



Effective Date: 09/11/2023

## **FUND BALANCE POLICY**

### **I. Objectives**

The intent of this policy is to ensure that Board of Supervisors of North Whitehall Township (hereinafter, the “Township” or “NWT”) has endorsed a policy with respect to its Fund Balances that contemplates the following desired effects:

1. That NWT at all times is eligible for and/or maintains an investment grade bond rating, with “very strong capacity to meet financial commitments,”<sup>1</sup>
2. That NWT can meet its cash flow needs during low points in the operating cycle without the aid of lines of credit, or availing itself of rainy day funds;
3. That NWT does not experience any of the following indicia of financial distress according to Pennsylvania Law in the Act of July 10, 1987, P.L. 246, No. 47, 53 P.S. § 11701.201 (“Act 47”):
  - a. Experiencing sequential, and/or substantial, budget deficit years;
  - b. Missing debt service payment[s], or required payment[s] to judgment creditor[s];
  - c. Failing to make payroll, remit payroll taxes; or,
  - d. Failing to meet its minimum municipal obligation towards its retirement fund.
4. That NWT has sufficient reserves to meet unexpected obligations for which there is no budget;
5. That this policy will serve as a bedrock for future Boards to make durable investments of Township capital; provided that this policy does not bind future boards of supervisors, nor prevent them from amending it.

Furthermore, it is also the intent of this policy to establish desired Fund Balance levels in each fund, and to recommend remedial action if available assets falls below desired levels.

### **II. Definitions**

- A. **Code**: The Pennsylvania Second Class Township Code, *as amended*, 53 P.S. § 65101, *et seq.*
- B. **Custodial Funds**: money the Township holds as an agent for another organization on a temporary basis, such as escrow accounts.
- C. **Fund Balance(s)**: the difference between assets and liabilities in a fund.

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<sup>1</sup> See <https://www.spglobal.com/ratings/en/about/intro-to-credit-ratings>, Ratings Scale: Definition of AA.



**D. Fund Balance Classifications—as defined by the Government Accounting Standards Board (“GASB”):**

1. **Non-spendable Fund Balance:** assets of NWT that are not expected to be converted to cash, such as operating inventories, inventories of gas or diesel fuel, parks, and the Township Building.
2. **Restricted Fund Balance:** assets whose use is restricted by third parties, such as the proceeds of notes or bond issuances, State Liquid Fuels funds, recreation fees, traffic impact fees, and Federal and State grants. As used herein, the terms “Restricted” and “Restricted Funds” shall be synonymous with the term Restricted Fund Balance.
3. **Committed Fund Balance:** funds that are committed by resolution or ordinance of the Board of Supervisors, but, which may also be re-committed to a different purpose by resolution or ordinance at the Board’s discretion. Examples of Committed Fund Balance include the farmland preservation funds, Emergency Services Fund and the Street Light Fund.<sup>2</sup> As used herein, the terms “Committed” or “Committed Funds” shall be synonymous with the term Committed Fund Balance.
4. **Assigned Fund Balance:** funds that are budgeted for use in the current or subsequent budget, or in any five year plan, that are neither Restricted nor Committed. The Unrestricted and Uncommitted Fund Balances of all special revenue funds, enterprise funds, the capital fund, and funds other than the General Fund are considered to be assigned by GASB. As used herein, the terms “Assigned” or “Assigned Funds” shall be synonymous with the term Assigned Fund Balance.
5. **Unassigned Fund Balance:** residual funds of the General Fund available for investment or other purposes not yet Restricted, Committed, or Assigned. As used herein, the terms “Unassigned” or “Unassigned Funds” shall be synonymous with the term Unassigned Fund Balance.

**E. Operating Cycle:** the Township’s fiscal year, which is the calendar year.

**F. Unrestricted Fund Balance:** When used in this policy, the term “Unrestricted Fund Balance” shall mean the Fund Balance is also uncommitted, Unassigned, excludes Custodial Funds, and is synonymous with terms such as operating reserves. As used herein, the terms “Unrestricted” or “Unrestricted Funds” shall be synonymous with the term Unrestricted Fund Balance.

