

## **Development of Fund Balance Policy for the Dewey Beach General Fund**

The Town Commissioners have requested that the Investment, Budget and Finance, and Audit Committees assist them in the development of a general fund balance policy consistent with recommendations from the Town's auditors. The attached documents provide a background overview of issues associated with such a policy for Dewey Beach, a description of best practice issued by the Government Finance Officers Association (GFOA), a copy of the preliminary policy that was adopted by the Town Commissioners in February 2020, the January 2021 balance sheet, and sample fund balance policies from other town governments.

## Fund Balance Policy for the General Fund

The past two Town financial audits have included recommendations for the development of a policy regarding minimum requirements for the general fund balance. In response to the FY 2019 recommendation, the Town developed a preliminary policy, but the FY 2020 audit noted that the “policy includes terminology/applications that are not aligned with governmental accounting and generally accepted accounting principles.” Both audits recommended that the Town consult best practices published by the Government Finance Officers Association (GFOA).

The GFOA guidelines address the development of a “formal policy on the level of **unrestricted** fund balance that should be maintained in the general fund for Generally Accepted Accounting Principles (GAAP) and budgetary purposes.”. In defining **unrestricted fund balance**, the guidelines describe five categories of fund balances, as specified by the Government Accounting Standards Board (GASB), that may appear in GAAP financial statements:

- Non-spendable - amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
- Restricted - amounts that can be spent only for specific purposes because of the Town charter or code, state or federal laws, or externally imposed condition by grantors or creditors.
- Committed - amounts that can be used only for specific purposes as determined by formal action of the Town Council through ordinance or resolution.
- Assigned - amounts that are designated by the Council or management with intent to be used for specific purposes but are neither restricted or committed by ordinance or resolution.
- Unassigned - amounts not included in other spendable classifications.

The total of the amounts in the last three categories is the **unrestricted fund balance** in GAAP terminology. The balance sheet for governmental funds in the Town’s FY 2020 audit (p. 14 of the Financial statements) shows how these fund categories are applied in Dewey Beach:

Fund balances	General Fund	Beach Replenishment Fund	Total Governmental Funds
Nonspendable	\$64,142		\$64,142
Restricted	\$6,609	\$4,757,625	\$4,764,234
Committed for streets	\$371,306		\$371,306
Assigned for comprehensive plan	\$109,969		\$109,969
Assigned for legal and litigation	\$36,240		\$36,240
Assigned for public safety	\$1,005		\$1,005
Unassigned	\$2,659,013		\$2,659,013

Thus, according to the GFOA guidelines and GAAP terminology, the total of those funds shown as **Committed, Assigned, and Unassigned** would be considered the **unrestricted fund balance** for Dewey Beach.

The Unassigned portion of the unrestricted fund balance includes amounts that are reported in the monthly balance sheets as:

- Total 1000000 · General Fund
- 1000170 · Brown Advisors – Combined

The General Fund is a combination of current year revenues and past budget surpluses. It also includes proceeds remaining from the auction of surplus military equipment acquired by the Police Department. Although no Committed or Assigned fund was established for the auction proceeds, the Commissioners have reserved these funds for police-related purposes, and the balance of these funds is now tracked in the monthly balance sheet.

The Brown Advisors total represents cash and cash equivalent investments that have accumulated from previous budget surpluses and have not been assigned a specific use. Five percent of each month's transfer tax revenues are placed in the Brown Advisory account as required by the reorganization of self-committed fund accounts approved by the Commissioners last year.

### **Determining a Policy for the Town**

The GFOA guidelines describe several factors that should be considered in establishing a policy:

- Predictability of revenues and the volatility of expenditures
- Perceived exposure to significant one-time outlays
- Potential drain upon general fund resources from other funds
- Potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds
- Commitments and assignments already made for a specific purpose.

GFOA recommends, at a minimum, that general-purpose governments 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. The guidelines also note that it may be 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.

The fund balance policy must also describe conditions under which funds would be drawn from the unrestricted fund balance and the process that would be followed to replenish the account.

Several attachments are included for additional background:

- The GFOA guidelines
- The Town's preliminary policy adopted February, 2020
- January 2021 Balance Sheet
- Article on General Fund Balance discussion at Berlin, MD Town Council
- Sample Fund Balance Policies:
  - Town of Carey, North Carolina
  - Grand View, Missouri



## BEST PRACTICE

# Fund Balance Guidelines for the General Fund

## BACKGROUND:

In the context of financial reporting, the term *fund balance* is used to describe the net position of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net position of governmental funds calculated on a government's budgetary basis.<sup>1</sup> While in both cases *fund balance* is intended to serve as a measure of the financial resources available in a governmental fund; it is essential that differences between GAAP *fund balance* and budgetary *fund balance* be fully appreciated.

