

TOWN OF WESTON FUND BALANCE POLICY
DRAFT – 11-16-24

1. OBJECTIVE

Pursuant to Connecticut state law, the Town of Weston is obligated to adopt a balanced budget for each fiscal year. However, many actual expense and reserve amounts are not known at the time the annual budget is approved at the Town Meeting, and significant unforeseen expenses can occur at any time during the year. Accordingly, it is incumbent upon the Town to maintain an amount of unreserved funds to meet these contingencies and shortfalls. In this connection, pursuant to Conn. Gen. Stat. § 7-359 et. seq. the State of Connecticut permits municipalities to establish a municipal reserve fund to cover:

- (1) capital and nonrecurring expenditures (i.e., acquiring a specific piece of equipment or planning constructing, reconstructing, or acquiring specific capital improvement);
- (2) property tax revaluation costs; or
- (3) costs associated with preparing amending or adopting a municipal plan of conservation and development.

Additionally, the maintenance of undesignated levels is an element of sound fiscal management required for sustaining a high credit rating and financial management flexibility. In this connection, credit rating agencies determine the adequacy of an unassigned fund balance using a complex series of financial evaluations. The size of the unassigned 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 various town bodies.

This policy is intended to provide for a fund balance which satisfies the cash flow and contingency needs of the community as well as ensuring that the Town maintains a high credit rating.

2. DEFINITIONS

2.1. GOVERNMENTAL FUND TYPE DEFINITIONS

2.1.1. General Fund.

The General Fund is comprised of all resources that are not reported in another fund.

2.1.2. Special Revenue Funds.

The Special Revenue Fund is used to account for 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.

2.1.3. Capital Project Funds.

The Capital Project Fund accounts for 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.

2.1.4. Debt Service Funds.

The Debt Service Fund accounts for 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.

2.1.5. Permanent Funds.

The Permanent Funds are used for the benefit of the government or citizenry, to account for 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. Permanent funds do NOT include private purpose trust funds.

2.2. FUND BALANCE DEFINITIONS

Consistent with GASB Statement 54, Fund Balance Components are as follows:

2.2.1. Non-spendable.

Resources not in spendable form or are legally required to remain intact. These are 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).

2.2.2. Restricted.

Resources constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation imposed or legally enforceable by external properties. For example, non-reimbursable state and federal grants, or unspent bond proceeds are restricted.

2.2.3. Committed.

Resources 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. For example, appropriations to offset following year's budget are committed.

2.2.4. Assigned.

Resources the Town intends to use for a specific purpose. The intent can be expressed by the Town or by an official or body to which the Town delegates the authority. For example, reserve for encumbrances.

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.

2.2.5. Unassigned.

Resources 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.

3. FUND BALANCE CALCULATION

The 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.

The 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 Restricted fund balance
Unrestricted Fund Balance

4. ADMINISTRATION

4.1. The Town shall endeavor to maintain an available balance in the General Fund as a cushion against potential revenue and expenditure volatility.

- 4.2. When both Restricted and Unrestricted funds are available for expenditure, Restricted funds should be spent first unless not permitted by law.
- 4.3. 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.
- 4.4. Expenditure of any surplus Fund Balance amounts shall be either for one time capital appropriations or for transfer into dedicated accounts to meet unfunded Town/School liabilities.

5. ROLE OF THE BOARD OF FINANCE

- 5.1. The Fund Balance of the Town may be committed for such specific purposes by formal action of the Board of Finance. Amendments or modification to the committed fund balance must also be approved by formal action of the Board of Finance. Unless otherwise approved by the Board of Finance, the Board delegates authority to assign fund balance only for encumbrances to the Town Administrator and Finance Director.
- 5.2. The Board of Finance recognizes that good fiscal management comprises the foundational support of the entire Town. As such, the Board will endeavor to keep the Unassigned Fund Balance at a level adequate to maintain a AAA rating.
- 5.3. The Board of Finance shall perform an annual review of the fiscal condition of the Town with the intent of determining the appropriate General Fund level. The determination of 'appropriate' shall take into account current spending levels, forecast operating and capital expenditures, potential contingent liabilities, outstanding debt levels and other items deemed material by the Board.