

**RADNOR TOWNSHIP, PA
ORDINANCE NO. 2014-05**

**AN ORDINANCE OF RADNOR TOWNSHIP, DELAWARE
COUNTY, PENNSYLVANIA, AMENDING CHAPTER §44-10
FUND BALANCE POLICY AND CHAPTER §44-11
NONRECURRING REVENUE POLICY ESTABLISHING A
FUND BALANCE POLICY AND A POLICY TO GOVERN NON-
RECURRING REVENUES**

WHEREAS The Township initially adopted a fund balance and nonrecurring revenue policy with Ordinance 2008-5; and

WHEREAS The Township amended its fund balance policy with the adoption of Resolution 2011-152 to make the Township's fund balance policy to be consistent with the Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions; and

WHEREAS The Board of Commissioners asked the Citizens Audit Review & Financial Advisory Committee (CARFAC) to review the nonrecurring revenue and provide updates as deemed necessary; and

WHEREAS CARFAC has reviewed the fund balance policy and nonrecurring revenue policy together to ensure that the relationship between the two policies continue to work together to achieve a better financial result for the Township; and

WHEREAS The Board of Commissioners wishes to amend the Township's Administrative Code Chapter 44-10 and 44-11 to incorporate the recommendations from the Administration and CARFAC contained herein.

NOW, THEREFORE, be it hereby **ENACTED** and **ORDAINED** as follows:

§44-10 FUND BALANCE

SECTION 1: TITLE: This Ordinance shall be known as the Radnor Township Governmental Accounting Standards Board Statement No. 54 Fund Balance Policy.

SECTION 2: DEFINITIONS: The following words and phrases when used in this Chapter shall have the meanings given to them in this section unless the context clearly indicates otherwise:

- A. Fund Balance - As defined by the Governmental Accounting, Auditing and Financial Reporting of the Government Finance Officers Association (GFOA), "fund balance is the difference between assets and liabilities reported in a governmental fund."
- B. Non-Spendable Fund Balance - Amounts that are (a) not in spendable form or (b) legally or contractually required to be maintained intact. "Not in spendable form" includes items that are not expected to be converted to cash (such as inventories and prepaid amounts) and items such as long-term amount of loans and notes receivable, as well as property acquired for resale. The corpus (or principal) of a permanent fund

is an example of an amount that is legally or contractually required to be maintained intact.

- C. Restricted Fund Balance - Amounts that can be spent only for specific purposes stipulated by (a) external resource providers such as creditors (by debt covenants) grantors contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- D. Committed Fund Balance - Amounts that can be used only for the specific purposes determined by a formal action (ordinance or resolution) of the Radnor Township Commissioners (the level of decision-making authority in the Township). Commitments may be changed or lifted only by the Radnor Township taking the same formal action (ordinance or resolution) that imposed the constraint originally. Resources accumulated pursuant to stabilization arrangements sometimes are reported in this category.
- E. Assigned Fund Balance - Includes spendable fund balance amounts established by management of the Township that are intended to be used for specific purposes that are neither considered restricted or committed.
- F. Unassigned Fund Balance - Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.
- G. Unrestricted Fund Balance - The total of committed fund balance, assigned fund balance and unassigned fund balance.
- H. Reservations of Fund Balance - Reserves established by the Township Commissioners (committed fund balance) or Township management (assigned fund balance).

SECTION 3: PURPOSE:

- A. The Township hereby establishes and will maintain Fund Balance, as defined herein, in accordance with Governmental Accounting and Financial Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. Fund Balance shall be composed of non-spendable, restricted, committed, assigned and unassigned amounts.
- B. A Fund Balance Policy is adopted in order to secure and maintain investment-grade credit ratings, meet seasonal shortfalls in cash flow, and reduce susceptibility to emergency or unanticipated expenditures and/or revenue shortfalls. Fund balance information is used to identify the available resources to repay long-term debt, reduce property taxes, add new governmental programs, expand existing ones, or enhance the financial position of the Township, in accordance with policies established by the Township Commissioners.

C. This Fund Balance Policy establishes:

1. Fund balance policy for the General Fund;
2. Reservations of fund balance for the General Fund
3. The method of budgeting the amount of estimated unrestricted fund balance available for appropriation during the annual budget adoption process (prior to the actual, audited fund balance being known) and what actions may need to be taken if the actual fund balance is significantly different than the budgetary fund balance; and
4. Establish the spending order of operating revenues and fund balances.