1. GAAP financial statements report up to five separate categories of fund balance based on the type and source of constraints placed on how resources can be spent (presented in descending order from most constraining to least constraining): *nonspendable fund balance*, *restricted fund balance*, *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*.<sup>2</sup> The total of the amounts in these last three categories (where the only constraint on spending, if any, is imposed by the government itself) is termed *unrestricted fund balance*. In contrast, budgetary fund balance, while it is subject to the same constraints on spending as GAAP fund balance, typically represents simply the total amount accumulated from prior years at a point in time.
2. The calculation of GAAP fund balance and budgetary fund balance sometimes is complicated by the use of sub-funds within the general fund. In such cases, GAAP fund balance includes amounts from all of the subfunds, whereas budgetary fund balance typically does not.
3. Often the timing of the recognition of revenues and expenditures is different for purposes of GAAP financial reporting and budgeting. For example, encumbrances arising from purchase orders often are recognized as expenditures for budgetary purposes, but never for the preparation of GAAP financial statements.

The effect of these and other differences on the amounts reported as *GAAP fund balance* and *budgetary fund balance* in the general fund should be clarified, understood, and documented.

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.

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 in the general fund.

## RECOMMENDATION:

GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes.<sup>3</sup> 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.<sup>4</sup> 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.

*Appropriate Level.* The adequacy of unrestricted fund balance in the general fund should take into account each government's own unique circumstances. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher level in the unrestricted fund balance. Articulating these 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 and employees from unexpected changes in financial condition. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.<sup>5</sup> 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.<sup>6</sup> 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:

1. 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);
2. Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
3. The potential drain upon general fund resources from other funds, as well as, the availability of resources in other funds;
4. The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds;
5. 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). 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.

*Use and Replenishment.*

The fund balance policy should define conditions warranting its use, and if a fund balance falls below the government's policy level, a solid plan to replenish it. In that context, the fund balance policy should:

1. Define the time period within which and contingencies for which fund balances will be used;
2. Describe how the government's expenditure and/or revenue levels will be adjusted to match any new economic realities that are behind the use of fund balance as a financing bridge;
3. Describe the time period over which the components of fund balance will be replenished and the means by which they will be replenished.

Generally, governments should seek to replenish their fund balances within one to three years of use. Specifically, factors influencing the replenishment time horizon include:

1. The budgetary reasons behind the fund balance targets;
2. Recovering from an extreme event;
3. Political continuity;
4. Financial planning time horizons;
5. Long-term forecasts and economic conditions;
6. External financing expectations.

Revenue sources that would typically be looked to for replenishment of a fund balance include nonrecurring revenues, budget surpluses, and excess resources in other funds (if legally permissible and there is a defensible rationale). Year-end surpluses are an appropriate source for replenishing fund balance.

*Unrestricted Fund Balance Above Formal Policy Requirement.* In some cases, governments can find themselves in a position with an amount of unrestricted fund balance in the general fund over their formal policy reserve requirement even after taking into account potential financial risks in the foreseeable future. Amounts over the formal policy may reflect a structural trend, in which case governments should consider a policy as to how this would be addressed. Additionally, an education or communication strategy, or at a minimum, explanation of large changes in fund balance is encouraged. In all cases, use of those funds should be prohibited as a funding source for ongoing recurring expenditures.

#### Notes:

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*.
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.
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 and/or expenditures, that decision should be followed consistently from period to period.

*This best practice was previously titled *Appropriate Level of Unrestricted Fund Balance in the General Fund*.*

203 N. LaSalle Street - Suite 2700 | Chicago, IL 60601-1210 | Phone: (312) 977-9700 - Fax: (312) 977-4806



# TOWN OF DEWEY BEACH

www.townofdeweybeach.com

105 Rodney Avenue  
Dewey Beach, DE 19971  
302-227-6363 (Voice or TDD)  
302-227-8319 (Fax)

## **Town of Dewey Beach General Operating Fund – Recommended Unrestricted Fund Balance Policy**

The Town Commissioners of the Town of Dewey Beach and the Town management staff recognize the need to maintain a target unrestricted fund balance in the Town's general operating fund. Based upon the Town's review of the Government Finance Officers Association (GFOA) guidelines and risk analysis, the recommended minimum balance for this fund will be based upon 25% of the approved annual operating budget.

