TOWN OF CHESTER

FUND BALANCE POLICY

1. PURPOSE

The purpose of this policy is to support prudent financial management and the long-term fiscal sustainability of the Town of Chester by establishing guidelines for maintaining an adequate fund balance.

Fund balance provides resources to support cash flow, manage financial risk, respond to unforeseen events, reduce reliance on short-term borrowing, and promote stability in Town operations and the municipal tax rate.

This policy establishes fund balance classifications, a target for unassigned fund balance, a process for reaching and maintaining that target, guidelines for the use of excess fund balance, and annual reporting requirements.

2. FUND BALANCE CLASSIFICATIONS

Fund balance for governmental funds shall be reported in accordance with applicable accounting standards, including GASB Statement No. 54:

Nonspendable — Amounts that cannot be spent because they are not in spendable form or are legally or contractually required to remain intact.

Restricted — Amounts constrained to specific purposes by external parties, laws, grant requirements, debt covenants, or other legal requirements.

Committed — Amounts designated for specific purposes by formal action of the Town's highest level of decision-making authority.

Assigned — Amounts intended for specific purposes as determined by the Selectboard or an official or body authorized by the Selectboard.

Unassigned — Spendable General Fund resources that have not been restricted, committed, or assigned for another purpose.

When multiple classifications are available for expenditure, the Town will generally use restricted resources first, followed by committed, assigned, and then unassigned resources.

3. UNASSIGNED FUND BALANCE TARGET

The Town of Chester establishes a **target unassigned fund balance equal to 60 days of regular operating expenditure**, approximately two months of operations.

The target is intended to:

- Provide adequate cash flow;
- Reduce the need for borrowing in anticipation of revenues;
- Provide resources for emergencies and unforeseen circumstances;
- Protect against fluctuations in revenues and expenditures; and
- Promote financial and tax-rate stability.

The dollar amounts necessary to achieve the 60-day target shall be recalculated annually based on the Town's applicable operating expenditure.

4. PHASED IMPLEMENTATION

To minimize the impact on taxpayers, the Town will work toward the 60-day target gradually through the annual budget process.

Based on the current annual operating budget of **$4,461,054.94**, the initial plan is:

Stage	Reserve Goal	Approximate Target
Current	5 Days	$61,110
Year 1	20 Days	$244,441
Year 2	30 Days	$366,662
Year 3	45 Days	$549,993
Year 4	**60 Days**	**$733,324**

These amounts are planned estimates and shall be recalculated annually as operating expenditures change.

The Finance Director shall recalculate the applicable target during each annual budget process based on the Town's then-current operating expenditure.

The Selectboard may modify the implementation schedule when warranted by significant changes in revenues, expenditures, economic conditions, emergencies, or taxpayer impact.

5. FUNDING AND MAINTENANCE

Unassigned fund balance shall be determined following year-end closing and, when applicable, completion of the annual audit.

If unassigned fund balance is below the established target, the Finance Director shall recommend appropriate corrective actions to the Selectboard through the annual budget process.

Corrective actions may include budgeting additional amounts toward the reserve, applying favorable year-end operating results, limiting the use of fund balance for ongoing expenses, or adjusting the implementation schedule when appropriate.

Fund balance should not routinely be used to support recurring operating expenditures.

6. USE OF EXCESS FUND BALANCE

If unassigned fund balance exceeds the established target, the Finance Director may recommend, and the Selectboard may approve or otherwise act upon, as legally required, the assignment or use of excess amounts for purposes that strengthen the Town's financial position.

Priority consideration should be given to:

- Capital projects and capital reserves;
- Emergency or disaster-related needs;
- Known or anticipated financial risks;
- Year-end encumbrances;
- Self-insurance or compensated absence obligations;
- Tax-rate stabilization;
- Reduction or avoidance of debt; and
- Other one-time expenditures determined to be in the Town's best interest.

Excess unassigned fund balance should generally not be used to fund routine or recurring operating expenditures.

7. ANNUAL REPORTING AND REVIEW

Following year-end closing and completion of the annual audit, the Finance Director shall report to the Selectboard on:

- Total and unassigned fund balance;
- Applicable fund balance classifications;
- The approximate number of operating days represented by unassigned fund balance;
- Progress toward the 60-day target; and
- Any recommended corrective action.

The Finance Director shall review the fund balance target annually during the budget process and recommend changes when warranted by the Town's financial condition, cash flow, debt, capital needs, or other circumstances.

The dollar amount required to meet the 60-day target shall be recalculated annually based on the Town's current operating expenditure.

8. POLICY AMENDMENT AND EFFECTIVE DATE

Any amendment to this policy requires approval by a majority of the Town of Chester Selectboard.

This policy shall become effective immediately upon adoption and shall supersede the Fund Balance Policy adopted:

Adopted: ___________________________

TOWN OF CHESTER SELECTBOARD