SECTION 4: FUND BALANCE POLICY (GENERAL FUND)

- A. Restricted Fund Balance - There is no restricted fund balance in the General Fund or amounts that can be spent only for specific purposes stipulated by (a) external resource providers such as creditors (by debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation will be budgeted and reported in special revenue funds, capital project -funds or debt service funds.
- B. Committed Fund Balance -
1. Commitment of fund balance may be made for such purposes including, but not limited to: (a) major maintenance and repair projects; (b) meeting future obligations resulting from a natural disaster; (c) accumulating resources pursuant to stabilization arrangements; (d) establishing reserves for disasters; and/or (e) for setting aside amounts for specific projects.
 2. Commitment of fund balance may be made from time to time by ordinance or resolution of the Township Commissioners. Commitments may be changed or lifted only by the Township Commissioners taking the same formal action that imposed the constraint originally (ordinance or resolution). The use (appropriation) of committed fund balances will be considered in conjunction with the annual budget adoption process or by budget amendment approved by ordinance or resolution of the Township Commissioners during the fiscal year.
- C. Assigned Fund Balance -
1. Assignment of fund balance may be: (a) Made for a specific purpose that is narrower than the general purposes of the government itself, and/or (b) used to reflect the appropriation of a portion of existing unassigned fund balance to eliminate a projected deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues.

2. Assigned fund balance shall reflect management's intended use of resources as set forth in the annual budget (and any amendments thereto) - Assigned fund balance may or may not be appropriated for expenditure in the subsequent year depending on the timing of the project/reserve for which it was assigned.
- D. Non-Spendable Fund Balance - Non-spendable fund balance is established to report items that are not expected to be converted to cash such as inventory and prepaid items; items not currently in cash form such as the long-term amount of loans and notes receivable as well as property acquired for resale; and, items legally or contractually required to be maintained intact such as the corpus (or principal) of a permanent fund.
- E. Minimum Level of Unassigned Fund Balance -
1. Unassigned fund balance is the residual classification for the General Fund and represents fund balance that has not been restricted, committed or assigned to specific purposes within the General Fund.
 2. If, after the annual audit, prior committed or assigned fund balance causes the unassigned fund balance to fall below 12% of General Fund budgeted operating expenditures, the Finance Director will so advise Township Commissioners in order for the necessary action to be taken to restore the unassigned fund balance to 15% of General Fund budgeted operating expenditures.
 3. The Township Manager will prepare and submit a plan for committed and/or assigned fund balance reduction, expenditure reductions and/or revenue increases to the Township Commissioners. The Township shall take action necessary to restore the unassigned fund balance to acceptable levels within two years.

SECTION 5: RESERVATIONS OF FUND BALANCE (GENERAL FUND)

- A. Committed Fund Balance - The Radnor Township hereby establishes the following committed fund balance reserves in the General Fund:
1. Financial Stabilization - The Financial Stabilization Fund Balance is committed by the Radnor Township at two months of the average regular monthly budgeted operating expenditures as recommended by the GFOA who sets forth, at a minimum, that General Purpose Governments, regardless of size maintain no less than one or two months of regular General Fund budgeted operating expenditures. The calculation of the average regular monthly budgeted operating expenditures will be the full year budgeted operating expenditures divided by twelve, and the Financial Stabilization Fund Balance will be twice the amount calculated.

To the extent that Act 511 revenues grow to exceed 30% of the total General Fund Revenues in any given year, the Township will commit up to an additional 10% of General Fund expenditures over the target fund balance required in Section 4(E)(2). The purpose for the additional 10% is to further mitigate against

sudden, unexpected and large decreases in the Act 511 revenues, which have shown to be sensitive to economic shifts. Please see §44-11 Nonrecurring Revenues for additional guidance on the potential source of funds for the additional 10% required by this section of the fund balance policy.

It will be the responsibility of Township's Finance Director to report the current Committed Fund Balances in the Township's annual audited financial statements.

B. Assigned Fund Balance - The RADNOR Township Commissioners hereby establishes the following assigned fund balance reserves in the General Fund:

1. Assignment to Subsequent Year's Budget - The subsequent year's budgetary fund balance reserve is assigned by Township management as set forth in the annual budget (and any amendments thereto) to appropriate a portion of existing unassigned fund balance to eliminate a projected deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues.
2. Assignment to Encumbrances - The Radnor Township Home Rule Charter provides for capital expenditure appropriations to continue in force until the purpose for which it was made has been accomplished or abandoned, within a two year period from inception.

It will be the responsibility of Township Finance Director to report the current Assigned Fund Balances in the Township's annual audited financial statements.

