

# Town of Wethersfield, Connecticut Governmental Fund Balance Policy

Updated for GASB54 Fund Balance Reporting and Governmental Type Definitions

Effective for fiscal year ending June 30, 2011

Adopted by Town Council on Sept. 19, 2011

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## POLICY STATEMENT

A positive fund balance serves three important functions:

1. Eliminates the need for short term borrowing to handle cash flow between the start of the fiscal year and receipt of revenue from taxes;
2. Can be periodically used to lower taxes to smooth out major fluctuations in the property tax rates;
3. Serves as a contingency fund that enables the Town to respond to unanticipated emergencies or opportunities.

Credit rating agencies determine the adequacy of the unreserved fund balance using a complex series of financial evaluations. The size of the 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 legislative body.

This policy is intended to provide for a fund balance which satisfies the cash flow and contingency needs of the community at the same time avoid over taxing the citizens through an excessively large fund balance.

## GOVERNMENTAL FUND TYPE DEFINITIONS

- **General Fund** – all funds not reported in another fund
- **Special Revenue Funds** – Used to account for and report 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 is the foundation for a special revenue fund.*
- **Capital Project Funds** – Used to account for and report 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.
- **Debt Service Funds** – Used to account for and report 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.
- **Permanent Funds** – Used to account for and report 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 – that is for the benefit of the government or its citizenry. Permanent funds do NOT include private purpose trust funds.

**FUND BALANCE DEFINITIONS**

- 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.
- Unrestricted Fund Balance is defined as follows:

**Total Fund Balance**  
 Less: **Nonspendable fund balance**  
 Less: **Restricted fund balance**  
**Unrestricted Fund Balance**

**Unrestricted = Committed, Assigned and Unassigned**

- Nonspendable fund balance– 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).
- Restricted fund balance- Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance– Amounts 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.

The decision making authority for purposes of this policy can be any one of the following:

Decision making authority	Formal Action To Be Taken
Town Council	Adoption of Resolution, Budget or other Motion
Electors	Referendum

- Assigned fund balance– Amounts the Town intends to use for a specific purpose; intent can be expressed by the Town or by an official or body to which the Town delegates the authority. Appropriations of existing fund balances to future budgets and encumbrances 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.

**The body authorized to assign amounts to a specific purposes for purposes of this policy is the Town Council.**

- Unassigned fund balance – Amounts 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.

The Town considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

The Town considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classification could be used.

The order in which expenditures will be applied shall be as follows:

- 1) Restricted
- 2) Committed
- 3) Assigned

## **GUIDELINES**

*The appropriate level of unrestricted fund balance to be maintained in the general fund.*

The Town shall propose budgets that provide for an unrestricted general fund balance of not less than seven (7) percent nor more than ten (10) percent of the total operating general fund expenditures.

In the event the fund balance is greater than seven (7) percent at the end of any fiscal year, the excess may be used in one or a combination of the following ways:

1. Transfer such excess to the Capital Reserve Fund for future capital projects.
2. Use directly to reduce the tax rate in the subsequent year provided that care is taken to avoid a major fluctuation in the tax rate in succeeding years.
3. Used for other one time expenditures as approved by Town Council.

As a general rule, unrestricted fund balance in the general fund should represent no less than two months of operating revenues or operating expenditures (whichever is less volatile).

The following circumstances often justify a significantly higher minimum target level:

- Significant volatility in operating revenues or operating expenditures;
- Potential drain on resources from other funds facing financial difficulties;
- Exposure to natural disasters (e.g. hurricanes);
- Reliance on a single corporate taxpayer or upon a group of corporate taxpayers in the same industry;
- Rapidly growing budgets; or
- Disparities in timing between revenue collections and expenditures.

The Town Council shall monitor and modify the minimum fund balance requirements based on these criteria.

*The circumstances in which unrestricted fund balance can be "spent down".*

The use of unrestricted fund balance (committed, assigned or unassigned) will be allowed under the following circumstances:

- Operating emergencies
- Unanticipated budgetary shortfalls

*The policy for replenishing deficiencies.*

If at the end of a fiscal year, the fund balance falls below seven percent, the Town Manager shall prepare and submit a plan for expenditure reductions and or revenue increases. The Town Council shall take action necessary to restore the unreserved, undesignated fund balance to acceptable levels within two budget cycles.