit risk is also lessened by limiting the type of acceptable investments by type of financial vehicle or security, which the Town is authorized to invest in. This is governed by Connecticut General Statutes.
2) Credit Risk can also be limited by avoiding concentration risk in a portfolio e.g. having too much of one type of security or one institutional issuer or backer. The explicitly stated exception is the Connecticut Short-Term Investment Fund, which is a short-term fund rated AAA by Standard and Poors and run by the Treasurer of the State of Connecticut. The Connecticut Short-Term Investment Fund ("STIF") represents a diverse pool of assets and underlying investments. The Treasurer, in coordination with the Finance Department, will set up credit/concentration limits for each institution the Town of Waterford does business with in a separate document. Those credit limits shall be reviewed from time to time.
3) Credit risk also involves pre-qualifying and authorizing transactions with broker/dealers, intermediaries and advisors who do business with the Town.

B. Interest Rate Risk:

1) The Town of Waterford will minimize interest rate risk, which is the risk that the market value of the securities will fall due to changes in the market interest rates by structuring the investment portfolio so that the securities mature to meet cash requirements for ongoing operations, avoiding the need to sell securities on the open market prior to maturity.
2) Investing in short-term securities, money market funds or similar investment pools and limiting the average maturity in the portfolio in accordance with this policy will minimize interest Rate Risk.
3) This policy does not expressly state when the Treasurer may move the portfolio into fixed or floating rate securities that would be impacted by interest rates, as that is a market condition or trend left to the expertise and discretion of the Treasurer. The Treasurer would be expected, in strategizing, to react to market conditions to make investments that are prudent and without incurring unnecessary interest rate swings. Further, the Treasurer must adjust investments due to the seasonal nature of the Town's cash flow needs.

2. Liquidity:

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated, including express seasonal needs. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Further, since all cash demands cannot always be anticipated, the portfolio should consist of securities with active secondary or resale markets. Alternatively, a portfolio in parts or its entirety may be invested in money market mutual funds or local government investment pools that offer same-day liquidity for short-term funds. It is a pre-requisite that all investment vehicles meet Connecticut General Statute standards, regardless of liquidity.

3. Yield:

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance to the primary importance of safety and liquidity as described above. The portfolio should be limited to low risk securities. These securities should earn a fair return relative to the risk being assumed. Securities should be held to maturity with the following express exceptions:

1) A security with declining credit may be sold early to minimize potential loss of principal.
2) A security purchase and sale that would improve the quality, yield or target duration in the portfolio. (Security purchase and sale means trading one investment for another investment, not the "swap" connoted as a derivative product. Derivatives are not allowed in the portfolio.
3) Unforeseen liquidity needs of the portfolio requiring that the security be sold.

4. Foreign Currency Risk:

The Town does not and will not invest in any foreign investment pursuant to statute. The Town does not accept payment for Town services in any foreign currency, only US dollars. The Town of Waterford will not engage in any foreign currency risk.

5. Local Considerations:

Where possible, funds may be invested for the betterment of the local economy or that of local entities within the State. The Town of Waterford may accept a proposal from an eligible institution, which provides for a reduced rate of interest provided that such institution documents the use of deposited funds for community development projects. This type of proposal would require the express approval of relevant Boards (both Selectmen and Finance Boards). In addition the Treasurer would take into consideration any advice of the Director of Finance.

V. Standards of Care:

1. Prudence

The standard to be used by investment officials shall be "the prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

The "prudent person" standard states that, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

2. Ethics and Conflicts of Interest

Town officials and town employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. Employees and officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/ investment positions that could be related to the performance of the investment portfolio. Employees and officials are prohibited from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the Town of Waterford.

3. Delegation of Authority

Authority to manage the investment program is granted to the Treasurer of the Town of Waterford by provision of the following CT General Statutes: CGS 7-400. The Treasurer (Investment Officer) shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with the Town's investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements and collateral/ depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures. The investment officer shall be responsible for all investment transactions undertaken and shall establish a system of controls with the cooperation of the Director of Finance of the Town of Waterford to regulate the activities of subordinate officials.

In the event of an absence, the Treasurer may expressly transfer specific powers and responsibilities to an appropriate person in the Finance Office, either the Director or Staff Accountant. However, that transfer must be made in writing (or electronically) and state specifically the time and duration of the transfer powers. The Director and Staff Accountant during that period would be bound by all the same rules and standards to which the Treasurer would be subject en absentia. Further, the Director of Finance and Staff Accountant must report all actions and transactions to the Treasurer upon the Treasurer's return.

VI. Authorized Financial Institutions, Depositories and Broker/Dealers

1. Authorized Financial Institutions, Depositories and Broker/Dealers

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g. a minimum capital requirement of $10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under the Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of National Association of Securities Dealers (NASD) certification (not applicable to Certificate of Deposit or Bank money fund counter parties)
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of deposit or bank money fund counter parties).
- Certification of having read and understood and agree to comply with the Town's investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Treasurer in coordination with the Director of Finance.

2. Minority and Community Financial Institutions:

From time to time, the Treasurer may choose to invest in instruments offered by minority and community financial institutions. In such situations, a waiver to certain parts of the criteria listed above may be granted. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with state or local law. These types of investment purchases would require the express approval of relevant Boards (both Selectmen and Finance Boards). In addition the Treasurer would take into account any advice of the Director of Finance.

VII. Safekeeping and Custody

1. ***Delivery vs. Payment***

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to release of funds.

2. ***Safekeeping***

Securities will be held by an independent third party custodian selected by the Town or accepted by the Town, evidenced by safekeeping receipts in the Town of Waterford's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls.

