

TOWN OF ESSEX – BOARD OF FINANCE

Fund Balance Policy

Policy:

To maintain an appropriate level of unassigned fund balance on a Generally Accepted Accounting Principles (GAAP) basis in order to protect the Town from unforeseen expenditures or shortfalls in revenue after adoption of the annual budget. Examples include: a short-term financial emergency, declining tax rates, the loss of a major taxpayer, sudden changes in revenue or spending requirements, natural disaster, major infrastructure failure and unexpected litigation. Factors taken into consideration include: evaluating the Town's operating characteristics, its overall financial health, the diversity and flexibility of the tax base, the reliability of non-property tax revenue sources, working capital needs and emergency and disaster risks and credit agency requirements for bonding. The unassigned fund balance is intended to serve as a measure of the financial resources available for spending at the Town's discretion.

Procedure:

- The town will endeavor to maintain an unassigned fund balance between 10% and 14% of budgeted expenditures, with a goal of 12% of budgeted expenditures in the General Fund. If the unassigned fund balance exceeds the 14% target, the use of such excess funds could be for capital projects and other onetime uses, to avoid creating a gap in the subsequent fiscal year budget. If the fund balance goes below the 10% minimum, then the Board of Finance will endeavor to replenish reserves during the budget process to minimum levels within 3 years.
- Fund balance definitions:
 - Non-spendable Fund Balance – The non-spendable fund balance classification includes amounts that cannot be spent because they are either:
 - a) not in a spendable form (e.g. not transformable into cash within 60 days) such as long-term receivables, inventory, or prepaid expenses
 - b) legally or contractually required to be maintained to be intact, such as an endowment fund
 - Restricted Fund Balance – Fund balance is reported as restricted when legally enforceable constraints are placed on the use of resources by external parties or external laws and regulations. The key is that an outside party must put the restrictions on the Fund Balance.
 - Committed Fund Balance – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's *highest level of decision-making authority* should be reported as Committed Fund Balance. Formal action is required to modify a constraint reflected in these funds.

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Fund Balance Policy – continued

- Assigned Fund Balance – Amounts that are intended to be used for specific purposes, but are neither restricted nor committed. Approval is required at the Board of Finance level.
- Unassigned Fund Balance - Everything else is Unassigned Fund Balance. The General Fund is the only fund that will have Unassigned Fund Balance because, by virtue of being in a separate fund, all other Fund Balance is at least assigned.