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<sup>2</sup> See §2003(a) of the Code



### **III. Authority**

The Government Accounting Standards Board (“GASB”) Statement No. 54 strongly recommends that government units identify “non-spendable” amounts within each fund, as well as “restricted,” “committed,” “assigned,” and “unassigned” amounts.

The Government Finance Officers Association (“GFOA”) recommends that

“[G]overnments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes. Such a guideline should be set by the appropriate policy body and articulate a framework and process for how the government would increase or decrease the level of unrestricted fund balance over a specific time period. In particular, governments should provide broad guidance in the policy for how resources will be directed to replenish fund balance should the balance fall below the level prescribed.”

Furthermore, Section 1506 of the Code grants the Township the general authority to “make and adopt any...rules and regulations...necessary for the proper management, care and control of the township *and its finances*” (emphasis added).

Elsewhere in the Code,<sup>3</sup> the Township is granted the authority to establish both a Capital Reserve Fund, and an Operating Reserve Fund. Given that the Board has seen fit to establish both a Capital Reserve Fund and an Operating Reserve Fund,<sup>4</sup> it is well within its authority to promulgate policies governing the disposition of its Fund Balances, in observance of GASB/GFOA recommendations.

### **IV. Fund Balance Policy**

#### **A. General Fund Balance**

1. Any portion of the General Fund Balance that is Restricted shall have a higher priority for payment than Assigned or Unassigned Fund Balances.
2. NWT will maintain an Unrestricted General Fund Balance averaging no less than 60% of the annual amount Assigned for General Fund expenditures, including transfers to other funds, but not including Restricted Funds, nor Custodial Funds.<sup>5</sup> For example:

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<sup>3</sup> See §1508(a), and §1508.1(a)

<sup>4</sup> See Resolution 03-06-23(B), creating a pooled investment account of excess funds in the Township treasury.

<sup>5</sup> For posterity, this footnote addresses the commonly espoused proposition that the General Fund Reserve should be no less than 2 – 3 months and no greater than 6 months expenditures, or 25% - 33% of either annual revenues or expenditures. NWT believes it is not more important in principle to pledge a percentage or an average of the budget to reserves than it is to pledge an actual cash value sufficient to hedge against unbudgeted crises.

For example, at the time of writing this policy, the Nation and the World recently experienced a pandemic leading to substantial instability in local tax revenues, which were then floated by the State and Local Fiscal Recovery Fund, a



- a. Hypothetically, the General Fund has Assigned a total of \$7,000,000 for general expenses for Budget Year “X”, which includes transfers to the Capital Fund;
  - b. \$500,000 of that amount is Restricted for debt service, and \$100,000 is Restricted for a grant match to the State;
  - c. The Township should commit no less than \$3,840,000 to operating reserves, which is \$6,400,000 times 60% (**See Figure 1.1**).
  - d. Unrestricted Funds that are Custodial Funds do not apply to this amount.
  - e. “Averaging 60%” means that by June 30 of Budget Year X the sum of the Unassigned Fund Balance in each month of the operating cycle, divided by 6, equals at least 60% of the total General Fund budget, less Restricted amounts (**See Figure 1.2**).
3. If such mid-year calculation indicates that the unassigned Fund Balance does not meet the 60% requirement, the Township Manager shall propose a budget including either revenue increases, expenditure cuts, or a mixture of both, in the subsequent proposed budget—Budget Year Y—which proposed measures shall restore the average Unassigned Fund Balance to the required level in Budget Year Y.
  4. The Unrestricted Fund Balance may be employed temporarily below the minimum threshold set in this section in case of a material threat to public safety of the citizens of NWT, but shall be restored within the following budget year in a manner consistent with subsection 3 above.
  5. If the Unrestricted Fund Balance exceeds the minimum threshold set in this section, the Township may assign the excess to the funds for capital projects and acquisitions in accordance with Section 3202 of the Code.