3. Internal Controls

The Treasurer/Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town of Waterford are protected from loss, theft or misuse. Details of the internal control system are documented in this investment procedures policy which shall be reviewed and updated periodically as needed. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of the control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management.

The internal controls structure includes the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Printed confirmation of transactions for investments and wire transfers authorizations of wire transfers
- The wire transfer agreement with the lead bank and third-party custodian which is usually required by the bank.

The Director of Finance shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures or alternatively, compliance should be assured through Town of Waterford's annual independent audit.

VII. Suitable and Authorized Investment

Investment Types:

The Town of Waterford investments are consistent with and in accordance with Connecticut General Statutes Please refer to the CGS 7-400, 403a, 362, which delineates the parameters of the Town of Waterford's investment activities.

Collateralization:

Collateralization for Town of Waterford investments is consistent and in accordance with Connecticut General Statute 36a-336.

Repurchase Agreements:

Repurchase agreements for the Town of Waterford should be consistent and in accordance with Connecticut General Statute 7-400. Additionally, repurchase agreements should follow the required need for collateral that is put aside to back up any repurchase agreement. The amount of collateral depends on the type of collateral that is pledged (Treasuries, Ginny Mae's etc.).

VIII. Investment Parameters

Diversification:

Investments shall conform to state statute and further be diversified by:

- Limiting investments to avoid over concentration from a specific issuer or business sector (excluding U.S. Treasury securities and the State of Connecticut Short-Term Investment Fund also known as "STIF")
- Limiting investments in securities that have higher credit risks
- Investing in securities with varying maturities (the exception being keeping the portfolio in daily funds which are completely liquid)
- Making sure at least a portion of funds is liquid enough to meet ongoing obligations of the Town of Waterford.
- Appropriate portfolio diversification should also take into account the seasonality of the Town of Waterford's funds and invested to complement that cash cycle.

Maturity:

- All maturities must conform to state statute.
- With the exception of the U.S. Treasury or the Connecticut Short-Term Investment Fund, no issuer of a securities or money fund may make up more than 15% of the Town's portfolio at any given time and perceived concentrations of risk should be avoided.
- There must always be funds invested on a daily basis to ensure liquidity since cash forecasting cannot always accurately predict all calls on the Town's financial needs.
- When contemplating an investment the Treasurer must look at two or more sources (institutions) before placing money.

IX. Reporting

Methods

The Treasurer shall prepare an investment report at least quarterly including a management summary that provides an analysis of the status of the current investment portfolio. This management summary will be prepared in a timely manner and will be prepared in a way that will allow comparison to the Town's investment policy. The report should be provided to the Board of Selectmen of the Town of Waterford, the Board of Finance and the Representative Town Meeting as well as others upon request.

The report should show where the portfolio is currently placed (by institution) and the revenue generated during the quarterly period. Individual transactions will be available for audit.

Performance Standards:

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during the market/economic environment. The portfolio will be measured against benchmarks as appropriate.

X. Policy Consideration

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

XI. Approval of Investment Policy

The investment policy shall be formally approved by the Board of Finance and Treasurer and reviewed annually. The opinions and advice of the Director of Finance will be included in the review.

Adopted by Board of Finance – November 12, 2008

BOARD OF EDUCATION NON-LAPSING ACCOUNT POLICY

PURPOSE OF ACCOUNT

There is hereby created a Board of Education Reserve Fund pursuant to Connecticut State Statute Section 10-248a to provide funding resources solely for future Board of Education transportation, special education, COVID/public health emergency, technology, and the arts.

FUND CONTRIBUTIONS

Subject to audit confirmation of the Board of Education's available year-end balance and the status of the unassigned General Fund balance, the Board of Finance may, deposit into a non-lapsing account up to 50% of any unexpended funds from the budgeted appropriation for education from the previous fiscal year. This amount may not exceed 2% of the total budgeted appropriation for education for such fiscal year. The Board of Education shall provide a written request for such funds to the Board of Finance after they have approved the funding request at their Board meeting.

CUSTODY OF FUNDS AND INVESTMENT

The fund shall be accounted for on the Town's general ledger and will be solely used for Board of Education transportation, special education, COVID/public health emergency, technology, or the arts funding needs.

The Board of Education Reserve Fund shall be part of the Town's pooled cash account or a separate cash account in the custody of the Town Finance Director or Town Treasurer. The Town Treasurer or Town Finance Director may, from time to time, invest all or any part of the monies in said Fund in any securities in which public funds may lawfully be invested. All income derived from such investments shall be paid into the Town's General Fund an/d become a part thereof. The Town's Finance Director shall exercise control and administration of the /Board of Education Reserve Fund on the Town's general ledger. Purchases will be made in accordance with Memorandum of Agreement between the Board of Education and Board of Finance.

USE OF MONIES FROM NON-LAPSING ACCOUNT

The Board of Education shall propose to the Board of Finance an expenditure of funds pursuant to the signed Memorandum of Agreement and must receive approval of the Board of Finance prior to making any proposed expenditures.

At the end of each fiscal year, the Town Finance Director, after reconciliation with the Board of Education Superintendent and/or designee, will provide the Board of Finance and Board of Education with financial reports to identify the use of the fund and any remaining balance.

CONTINUITY OF ACCOUNT

Any unexpended funds which may remain at the close of each fiscal year in the Board of Education Reserve Fund shall be nonlapsing and remain within the fund for use by the Board of Education for future Board of Education transportation, special education, COVID/public health emergency, technology, or the arts.

Approved by Board of Finance
Date: 9/9/2020