

## Lower Macungie Township Fund Balance Policy

The Township believes that sound financial management principles require that sufficient funds be retained by the Township to provide a stable financial base at all times. To retain this stable financial base, the Township needs to maintain a General Fund Balance sufficient to fund all cash flows of the Township, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, and to provide funds for all existing encumbrances.

The purpose of this policy is to specify the size and composition of the Township's financial reserves and to identify certain requirements for replenishing any fund balance reserves utilized.

I. The following individual items shall constitute the Township General Fund Balance:

A. Reserved Fund Balance: Reserved fund balance consists of portions of fund balance that are either legally restricted to a specific future use or are not available for appropriation or expenditure. Legally restricted portions of fund balance include "reserve for encumbrances".

1. Reserve for Encumbrances – These funds are appropriated and encumbered balances for outstanding purchase orders, contracts, and other commitments for which goods and services have been ordered by the Township, but the goods or services have not been received in full.
2. Reserved for Capital Projects – These funds are monies that are set aside for future capital projects to be designated by the Board of Commissioners. Six hundred fifty thousand (\$750,000) dollars is set aside for capital projects for Camp Olympic to be spent for the fiscal years 2012 to 2015.
3. Reserved for Debt Service – These funds are monies that are set aside for future capital projects to be designated by the Board of Commissioners. Two million (\$2,000,000) dollars are set aside to pay off a portion of outstanding debt as soon as legal possible, which is expected in the fiscal year 2014.

B. Unreserved Fund Balance: Unreserved fund balance is often subdivided into designated and undesignated portions. Designated funds are held for future financial resource use, such as the replacement of equipment. Other designations include "for fiscal stability", "for contingencies" and "for appropriation in future years". Undesignated funds represent expendable available financial resources that can be used to meet contingencies and working capital requirements.

1. Unreserved, Designated for Fiscal Stability – The Township will maintain a fund balance designation for fiscal cash liquidity purposes (i.e. fiscal reserve) that will provide for sufficient cash flow to minimize the potential of short term tax anticipation borrowing. This amount shall be equal to not less than 20% of the combined budgeted expenditures of the Township General Fund. The Township Manager shall annually calculate and verify to the Board the Township's compliance with this policy. In determining such compliance, the following formula will be used: the audited balance available in the Unreserved, Designated For Fiscal Stability fund balance of the Township General Fund for the most recently audited fiscal year, divided by the adopted budget for the ensuing fiscal year for the Township General Fund.
2. Unreserved, Undesignated Fund Balance – Funds not otherwise reserved or designated as required above represent balances available for appropriation at the discretion of the Board. However, the Board will make every effort to use these undesignated funds for the following purposes (listed in order of priority):

- Increase Reserved Fund Balances as deemed necessary.
- Increase Unreserved, Designated Fund Balances as deemed necessary.
- Transfer to the Capital Improvement Fund.
- Use as beginning cash balance in support of annual budget.

The Board recognizes that any such funds should be appropriated for non-recurring expenditures as they represent prior year surpluses that may or may not materialize in subsequent fiscal years.

## II. Monitoring and Reporting

The Township Finance Director shall annually prepare a report documenting the status of the fund balance with this policy and present to the Board in conjunction with the development of the annual budget. Should the report disclose there are unreserved, undesignated funds available; a recommendation for use of said funds shall be presented to the Board in the report.

## III. Replenishment of the Unreserved, Designated for Fiscal Stability Fund Balance

Should the Unreserved, Designated for Fiscal Stability Fund Balance amount fall below the 20% targeted level, the Board must approve and adopt a plan to restore this balance to the target level within 24 months. If restoration of the reserve cannot be accomplished within such period without severe hardship to the Township, then the Board will establish a different time period.