



# Newtown Township Policy

## Title: Fund Balance Policy

<b>Policy: 2015-10</b>	<b>Replaces: New Policy</b>	<b>Issue Date: 12/15/15</b>
<b>Section: Fiscal</b>	<b>Distribution: Board of Supervisors/Township Employees</b>	<b>Effective Date: 12/15/15</b>
<b>Chapter:</b>	<b>Issued By: Rich Lafiata</b>	<b>Review Date: 12/15/16</b>

### Purpose:

The Board recognizes that the maintenance of a fund balance is essential to the preservation of the financial integrity of the Township and is fiscally advantageous for both the Township and the taxpayer. This policy establishes goals and provides guidance concerning the desired level of fund balance maintained by the Township to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances.

### Definitions:

Fund balance is a measurement of available financial resources and is the difference between total assets and total liabilities in each fund.

GASB Statement 54 distinguishes fund balance classified based on the relative strength of the constraints that control the purposes for which specified amounts can be spent. Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

- 1) **Nonspendable fund balance** – amounts that are not in a spendable form (e.g., inventory) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).
- 2) **Restricted fund balance** – amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation (e.g., grants, donations, bond proceeds).

- 3) **Committed fund balance** – amounts that can be used only for the specific purposes determined by a formal action of the Board of Supervisors. Commitments may be changed or lifted only by referring to the formal action that imposed the constraint originally (e.g., the board's commitment in connection with future construction projects).
- 4) **Assigned fund balance** – amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the Board of Supervisors or by a designee (example: Township Manager) to whom the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- 5) **Unassigned fund balance** – includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

#### **Policy:**

##### ***General Fund:***

It is the goal of the Township to achieve and maintain an unassigned fund balance in the general fund at fiscal year end of not less than 25 % of the next years operating budget. If the unassigned fund balance at fiscal year end falls below the goal, the Township shall develop a restoration plan to achieve and maintain the minimum fund balance.

##### ***SR2 & SR3:***

It is the goal of the Township to achieve and maintain an unassigned fund balance in the SR2 & SR3 funds at fiscal year end of not less than 25 % of the next years operating budget. If the unassigned fund balance at fiscal year end falls below the goal, the Township shall develop a restoration plan to achieve and maintain the minimum fund balance.

##### ***Capital Fund:***

It is the goal of the Township to achieve and maintain an unassigned fund balance in the Capital fund at fiscal year end of not less than \$1,000,000 for unexpected emergencies. If the unassigned fund balance at fiscal year end falls below the goal, the Township shall develop a restoration plan to achieve and maintain the minimum fund balance.

##### ***Other Funds:***

All other Township funds are restricted accounts and as such do not maintain a minimum fund balance.

#### ***Order of Expenditure of Funds***

When multiple categories of fund balance are available for expenditure (e.g., a project is being funded partly by a grant, funds set aside by the Board, and unassigned fund balance), the Township will start with the most restricted

category and spend those funds first before moving down to the next category with available funds.

**Procedures:**

Upon the adoption of the next year's budget, it is the Finance Managers duties to set in place the dollar amounts that are in agreement with this policy. If the any of the Townships fund balances drop below the minimum requirements set by this policy, a plan of action must be developed by the Finance Manager/Township Manager and presented to the Townships Finance Committee and Board of Supervisors for approval within 60 days.

**Responsibilities:**

The responsibility for designating funds to specific classifications shall be as follows:

**Committed Fund Balance** – The Board of Supervisors is the Townships highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board.

**Assigned Fund Balance** – The Board of Supervisors has authorized the Township Manager and the Finance Manager as officials authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

