

RESOLUTION NO. 2575

EAST NORRITON TOWNSHIP
MONTGOMERY COUNTY, PENNSYLVANIA

A RESOLUTION OF THE BOARD OF SUPERVIORS OF
EAST NORRITON TOWNSHIP APPROVING A FORMAL POLICY
RELATED TO THE APPROPRIATE LEVEL OF RESERVES OR FUND BALANCE

WHEREAS, the Government Finance Officers Association (GFOA) recommends that governments establish a formal policy on the level of fund balance that should be maintained in the general fund and encourages adoption of similar policies for other funds; and

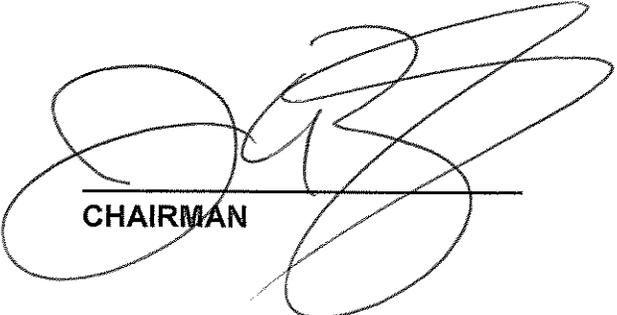
WHEREAS, a Fund Balance Policy improves the municipality's financial stability by maintaining appropriate reserves to withstand economic downturns, emergencies, or natural disasters; and

WHEREAS, a Fund Balance Policy within GFOA recommended levels will strengthen the Township's credit rating with appropriate rating agencies; and

WHEREAS, assembled as follows that the attached Fund Balance Policy dated January 2012 is adopted for East Norriton Township.

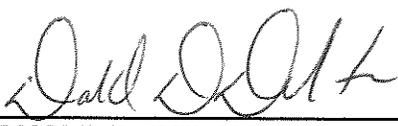
RESOLVED this 3rd day of January, 2012, by the Board of Supervisors of East Norriton Township.

EAST NORRITON TOWNSHIP
BOARD OF SUPERVISORS



CHAIRMAN

ATTEST:



DONALD D. DELAMATER
TOWNSHIP SECRETARY



FUND BALANCE POLICY January 2012

A. PURPOSE

To establish a fund balance reserve policy tailored to the needs of East Norriton Township to insure against unanticipated events that would adversely affect the financial condition of the Township and jeopardize the continuation of necessary public services. This policy will ensure the maintenance of adequate reserves to allow East Norriton Township to:

- 1) Provide sufficient cash flow for daily financial operations;
- 2) Secure and maintain investment grade bond ratings;
- 3) Offset significant economic downturns or revenue shortfalls;
- 4) Provide funds for unforeseen expenditures related to emergencies.

B. DEFINITIONS

East Norriton Township classifies fund balance as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. Fund balance types of this category are prepaid expenses and inventories.

Restricted – includes fund balance amounts that can be spent only for specific purposes stipulated by external parties, through enabling legislation, or constitutional provisions. Fund balance types of this category include amounts for debt service, street lights, fire protection, parks and recreation, capital reserve, liquid fuels, and bond funds.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the East Norriton Board of Supervisors. Commitments may be changed or lifted only by the East Norriton Board of Supervisors through the same formal action that imposed the constraint.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Township Manager and/or Township Finance Director.

Unassigned – includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

C. FUND BALANCE GOALS

General Fund - In the General Fund, there shall be a fund balance retained of 5-15% of the operating revenues depending on the economic and budgetary circumstances of the Township. For purposes of this calculation, the revenues shall be the budget as originally adopted by ordinance in December for the previous fiscal year. This reserve shall be in addition to all other types of fund balances and reserves.

Special Revenue Funds - Special revenue funds are created to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. No specific reservation of fund balance is created by virtue of enactment of this policy. The amount

of any reservation of fund balance shall be governed by the legal authority underlying the creation of the individual funds.

Debt Service Fund - Debt service funds are typically subjected to the creation of very specific reserve amounts as part of the ordinance or resolution which authorizes the issuance of the bonds. This policy does not create any specific reservation of fund balance within any Debt Service Fund. Reserve requirements for any outstanding bond issue will be consistent with the ordinance or resolution authorizing the issuance of the bonds.

Capital Projects Fund - The Capital Projects Funds are created to account for resources designated to construct or acquire general fixed assets and major improvements. These projects may extend beyond a single fiscal year. No specific reserve requirement is established for the Capital Projects Fund. However, at a minimum, the fiscal year end Unassigned Fund Balance, and estimated revenues for the ensuing fiscal year must be sufficient to meet all outstanding fund encumbrances.

