

TOWN OF ELLINGTON

Policies & Procedures

Fund Balance

The Ellington General Fund Balance is an important component in the Town's fiscal strategy. It is the intent of the Ellington Board of Finance to maintain the Fund at a prudent level so as to not risk potential financial difficulties or shortages.

The Government Accounting Standards Board issued GASB Statement 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, in order to help citizens and decision makers better understand the constraints placed on fund balances. The statement is intended to improve the usefulness of the amounts reported in fund balances by providing more structured classification. The statement also clarifies the existing definitions of the general fund, special revenue funds, debt service funds and capital project funds.

The five components of fund balance are as follows:

Nonspendable Fund Balance

Fund Balance of the Town that cannot be spent because of its form. This classification is for inventory, prepaid items, long term loans receivable, endowments and nonfinancial assets held for resale.

Restricted Fund Balance

Fund Balance of the Town that is restricted and can only be spent for specific purposes imposed by grantors, creditors, contributors or laws and regulations of other governmental entities. This classification would pertain to Fund Balances in Bonded Capital Projects, Grant and Special Projects funds. Restricted fund balance does not lapse at year-end.

Committed Fund Balance

Fund Balance of the Town that has self-imposed limitations set in place prior to the end of the period. This would apply to fund balance committed for a specific purpose by formal actions of the Board of Finance and the Board of Selectmen. Amendments or modification to the committed fund balance must also be approved by formal action of the Board of Finance and the Board of Selectmen. Committed fund balance does not lapse at year-end.

Assigned Fund Balance

The Town's Assigned Fund Balance are the fund balances in government funds that are not restricted or committed which indicates that these resources are, at a minimum, intended for the purpose of the fund. The assignment of Fund Balance is made by a formal action of the Board of Finance and Board of Selectmen. These are currently classified as Unreserved and identified as designated for continued appropriations and designated for subsequent years appropriations.

Unassigned Fund Balance

The Town's Unassigned General Fund Balance will be maintained to provide the Town with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the Board of Finance and Board of Selectmen.

Flow Assumptions

Determining the components of fund balance will be an annual exercise by the Finance Officer. A policy on the order in which resources are to be expended is an important factor in how amounts are reported in fund balance. Total fund balance must be classified in to one of the five possible categories described above at the end of each year. However, the Town may not have all five components of fund balance at any given time.

The Town's fund expenditure policy will be the default approach, which assumes that committed amounts should be reduced first, followed by the assigned amounts and then, lastly, unassigned.

Unassigned Fund Balance Spending

The Town of Ellington is required by Town Charter and Connecticut State Statutes to adopt a balanced budget for each fiscal year. Actual results of operations usually vary from the initial budget plan. Sufficient levels of unassigned fund balance can ensure continued orderly operation of town government and provisions of services to residents and the continued stability of the tax structure. Local governments that have sufficient levels of unassigned fund balance can avoid or reduce budget cutbacks or tax increases if budget shortfalls develop during the fiscal year. State government support of local education expenses and other State grants and reimbursements have varied dramatically from year to year. Final State legislative action occurs after the local budget is approved.

The audited unassigned general fund balance at the end of the fiscal year will be a minimum of 20% of annual operating expenditures. The remaining amount in excess of this threshold will be available for appropriation at the discretion of the Board of Selectmen and Board of Finance. It is the policy of the Board of Finance to keep the fund balance above the minimum level when reviewed annually during the budget process except under extraordinary events or in unanticipated situations.

Should events occur during the present fiscal year that bring the estimated unassigned general fund balance below the targeted minimum, the Board of Finance will take measures to restore the fund balance as soon as practical.

The Town of Ellington's formal unassigned fund balance policy maintains adequate unencumbered reserve funds to accomplish the following objectives:

1. Maintain adequate reserves to support one month of expenditures
2. Maintain adequate reserves to maintain sufficient funds available for appropriation for unforeseen expenditures or unforeseen shortfall in revenue after adoption of the annual budget
3. Maintain adequate reserves for mill rate relief in subsequent budget years
4. Maintain additional levels of reserves as deemed appropriate by the Town Board of Finance

The maintenance of unassigned levels is not to be constructed as surpluses or over taxation by the Town; rather it is an element of sound fiscal management required for sustaining high credit rating and financial management flexibility.

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