The Commissioners recognize the need to develop a policy to maintain adequate levels of fund balance to mitigate current and future risks and to ensure stabilization of town revenue resources.

The GFOA guidelines recommend as a minimum an unrestricted fund balance equal to two months of general operating revenues or expenditures. Because Dewey Beach does not have a property tax and its revenues are dependent on the flow of visitors to the Town and economic conditions that affect the volume of visitors and the incentives for investment in Dewey Beach properties, the recommended unrestricted fund balance exceeds the GFOA minimum. In addition, the Town's higher than average probability of experiencing weather-related consequences also support the need for a balance exceeding the minimum.

The FY-2020 approved operating budget is \$3,479,194. Therefore, the minimum balance in the General Operating Fund for FY-2020 will be  $(\$3,479,194 \times 25\%)$  \$869,798.50. Management must maintain this balance using a 3-month rolling reconciled average. If the balance in this fund falls below the minimum target (3-month rolling reconciled average) by 5% or more, as a result of unexpected revenue shortfalls or expenditure increases, the Town Manager will submit for Commissioners' review and approval in an open Town meeting a proposed plan for replenishing the general fund. The proposed plan should describe how expenditures for Town services or capital needs could be adjusted and consider transferring funds from other accounts or using budget surpluses to replenish the fund balance. The plan generally should provide for replenishment within the following 12 months.

In addition, if the 3-month rolling reconciled average exceeds 40% of the approved operating budget, the Town Manager should propose appropriate use or transfer to another account of these funds (deemed excess) by the calculation.

The above policy was discussed and approved by the Town Commissioners on February 8, 2020.

---

Town Manager Scott Koenig

**Town of Dewey Beach**  
**Balance Sheet**  
 As of January 31, 2021

Jan 31, 21

**ASSETS**

**Current Assets**

**Checking/Savings**

**1000000 · General Fund**

**1000010 · Operating Gen'l Funds - Fulton**

1000011 · 5% TTax to Recoup Set Aside (10,862)

1000013 · LESO Funds (170,575)

1000010 · Operating Gen'l Funds - Fulton - Other 1,643,221

**Total 1000010 · Operating Gen'l Funds - Fulton 1,461,784**

1000040 · Payroll Account-Fulton Bank 159

**Total 1000000 · General Fund 1,461,943**

**1000100 · Self-Committed Funds**

1000109 · LESO Funds 170,575

1000110 · Legal & Litigation - Fulton 36,298

1000120 · Street Infrastr 20% Bldg Permit 656,906

1000130 · Comp. Plan -3%TransferTax 37,552

1000160 · Transfer Tax Recoup Account 10,862

1000170 · Brown Advisors - Combined 1,346,194

**Total 1000100 · Self-Committed Funds 2,258,386**

**1000200 · Restricted**

1000210 · Fulton Bank-Municipal St. Aid 42,417

1000220 · Fulton Bank-Police SALLE Grant 4,751

1000230 · Fulton Bank-Police EIDE Grant 170

1000240 · Police Dep't.Acc't.-Fulton Bank 25,348

1000260 · Fulton Bank-Dewey Beach Patrol 18,301

1000270 · Fulton Review Fund Escrow Acct 10,593

1000280 · Fulton DBP Competition 20,790

**Total 1000200 · Restricted 122,370**

1000500 · Petty Cash 1,350

**Total Checking/Savings 3,844,049**

**Accounts Receivable**

1002500 · DBE Receivable 40,000

**Total Accounts Receivable 40,000**

**Other Current Assets**

**1200000 · General Receivables**

1200001 · RuddertownEngineering-Due DBE (13,649)