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creature of the the American Rescue Plan of 2021 (See 42 U.S.C. §803 *et seq.*), and, subsequently, inflation of over 9%, hitting construction materials, equipment parts, and supply chains the hardest. If we were to experience similar economic conditions in the future, a reserve of only \$1,000,000 - \$2,000,000 could be swiftly flooded over by surging capital and material costs, perhaps without such assistance from the Federal Government. Furthermore, while 42 Pa. C.S. §8553 (the “Political Subdivision Tort Claims Act”) limits the tort judgment amount against a municipality to \$500,000 for uninsured damages, such an award would impose a heavy toll on the Township’s cash reserves, should such reserves be limited to between \$1,000,000 - \$2,000,000. By exceeding recommendations, NWT seeks to avoid a shock to local taxpayers, should unfavorable market conditions and unforeseen liabilities emerge from the fog of futurity.

See also <https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund> (“The adequacy of unrestricted fund balance in the general fund should take into account each government’s own unique circumstances...[a]rticulating...risks in a fund balance policy makes it easier to explain to stakeholders the rationale for a seemingly higher than normal level of fund balance that protects taxpayers...from unexpected changes in financial condition.”)



## **B. Proprietary Fund Net Position**

1. To date, NWT's only enterprise fund is the Sewer Fund; proprietary funds use the term "net position," rather than Fund Balance.
2. The fund's margins are insufficient to obtain revenue bonds.
3. The net position may at times be Assigned to address remedial repairs against future emergencies.
4. In order to address urgent maintenance or improvements to the system, the fund should maintain at least 75% of total annual revenues as an Unrestricted net position.

## **C. Special Revenues Fund Balances**

1. The Street Light Fund must maintain a minimum reserve of any three months of average payments in the prior budget year to the company that supplies the power to the Street Light Districts within the Township.
2. The Farmland Preservation, State Liquid Fuels, Recreation and Traffic Impact funds may be exhausted annually in furtherance of their public purpose at the discretion of NWT.
3. The Emergency Services Fund must maintain the equivalent of an average of two quarters of the prior year's Local Services Tax as reserves in order to address emergent capital needs.

## **D. Capital Projects & Acquisitions Fund Balances**

1. The Capital Fund and the Equipment Fund preserve the Township's ability to finance capital improvement projects, and capital acquisitions.
2. These funds predominately rely on the General Fund, other Township funds, and grants for wherewithal.
3. Footnote 3 of this memo points out that the Board is empowered to create both capital and operating reserve accounts at its discretion.
4. Given the higher than average Unassigned Fund Balance required by Section IV(A)(2) of this policy, the Township may, on a year to year basis, continue at its discretion to maintain a level of capital reserves it deems necessary to meet its five year plan.

## **E. Fiduciary Funds**

1. Monies held in Custodial Funds include escrows the Township holds as security for its costs relating to property development projects.



2. To the extent that these Custodial Funds contribute to the Fund Balance of the General Fund or any other fund, such balances shall be deducted from the calculation of appropriate Fund Balance levels. (See Figure 1.1).

#### F. Compliance

The Board may at any time, whether on a monthly, quarterly, or annual basis, require the Township Manager and/or Director of Finance to report on the state of the Fund Balances consistent with this policy.

