

BOARD OF SUPERVISORS
TREDYFFRIN TOWNSHIP

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CHESTER COUNTY
1100 DuPortail Road
Berwyn, PA 19312-1079

(610) 644-1400 FAX (610) 993-9186
Email: tredyffrin@tredyffrin.org
Website: www.tredyffrin.org

Township Manager
William F. Martin

Township Solicitor
Lamb McErlane PC

Fund Balance Policy in Accordance with GASB Statement No. 54

PURPOSE OF FUND BALANCE

The Board of Supervisors of Tredyffrin Township believes in sound fiscal management and understands that maintaining sufficient reserves is advantageous for the residents of Tredyffrin Township. The purpose of creating the following policy is due to consideration of unanticipated events that could adversely affect the financial condition of the Township and jeopardize the continuation of necessary public services. This policy seeks to ensure that the Township maintains adequate fund balance and reserves in order to:

- A) Provide sufficient cash flow for daily financial needs,
- B) Maintain a Aaa bond rating,
- C) Offset significant economic downturns or revenue shortfalls, and
- D) Provide funds for unforeseen expenditures related to emergencies.

This policy and the procedures promulgated under it supersede all previous regulations regarding the Township's fund balance and reserve policies.

FUND TYPE DEFINITIONS

The following definitions will be used in reporting various governmental funds that the Township maintains. The Township may or may not report all fund types in any given reporting period based on actual activity.

1. **General Fund:** The General Fund is used to account for all financial resources not accounted for and reported in another fund. This is the main operating fund of the Township.
2. **Special Revenue Funds:** These funds are used to account and report the proceeds of specific revenue sources that are *restricted* or *committed* to expenditures for specific purposes other than debt service or capital projects.
3. **Debt Service Funds:** These funds are used to account for all financial resources *restricted*, *committed* or *assigned* to expenditures for principal and interest.
4. **Capital Projects Funds:** These funds are used to account for all financial resources *restricted*, *committed*, or *assigned* to expenditures for capital assets and capital projects.
5. **Permanent Funds:** These funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the Township's purposes.

FUND BALANCE DEFINITIONS

The following definitions will be used in reporting various governmental funds that the Township maintains. The Township may or may not report all fund types in any given reporting period based on actual activity.

1. **Nonspendable:** amounts that cannot be spent because they are in Nonspendable form (e.g., inventory) or legally or contractually required to be maintained intact (e.g., principal of a permanent fund)
2. **Restricted:** amounts limited by external parties or legislation (e.g., grants or donations and constraints imposed through a debt covenant)
3. **Committed:** amounts that can be used only for specific purposes determined by formal action of the Board of Supervisors. The Board is the highest level of decision-making authority for Tredyffrin Township. Commitments may be established, modified, or rescinded only through resolutions approved by the Board.
4. **Assigned:** amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Board has designated the Township Manager the authority to assign amounts for specific purposes.
5. **Unassigned:** amounts available for consumption or not restricted in any manner.

PRIORITIZATION OF FUND BALANCE USE

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first and then use unrestricted resources as they are needed. When an expenditure is incurred for purposes for which committed, assigned and unassigned resources are available for use, it is the Township's policy to use committed amounts first, followed by assigned resources and then unassigned resources as they are needed.

FUND BALANCE POLICY

The Township shall maintain a minimum year-end General Fund (GF) unassigned fund balance no less than 25 percent of that year's total GF operating expenditures. This minimum level of reserve will allow the Township to realize a certain level of investment earnings and provide a minimum GF reserve for emergencies and contingencies. Further, it is the goal of the Township to maintain a year-end GF unassigned fund balance within a minimum of 30 percent and a maximum of 35 percent of that year's total GF operating expenditures.

Fund Balance Planning: Each fiscal year during the budget building process, the GF fund balance reserve will be evaluated by the Township's Finance Committee to determine if adequate levels of reserves are being maintained, based on the Township's financial strength and economic conditions. The Township will retain flexibility to allocate available funds based on the current circumstances and needs of the Township.

Fund Balance less than 25 Percent: For any temporary, planned reduction of the year-end GF unassigned fund balance below 25 percent shall require a majority approval vote of the members of the Board of Supervisors. If the year-end GF unassigned fund balance has fallen or is expected to fall below 25 percent, the Board of Supervisors shall adopt a plan to provide for a scheduled replenishment back to a minimum of 25 percent by the end of the next fiscal year. In the absence of such a Board plan, the Township Manager shall implement expenditure reduction measures to accomplish such replenishment.

Fund Balance less than 30 Percent: If the year-end GF unassigned fund balance has fallen or is expected to fall below the minimum goal of 30 percent as outlined in this policy, the Township Manager will present a plan for

consideration by the Board of Supervisors to implement actions that would restore the fund balance to at least the minimum of 30 percent goal.

Fund Balance in excess of 35 Percent: If the year-end GF unassigned fund balance has exceeded or is expected to exceed the maximum goal of 35 percent as outlined in this policy, the Township Manager will present a plan for consideration by the Board of Supervisors to implement actions that would reduce the fund balance within the goal range of 30 to 35 percent. Only under the following circumstances may the fund balance be budgeted to be in excess 35 percent:

- 1) In anticipation of a large capital or other unique operating expense being realized within the next two budget cycles;
- 2) Anticipation of increased funding for the Township's Other Post-Employment Benefit (OPEB) Trust; or
- 3) With a majority approval vote of the members of the Board of Supervisors.

IMPLEMENTATION AND REVIEW

In an effort to remain fiscally responsible the Board of Supervisors is choosing to adopt this policy and authorize the Township Manager to establish standards and procedures which may be necessary for full implementation. As of 1/1/14 the Board of Supervisors understands that the General Fund Unassigned Fund Balance is in excess of our goal range. In order to remain fiscally responsible a plan will be implemented which will allow for the use of funds to achieve our goal range over a period of time not to be specified.

To assure that the Township remains fiscally responsible while working towards the policy's goal, only by a majority vote may the Board of Supervisors use reserves in excess of 5% of that year's budgeted expenditures.

The Township Manager shall review this policy at least once every three years and make any recommendations for changes to the Board of Supervisors.