1200000 · General Receivables - Other 2,300

**Total 1200000 · General Receivables (11,349)**

1200100 · Prepaid Insurance 105,987

**Total Other Current Assets 94,638**

**Total Current Assets 3,978,687**

**Fixed Assets**

1600001 · Land - Town Hall 22,716

1600002 · Land - Police 22,716

1600003 · Land - LSS 6,499

**Town of Dewey Beach**  
**Balance Sheet**  
 As of January 31, 2021

	Jan 31, 21
1600004 · Land - Street & Infra	221,959
1600005 · Land - Town Hall Aux	256,932
1600011 · Building - Town Hall	1,307,083
1600012 · Building - LSS	156,312
1600013 · Building - Street & Infra	619,078
1600014 · Building - Town Hall Aux	599,509
1600021 · Building Improv - Town Hall	83,650
1600023 · Building Improv - Police	22,535
1600024 · Building Improv - LSS	11,947
1600025 · Building Improv - Street & Infr	70,659
1600030 · Beach Improv - Mats	98,345
1600031 · Equipment - Town Hall	80,152
1600032 · Equipment - Police	426,992
1600034 · Equipment - Code Enforcement	213,421
1600035 · Equipment - LSS	34,509
1600036 · Equipment - Street & Infra	74,724
1600037 · Equipment - Various	36,049
1600041 · Vehicles - Police	412,679
1600042 · Vehicles - Street & Infra	58,904
1600099 · Accumulated Depreciation	(3,070,781)
1800000 · Investment - Land	25,000
<b>Total Fixed Assets</b>	<b>1,791,589</b>
<b>TOTAL ASSETS</b>	<b>5,770,276</b>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
<b>Accounts Payable</b>	
2000000 · Accounts Payable	12,142
<b>Total Accounts Payable</b>	<b>12,142</b>
<b>Other Current Liabilities</b>	
2100000 · General Obligations	
2100003 · Accrued Payroll Taxes - UC8 DE	1,601
2100009 · Adm Pension Payable	(0)
2100010 · Police Pension Payable	9,279
2100013 · Compensated Absences	183,999
2100015 · Unearned Revenue	1,081
2120001 · Due to Beach Replenishment Fund	655
2120002 · Due to General Fund	(28,570)
2120003 · Due to State of Delaware	
2120005 · DELJIS Surcharge	62
2120006 · Ambulance Fund	20
2120007 · Trans Fund	28
2120008 · Police Fund	705
2120009 · Vic Comp Assessment	651
2120010 · Video Surcharge	49

**Town of Dewey Beach**  
**Balance Sheet**  
 As of January 31, 2021

	Jan 31, 21
Total 2120003 · Due to State of Delaware	1,514
Total 2100000 · General Obligations	169,558
2300000 · Restricted Grants & Donations	
2300200 · Police Grants	
2300202 · EIDE Grant	170
2300203 · Highway Safety Grant	6,575
2300204 · Local Government Grant Police	561
2300207 · Vehicle Grants	1,862
2300209 · SALLE Grant	4,751
Total 2300200 · Police Grants	13,919
2300300 · Street & Highway Grants	
2300301 · Municipal Street Aid Grant	42,417
Total 2300300 · Street & Highway Grants	42,417
2300400 · Lifeguard Grants	
2300402 · Donations LGYouth Rec.Prog.	(1,940)
Total 2300400 · Lifeguard Grants	(1,940)
Total 2300000 · Restricted Grants & Donations	54,396
Total Other Current Liabilities	223,954
Total Current Liabilities	236,096
Long Term Liabilities	
2700001 · Deferred Outflows - GASB 68	(174,598)
2700002 · Deferred Inflows - GASB 68	48,755
2700003 · NPL - GASB 68	143,041
Total Long Term Liabilities	17,198
Total Liabilities	253,294
Equity	
3000100 · General Fund Balance	2,134,745
3000110 · General Fund Balance - Current	305,825
3000200 · Legal & Litigation	
3000210 · Legal & Litigation - Current	57
3000200 · Legal & Litigation - Other	36,240
Total 3000200 · Legal & Litigation	36,298
3000300 · GFB-Committed St 20% Bldg Perm	
3000310 · 20% Bldg Perm - Current	285,599
3000300 · GFB-Committed St 20% Bldg Perm - Other	371,306
Total 3000300 · GFB-Committed St 20% Bldg Perm	656,906
3000400 · GFB- Comp Plan 3% Tran Tax	
3000410 · 3% Trans Tax - Current	(72,417)
3000400 · GFB- Comp Plan 3% Tran Tax - Other	109,969
Total 3000400 · GFB- Comp Plan 3% Tran Tax	37,552
3000500 · GFB-5%TTax to TTax Recoup Acct	
3000510 · 5% TTax Recoup - Current	(187,367)
3000500 · GFB-5%TTax to TTax Recoup Acct - Other	198,229
Total 3000500 · GFB-5%TTax to TTax Recoup Acct	10,862
3000600 · GFB-5%ParkPrmit-signs,striping	