#### Examples:

**Figure 1.1: Calculating General Fund Balance Requirement: January 1**

Figure 1.1	Reserve Calculation
Budget Year	202_X
Total Expenses	\$ 7,000,000
Less Debt Service	\$ (500,000)
Less Grant Match	\$ (100,000)
Basis for Calculation	\$ 6,400,000
% of Exp. Required	60%
Unrestricted Cash Required	\$ 3,840,000
Total General Fund Cash	\$ 4,200,000
Custodial Funds (Escrow)	\$ (500,000)
Actual Unrestricted Cash	\$ 3,700,000
Amount Below/Above Required	\$ (140,000)

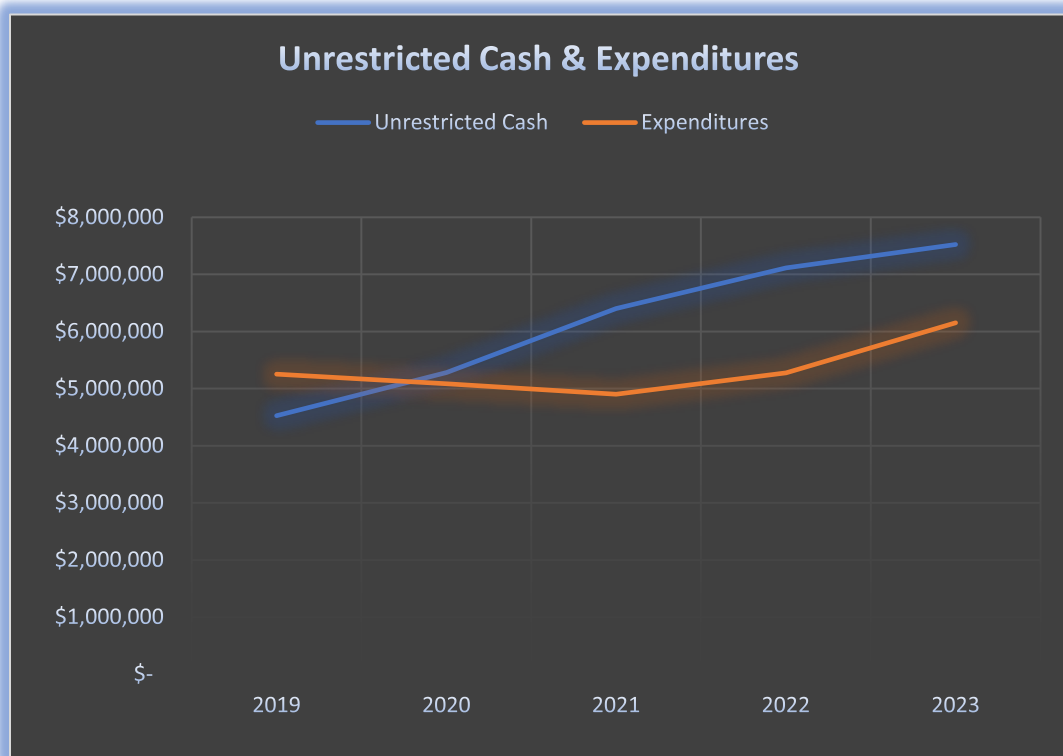
**Figure 1.2: Calculating Mid-Year General Fund Balance Requirement: June 30**

Figure 1.2	January	February	March	April	May	June
Total General Fund Cash	\$ 3,000,000	\$ 3,250,000	\$ 4,000,000	\$ 5,000,000	\$ 6,000,000	\$ 5,500,000
Less Escrows	\$ (500,000)	\$ (475,000)	\$ (500,000)	\$ (495,000)	\$ (600,000)	\$ (500,000)
Unrestricted Cash	\$ 2,500,000	\$ 2,775,000	\$ 3,500,000	\$ 4,505,000	\$ 5,400,000	\$ 5,000,000
Average Unrestricted	\$ 3,946,667					
Reserve Required	\$ 3,840,000	No Remedial Action Required				



**Exhibit A**  
**Graphs**

**Figure 1.3:** Demonstrates the Historical Trend of When to What Extent General Fund Unrestricted Cash Reserves Began to Exceed Annual Expenditures





**Figure 1.4:** Demonstrates the Required Amount of General Unrestricted Cash Reserves for 2019 - 2023, and the Actual General Cash Reserves