D. MINIMUM RESERVE REQUIREMENTS

In the event funds are not available initially to establish the minimum required balances, the target shall be achieved by adding a designated amount to cover the deficiency over a period not to exceed five (5) fiscal years. This timeframe may be modified by the Board of Supervisors of East Norriton Township by resolution in response to economic conditions or other circumstances.

E. UTILIZATION OF RESERVES

Appropriation from the fund balance reserve shall require the approval of the Board of Supervisors of East Norriton Township and shall be only for one-time expenditures (e.g. capital purchases), to provide funding for unforeseen expenses related to emergencies or natural disasters, or to offset revenue shortfalls.

F. REPLENISHMENT OF MINIMUM RESERVE LEVELS

If it is anticipated at the completion of any fiscal year that the projected fund balance, will be less than the minimum requirement, then the Township Manager and Finance Director shall prepare and submit in conjunction with the proposed budget a plan for the expenditure or expense reductions and/or revenue increases necessary to restore the minimum requirements in the subsequent budget year or other appropriate period in accordance with section E of this resolution.

G. UTILIZATION OF SURPLUS RESERVES

In the event that the fund balance reserve exceeds the goal of 15% of operating revenues, the excess may be utilized for any lawful purpose approved by East Norriton Township. It is recommended that the first priority be given to fund one time expenditures or expenses which do not result in recurring operating costs, or other one-time costs.

H. ANNUAL REVIEW

Compliance with the provisions of this policy shall be reviewed as part of the annual budget adoption process.



BEST PRACTICE

Appropriate Level of Unrestricted Fund Balance in the General Fund (2002 and 2009) (BUDGET and CAAFR)

Background. Accountants employ the term *fund balance* to describe the net assets of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net assets of governmental funds calculated on a government's budgetary basis.¹ In both cases, fund balance is intended to serve as a measure of the financial resources available in a governmental fund.

Accountants distinguish up to five separate categories of fund balance, based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts can be spent: *nonspendable fund balance*, *restricted fund balance*, *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*.² The total of the last three categories, which include only resources without a constraint on spending or for which the constraint on spending is imposed by the government itself, is termed *unrestricted fund balance*.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning.

In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance (i.e., the total of the amounts reported as committed, assigned, and unassigned fund balance) in the general fund.

Credit rating agencies monitor levels of fund balance and unrestricted fund balance in a government's general fund to evaluate a government's continued creditworthiness. Likewise, laws and regulations often govern appropriate levels of fund balance and unrestricted fund balance for state and local governments.

Those interested primarily in a government's creditworthiness or economic condition (e.g., rating agencies) are likely to favor increased levels of fund balance. Opposing pressures often come from unions, taxpayers and citizens' groups, which may view high levels of fund balance as "excessive."

Recommendation. The Government Finance Officers Association (GFOA) recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund.³ Such a guideline should be set by the appropriate policy body and should provide both a temporal framework and

¹ For the sake of clarity, this recommended practice uses the terms GAAP fund balance and budgetary fund balance to distinguish these two different uses of the same term.

² These categories are set forth in Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which must be implemented for financial statements for periods ended June 30, 2011 and later.

³ Sometimes restricted fund balance includes resources available to finance items that typically would require the use of unrestricted fund balance (e.g., a contingency reserve). In that case, such amounts should be included as part of unrestricted fund balance for purposes of analysis.

specific plans for increasing or decreasing the level of unrestricted fund balance, if it is inconsistent with that policy.⁴

The adequacy of unrestricted fund balance in the general fund should be assessed based upon a government's own specific circumstances. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.⁵ The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances.⁶ Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time.

In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

- The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
- Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
- The potential drain upon general fund resources from other funds as well as the availability of resources in other funds (i.e., deficits in other funds may require that a higher level of unrestricted fund balance be maintained in the general fund, just as, the availability of resources in other funds may reduce the amount of unrestricted fund balance needed in the general fund);⁷
- Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained); and
- Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose).

Furthermore, governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance rather than on unrestricted fund balance.

Naturally, any policy addressing desirable levels of unrestricted fund balance in the general fund should be in conformity with all applicable legal and regulatory constraints. In this case in particular, it is essential that differences between GAAP fund balance and budgetary fund balance be fully appreciated by all interested parties.

Approved by the GFOA's Executive Board, October, 2009.

⁴ See Recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting governments on the need to "maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures" (Recommended Practice 4.1).

⁵ In practice, a level of unrestricted fund balance significantly lower than the recommended minimum may be appropriate for states and America's largest governments (e.g., cities, counties, and school districts) because they often are in a better position to predict contingencies (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty), and because their revenues and expenditures often are more diversified and thus potentially less subject to volatility.

⁶ In either case, unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the decision has been made to compare unrestricted fund balance to either revenues or expenditures, that decision should be followed consistently from period to period.

⁷ However, except as discussed in footnote 4, not to a level below the recommended minimum.