**Town of Dewey Beach**  
**Balance Sheet**  
As of January 31, 2021

	Jan 31, 21
3000610 · 5% Park Perm - Current	(179,215)
3000600 · GFB-5%ParkPrmit-signs,striping - Other	179,215
<b>Total 3000600 · GFB-5%ParkPrmit-signs,striping</b>	<b>-</b>
3000800 · GFB-Rainy Day Self Comm Funds	
3000810 · GFB-Rainy Day - Current	(166,731)
3000800 · GFB-Rainy Day Self Comm Funds - Other	166,731
<b>Total 3000800 · GFB-Rainy Day Self Comm Funds</b>	<b>-</b>
3900000 · Fixed Asset Investments	
3900001 · Fixed Asset Investment-Current	1
3900000 · Fixed Asset Investments - Other	1,907,538
<b>Total 3900000 · Fixed Asset Investments</b>	<b>1,907,539</b>
<b>Net Income</b>	<b>427,256</b>
<b>Total Equity</b>	<b>5,516,982</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>5,770,276</b>

# Town Council reviews general fund balance

FY22 budget work session to take place on April 12, full schedule posted online

By Ally Lanasa

Staff Writer

(Feb. 25, 2021) The Berlin mayor and Town Council reviewed the general fund budget during their meeting on Monday to prepare for the budget work session on April 12.

“The general fund is the general operating fund of the town,” said Natalie Saleh, the town’s finance director. “The general fund [is] used to account and report all the financial resources not accounted for and reported in other funds. It includes all transactions for general government services.”

Revenues of the general fund are mostly derived from taxes, grants and licenses and permit fees.

Saleh said the resources generated by the fund are spent for general government according to the budget approved by the mayor and council every year.

“To manage all that, there is a fund accounting in place and it’s necessary,” she said.

In fiscal year 2020, property taxes made up 59 percent of revenue, inter-governmental revenues made up 16 percent and service charges to other