SECTION 6: BUDGETING

- A. Appropriation of Unrestricted Fund Balance - The actual amount of unrestricted fund balance (total of committed fund balance, assigned fund balance and unassigned fund balance) is not known until the completion of the annual audit which takes place approximately four months after the end of the fiscal year being audited. However, an estimate of unrestricted fund balance must be made during the annual budget adoption process (generally, September through December) which is prior to the end of the fiscal year, December 31.
- B. Estimated Beginning Fund Balance - In order to achieve the most accurate estimate possible, the Township Manager or designee shall project both Sources of Funds (revenues, prior years unrestricted fund balances carried forward and other financing sources) and Uses of Funds (operating and non-operating expenditures), including accruals, for each department in each governmental fund through December 31st of the then current fiscal year. These projections will be shown in a separate column for each fund in the proposed and final budget documents. The difference between the estimated actual sources of funds and estimated actual uses of funds is the calculated estimated beginning fund balance for the subsequent fiscal year. If planned for use in the subsequent fiscal year, committed and assigned fund balance may be included in the estimated beginning fund balance.

C. Estimated Ending Fund Balance –

1. For the year being budgeted, a calculation of estimated ending fund balance shall also be made. This calculation shall be the difference between the budgeted sources of funds and the budgeted uses of funds as described above.
2. Since the uses of funds are restricted, committed or assigned in all other governmental fund types there is no policy to the amount of ending fund balance unless the project is completed and the fund should be closed. In this situation, a residual equity transfer will be made to zero-out any remaining fund balance.
3. If, after the annual audit, the actual General Fund unassigned fund balance is greater than 18 percent of budgeted operating expenditures in the General Fund, the excess may be used in one or a combination of the following ways:
 - a) Left in the General Fund to earn interest and roll forward into the subsequent year's beginning fund balance;
 - b) Appropriated by ordinance or resolution of the Township Commissioners for a one-time expenditure or opportunity that does not increase recurring operating costs;
 - c) Committed to increase a formal stabilization arrangement or reserve (including but not limited to economic stabilization, contingency reserves or disaster reserves); or
 - d) Appropriated for start-up expenditures of new programs undertaken at mid-year, provided that such action is considered in the context of Commissioners-approved multi-year projections of revenues and expenditures.

SECTION 7: SPENDING ORDER OF OPERATING REVENUES AND FUND BALANCES: The Township will first use Federal, then State, and lastly Township revenues to meet its financial obligations. The Township uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the Township would first use committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

SECTION 8: ANNUAL REVIEW AND DETERMINATION OF FUND BALANCE POLICY: Compliance with the provisions of this policy shall be reviewed as a part of the annual budget adoption process, and the amounts of restricted, committed, assigned, non-spendable and the minimum level of unassigned fund balance shall be determined during this process.

SECTION 9: ADDITIONAL INFORMATION, REQUIREMENTS AND RESPONSIBILITIES: It will be the responsibility of the Township Finance Director to keep this policy current.

CHAPTER 44-11 NONRECURRING REVENUES

- A. It is the policy of Radnor Township that one-time or limited-term financial resources shall not be used for current or future ongoing operating expenses.
- B. Definition: For purposes of this Chapter, "Nonrecurring Revenues" shall consist of, but not limited to, proceeds from asset sales, debt refinancing, one-time grants, legal settlements, large unbudgeted/ unplanned revenues, and similar nonrecurring resources
- C. Appropriate uses of nonrecurring revenues shall include:
 - (1) Maintaining the targeted fund balances in the General Fund;
 - (2) Building the additional 10% General Fund budget stabilization set forth in §Chapter 44-10 Fund Balance, Section 5(A)(1);
 - (3) The early retirement of debt or funding of other long-term liabilities of the Township (examples include the funding of any underfunded pension obligations and/or underfunded OPEB obligations);
 - (4) Funding capital improvements or building fund balances in the Capital Improvement Fund; and
 - (5) Other nonrecurring expenditures.
- D. Depending on the nature, timing, and source of the nonrecurring revenue, the Board may pass special legislation specifically detailing the use of the nonrecurring revenues. However, absent any special legislation that specifically allocates how nonrecurring revenue is to be allocated, the priority of allocation shall be in the order of 44.11(C), above.


EFFECTIVE DATE: This ordinance shall take effect in accordance with the Radnor Home Rule Charter

REPEALER: That any Ordinances, or parts of Ordinances, conflicting with this Ordinance is hereby repealed to the extent of such inconsistency.

SEVERABILITY: If any sentence, clause, section or part of this Resolution is for any reason found to be unconstitutional, illegal or invalid, such unconstitutionality, illegality or invalidity shall not affect or impair any of the remaining provisions, sentences, clauses, sections or parts of this Ordinance. It is hereby declared as the intent of the Radnor Township that this Ordinance would have been adopted had such unconstitutional, illegal or invalid sentence, clause, section or part thereof not been included herein.

ENACTED and **ORDAINED** this ninth day of June, 2014.

RADNOR TOWNSHIP

By: 
Name: Elaine P. Schaefer
Title: President

ATTEST: 
Robert A. Zienkowski, Secretary