TOWN OF WESTON FUND BALANCE POLICY
DRAFT – 12.11.24 recommended by Fund Balance Subcommittee
Edits suggested in redline but not approved by BOF 01.09.25

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 that are not earmarked or legally constrained for specific purposes. In this connection, pursuant to Conn. Gen. Stat. § 7-359 et. seq. the State of Connecticut permits municipalities to establish an **Unassigned Fund Balance** ("**UFB**") to among other things:

(1) eliminate the need for short-term borrowing to handle cash flow between the start of the fiscal year and receipt of revenues from taxes;

(2) serve as a contingency fund that enables the Town to respond to unanticipated emergencies or opportunities such as capital and nonrecurring expenditures (i.e., acquiring a specific piece of equipment or planning constructing, reconstructing, or acquiring specific capital improvement).

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 **UFB** using a complex series of financial factors. The size of the **UFB** 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 an **UFB** which satisfies the cash flow and contingency needs of the community as well as ensuring that the Town maintains a high credit rating.

2. GOVERNMENTAL FUND TYPE DEFINITIONS

2.1. General Fund.
The General Fund is comprised of all resources that are not reported in another fund. ~~The General Fund includes among other things, the operating budget, taxes and police.~~

2.2. 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 (e.g. Parks & Recreation Department).

2.3. 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. Capital Project Funds can be designated for things such as renovations to the High School.

2.4. 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.

2.5. 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. Permanent Funds are designated for things such as school lunch programs.

3. FUND BALANCE CALCULATION

In the context of municipal financial reporting, the term "**Fund Balance**" describes the Town's net positions of funds calculated in accordance with generally accepted accounting principles (GAAP). Pursuant to Conn. Gen. Stat. §7-560 (13) "**Fund Balance**" means the amount that assets and deferred outflow of resources of a municipality's general fund exceeds the liabilities and deferred inflow of resources of the general fund of the municipality, as of the fiscal year ended as reflected in the municipality's most recent audited financial statements presented in accordance with generally accepted accounting principles.

In other words, 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**.

3.1. FUND BALANCE DEFINITIONS

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

3.1.1. Restricted Fund Balance Categories

3.1.1.1. 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).

3.1.1.2. 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.

3.1.2. Unrestricted Fund Balance Categories

3.1.2.1. Committed.
Resources constrained to specific purposes by the Town itself, using its highest level of decision-making authority. To be reported as committed, resources cannot be used for any other purposes unless the government takes the same highest-level action to remove or change the constraint.

3.1.2.2. Assigned.
Resources the Town intends to use for a specific purpose. The intent can be expressed by the Town or by and 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 **UFB**. Negative fund balances cannot be considered assigned.

3.1.2.3. 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 **UFB**.

3.1.2.4. The **UFB** calculation:

Total Fund Balance
Less Non-spendable fund balance
Less Restricted fund balance
Unrestricted Fund Balance

4. ADMINISTRATION

4.1. When an expenditure is incurred for purposes for which both **Restricted and UFB** are available, the Town considers the **Restricted Fund Balance** amount to have been spent first until exhausted and then any available **UFB**, unless not permitted by law.

4.2. When an expenditure in 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**.

4.3. 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.

~~4.3.~~4.4. The fund balance shall specifically not be used for paying recurring operating expenditures.

~~4.4.~~4.5. A positive balance in any Board of Education non-lapsing account must be fully expended ~~–~~before the Board of Finance will consider any additional special appropriations.

5. GOVERNANCE

5.1. The Fund Balance of the Town may be committed for such specific purposes by formal action of the Board of Finance in accordance with this policy and the Town Charter. Amendments or modification to the Committed Fund Balance must also be approved by formal action of the Board of Finance.

5.2. Unless otherwise approved by the Board of Finance, the Board delegates authority to assign funds to the Assigned Fund Balance only for encumbrances to the Town Administrator and Finance Director.

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~~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.~~

6. MINIMUM UNASSIGNED FUND BALANCE ADMINISTRATION

6.1. The Board of Finance recognizes that good fiscal management comprises the foundational support of the entire Town. Accordingly, to ensure that the Town maintains a high credit rating, the Town shall endeavor to maintain an available balance in the General Fund as a cushion against potential revenue and expenditure volatility. In this connection, the Board of Finance will seek to maintain a fiscal year end UFB of no less than 20% of the next year's budget.

~~6.1.~~6.1.1. If the UFB falls below the 20% threshold as defined above, the Board of Finance will collaborate with the Board of Selectmen to replenish the deficiency over a period not to exceed the next three fiscal years.

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6.2. The Board of Finance shall review this policy annually at its January meeting. This review will include monitoring the minimum **UFB** requirements. During its annual review, the Board of Finance shall determine whether the minimum target levels for the **UFB** should be increased based upon factors including but not limited to:

6.2.1. Significant volatility in operating revenues or operating expenditures;

6.2.2. Potential drain on resources from other funds facing financial difficulties;

6.2.3. Exposure to natural disasters (e.g. hurricanes);

6.2.4. Reliance on a single corporate taxpayer or upon a group of corporate taxpayers in the same industry;

6.2.5. Rapidly growing budgets; or

6.2.6. Disparities in timing between revenue collections and expenditures

6.3. Exigent circumstances may justify the "spend down" of **UFB** below its minimum. Such exigent circumstances include but are not limited to:

6.3.1. Operating Emergencies

6.3.2. Unanticipated budgetary shortfalls

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