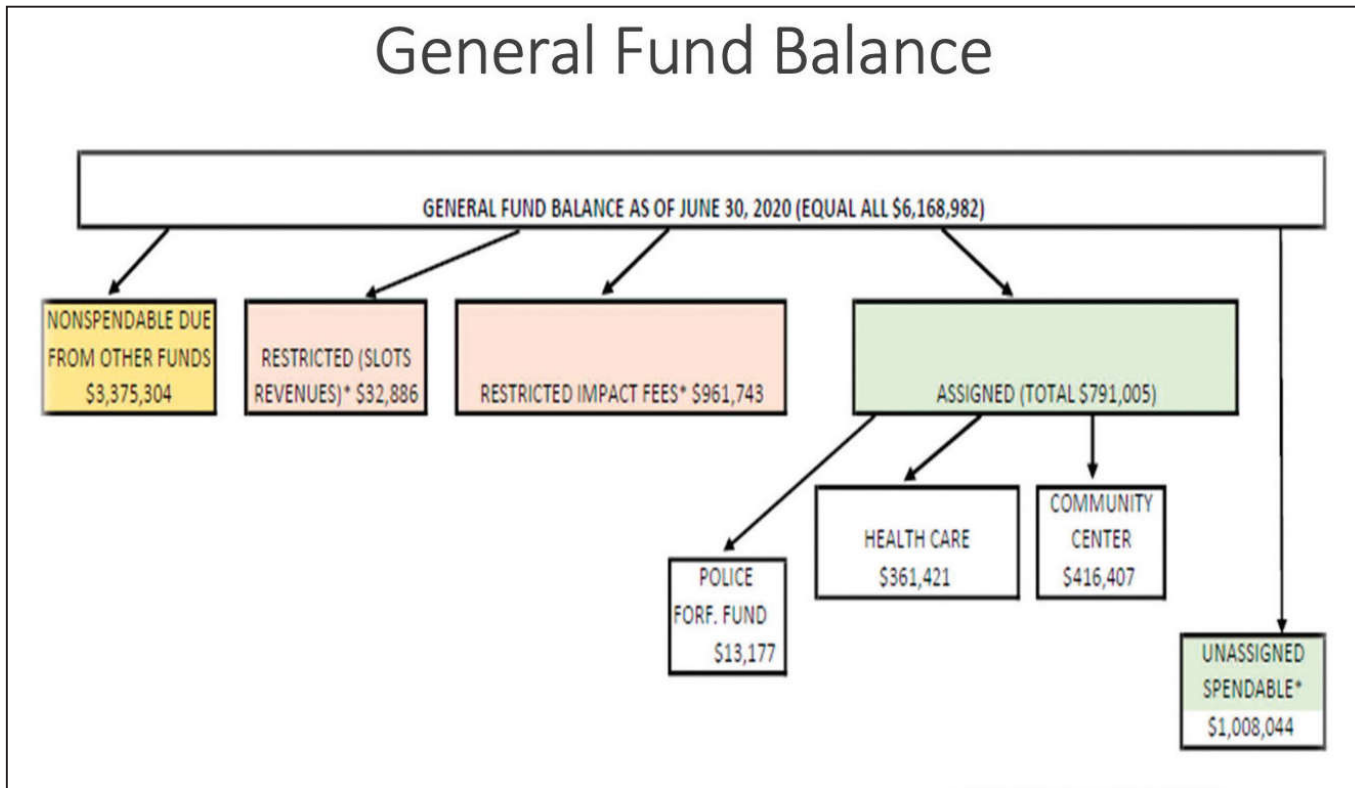


CHART COURTESY NATALIE SALEH  
 This FY20 general fund balance chart demonstrates the total of each component that represent the “spendability” of the fund balance as of June 30, 2020. Since then, the Berlin Town Council agreed to reduce the interfund transfer due from the sewer fund to the stormwater fund in the non-spendable fund balance to \$1.7 million in FY21.

funds made up 12 percent. The total revenue for FY20 was nearly \$6.8 million.

As for general fund expenditures, 39 percent of funds went to the Public

Safety Department, 26 percent of funds were spent for general government and 16 percent went toward the Public Works Department. The total expenditures in FY20 were approximately \$5.8 million.

The net change in the general fund balance, or the revenue total subtracted by the total expenditures, was \$1 million in FY20.

Then, Saleh described the general fund balance as assets subtracted by liabilities.

“But we’re not talking about long-term. Here it’s mostly over short-term liabilities and short-term assets,” she said.

Saleh added that people will often perceive the government’s financial health by the fund balance.

“It is true that if the balance is low or if we’re running on a deficit that the town will need some improvement in the financial situation, but having a large fund balance at the end

of the year doesn’t mean that it’s great or good because there’s so many components, or layers, of the fund. We should look at and understand what each layer means and what does it do,” she said.

There are five components that represent the “spendability” of the fund balance: the non-spendable fund balance, the restricted fund balance, the committed fund balance, the assigned fund balance and the unassigned fund balance.

Non-spendable amounts are either not in a spendable form, such as inventory or prepaid amounts, or are legally or contractually required to remain in the fund, Saleh explained.

Restricted amounts can only be spent for specific purposes because of restrictions imposed by mayor and council, higher levels of governments or grantors.

Committed amounts can be spent  
 See ELEMENTS Page 5



## - EVERY DAY SPECIALS -

- |                    |                       |                       |                     |
|--------------------|-----------------------|-----------------------|---------------------|
| <b>MONDAYS</b>     | <b>TUESDAYS</b>       | <b>WEDNESDAYS</b>     | <b>THURSDAYS</b>    |
| 3 For \$33 on 33rd | \$20 Crabcake Dinners | Wine Down Wednesday's | Fried Seafood Night |

DELAWARE LEARNING INSTITUTE OF COSMETOLOGY

**Queen for a Day**  
 only \$20

# Elements of Berlin's general fund discussed

Continued from Page 2

only for specific purposes set by the mayor and council through resolutions or motions to approve, whereas assigned amounts are earmarked by the mayor and council for specific purposes that do not meet the criteria to be classified as restricted or committed amounts.

Lastly, unassigned amounts are available for any purpose and can be reported only in the town's general fund.

The audited total general fund balance for FY20 was nearly \$6.2 million. The non-spendable fund balance made up \$3.4 million of the general fund balance with an inter-fund transfer due from the sewer fund to the stormwater fund. However, the Town Council agreed to reduce that to \$1.7 million in FY21.

"Restricted balance consists of slot revenues and the slot revenues have limitations on how monies can be spent, which come from the higher level of the government," Saleh said. "We also have our own restriction by mayor and council by the ordinance, which is impact fees."

The restricted fund balance was approximately \$995,000 in FY20.

The assigned fund balance, which totaled \$791,000, consists of funds for specific purposes assigned by the mayor and council such as health-care, the police department and the

community center.

The unassigned balance at the end of the year was \$1 million for spending in the event of unexpected contingencies.

Saleh said the primary reason to maintain a general fund balance is the uncertainty in future funding because of instances like reduction in county and state shared revenues or revenue reductions and losses related to direct programs and fees. The stabilization fund balance could help the latter.

"Stabilization is to prevent the interrupted service that we provide or mitigate the effects of the occasional shortfalls in revenues," she said.

In addition, the debt reduction fund supports the general fund if it carries the debt.

"In case we have a great reduction in revenue, we need to ensure that the short-term liabilities will be covered," Saleh said.

Another reason to maintain a general fund balance is contingencies for unanticipated emergencies, such as pandemics, floods and other catastrophes.

"Here we have a disaster recovery fund that could come and help us to be prepared and have some funds that we could start putting in and supporting the short-term services and not to be interrupted," Saleh said.

Additionally, a capital reserve fund

balance can be helpful for periodic large expenditures, including large anticipated capital improvements or emergency capital projects, Saleh said.

Responding to Councilman Jay Knerr, Saleh said the recommended goal for the reserve funds that the town should work toward is a spendable balance of no less than 60 days, but the town can ultimately decide.

"It's in our discretion to decide if we want to do a little bit better than 60 days, whether we want to be just in the middle or better than that," she said.

Knerr also asked if the \$32,000 in slot revenue is the total after paying the debt service of the police department facility.

"Yes, so monthly amounts coming from slot revenues get basically rolled into the general fund and not set aside until we complete all the capital project amounts and then we can basically set it aside and not spend it," Saleh replied.

The town has about two and half years left of payments for the police department facility.

"I do just want to clarify for everybody watching at home there is no debt service per say on the police department. It's not a bond that's been floated for that project. Those monies were borrowed from the general fund and are being paid back using the slot

revenue," Mayor Zackery Tyndall said.

He added that the FY21 budget shows where the money from slot revenue is expected to go into the reserve fund.

Knerr asked why the previous mayor and Town Council decided to fund the police department facility from the general fund.

"At that moment, the projections were coming in at lower amounts and we had a balance available," Saleh replied. "In the past, we had a very healthy general fund balance of \$8.4 million."

However, the price for the police department facility was higher than planned.

"The decision by mayor and council at that point was to totally finance that from the reserves of the general fund," Saleh said.

A reserve policy draft will be presented at the next Town Council meeting on March 8.

Tyndall added that the introduction and first reading of the tax rate will take place on March 8. Then, a public hearing about the tax rate and adoption by the council is scheduled for March 22.

To view the FY22 budget schedule, visit <https://berlinmd.gov/wp-content/uploads/2021/01/Town-of-Berlin-Budget-Schedule-FY22.pdf>.

The  
**Dough Roller**



Pizza ~ Pancakes ~ Family Tradition

**WINTER  
SPECIALS**

Available at our  
**41st St. & 70th St.**  
locations

**OPEN DAILY**  
**8 AM**

\*41st St. Closed Tues/Wed

**DAILY**

**MONDAY**

Meatball Sub \$10  
(Includes fries and drink)  
Meatball Appetizer \$5

**TUESDAY**

Cheese Steak or Chicken Cheese  
Steak (Includes fries and drink) \$10

**WEDNESDAY**

**FRIDAY**

Fish N' Chips \$10  
(Includes fries and drink)  
Free small funnel fry with  
purchase of two pizzas  
(carry out only)

**SATURDAY**

Free Dessert with any  
Italian Dinner purchase

# GENERAL FUND - FUND BALANCE POLICY

## POLICY STATEMENT 175

### GENERAL FUND - FUND BALANCE POLICY

Prepared by: Karen Mills, Finance Director

Adopted by Council: April 21, 2015

Effective: April 21, 2015

Supersedes: 6/12/2008 - Section II. C of POLICY STATEMENT 112 – FINANCE POLICY

#### I. Objectives

- To establish minimum fund balance levels for the General Fund that define what resources are available to provide sufficient financial flexibility to meet future obligations, take advantage of opportunities, and avoid interest expense through use of excess reserves in lieu of debt,
- To enhance the financial position of the Town in order to maintain the highest credit and bond ratings,
- To plan for contingencies in unforeseen revenue volatility and expenditures such as weather related disasters,
- To generate investment income that diversifies revenue streams and decreases reliance on taxes, and
- To ensure adequate cash flow.

#### II. Definitions

In accordance with governmental accounting standards the Town's total General Fund fund balance is comprised of five components:

1. Nonspendable Fund Balance represents resources that are physically or legally in a nonspendable form such as inventory,
2. Restricted Fund Balance represents resources limited by state law or the provider such as grants or resources reported as "Stabilization by State Statute",
3. Committed Fund Balance represents resources previously committed by Council for a particular purpose such as a project partially funded by grants,
4. Assigned Fund Balance represents resources assigned less formally for a particular purpose such as insurance reserves or subsequent year spending, and
5. Unassigned Fund Balance represents all remaining resources.

Accessible Fund Balance is defined as the total of Assigned Fund Balance and Unassigned Fund Balance for the purposes of this policy. To be conservative, Committed Fund Balance is not included in Accessible Fund Balance.

Accessible Fund Balance is not the same as available Fund Balance as defined in North Carolina General Statute 159-8(a).

General Fund Expenditures are calculated for ratios as:

- Total Expenditures, which includes debt service,
- excluding Other Financing Sources and Uses

### **III. Fund Balance Levels**

- The Town will maintain a minimum Accessible Fund Balance of at least 25%, (three month's) of budgeted General Fund Expenditures.
- Total Fund Balance shall be at least 40% (which is approximately five month's) of budgeted General Fund Expenditures.

### **IV. Use of Excess Fund Balance**

Accessible Fund Balance above the Town's minimum should be considered as a funding source for capital needs funded with pay-as-you-go capital considered through the annual budget process. Appropriations outside the annual budget will generally be limited to:

- Expenditures to support or facilitate projects that generate new revenues or cost savings in excess of the investments within established time frames.
- Interim partial year funding for new programs that are needed before the next fiscal year.
- Costs related to unanticipated workload in the current fiscal year that cannot be addressed with budgeted resources.
- Prudent supplemental funding for existing capital projects that require additional resources before the next fiscal year in order to fund unanticipated costs, avoid excessive delays, or improve service levels.

### **V. Use of Fund Balance Below Policy Limits in Dire Circumstances**

Accessible Fund Balance can only be used in excess of the regular policy established in Section III at the discretion of the full Town Council in dire financial circumstances in order to: 1) provide resources to offset unforeseen revenue shortfalls in combination with expenditure reductions or 2) to fund emergency expenditures in a disaster. When adopting an appropriation of Accessible Fund Balance that reduces reserves to a level below the Town's policy, the Town Council also shall adopt a plan of specific actions to be taken to restore the Accessible Fund Balance to the level set forth in this policy in the following fiscal year, if feasible, but within three fiscal years at most.

# City of Grandview – Financial Policy

## Fund Balance Policy

### *Purpose*

The purpose of this policy is to establish a key element of the financial stability of the City of Grandview by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the City maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the City's general operations.

### *Definitions*

*Fund Balance* – Fund Balance is generally the difference between its assets and its liabilities. An accounting distinction is made between the portions of fund balance that spendable and nonspendable. These are broken up into five categories:

- 1) **Non-spendable fund balance** – includes amounts that are not in a spendable form or are required to be maintained intact. Examples are inventory or permanent funds.
- 2) **Restricted fund balance** – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants and court bonds.
- 3) **Committed fund balance** – includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- 4) **Assigned fund balance** – comprises amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which 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** – is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

## ***Policy***

### ***Committed Fund Balance***

The Board of Aldermen is the City's 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 of Aldermen. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

### ***Assigned Fund Balance***

The Board of Aldermen designates the City Administrator as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

### ***Minimum Unassigned Fund Balance***

It is the goal of the City to achieve and maintain an unassigned fund balance in the general fund equal to 30% of operational expenditures. The City considers a balance of less than 30% to be cause for concern, barring unusual or deliberate circumstances. Proposed budgets, or budget revisions, will maintain an ending fund balance of at least 30% of the Fund's operational expenditures. If unassigned fund balance falls below the goal due to unforeseen revenue fluctuations, unanticipated expenditures, or any similar circumstances, the City will immediately develop a restoration plan to re-build and maintain the minimum 30% fund balance requirement.

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

When multiple categories of fund balance are available for expenditure, the City will start with the most restricted category and spend those funds first before moving to the next category with available funds. The order in the use of funds would therefore be Restricted, Committed, Assigned, and Unassigned to the extent each category is available and eligible.