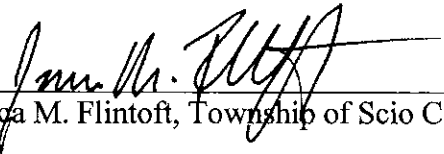


TOWNSHIP OF SCIO
ORDER OF RESOURCE USE AND FUND BALANCE POLICY

I hereby certify that the *Order of Resource Use and Fund Balance Policy*
was adopted by the Board of Scio Township at its regular
meeting held on February 24, 2021 via Zoom.



Jessica M. Flintoft, Township of Scio Clerk

Scio Township Order of Resource Use and Fund Balance Policy

Requirements and Best Practices

Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, requires certain actions by the governing body in order to establish a means to segregate fund balance for reporting purposes. In addition, although not required by any accounting standard, in order to ensure that governments maintain adequate levels of fund balance to mitigate risks and provide a back-up for revenue shortfalls, it is the recommended best practice that governments establish a minimum level of unrestricted fund balance in their general fund, along with policies related to use and replenishment of fund balance.

Purpose

Scio Township believes that sound financial management practices 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 fund balance in the General Fund that is sufficient to fund all cash flows of the organization, 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 establish a key element of the financial stability of the Township by setting guidelines for fund balance. Fund balance is an important measure of economic stability. It is essential that the township maintain adequate levels of 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 operations of each fund.

In addition, this policy addresses Scio Township's requirements under GASB 54 surrounding the composition of fund balance, including the establishment and use of the various components of fund balance.

Definitions

Restricted Fund – A fund that may be spent only on specific uses, such those established for a millage or special assessment.

Unrestricted Fund – A fund that may be spent for a range of uses, such as the General Fund.

Fund Balance – The term “Fund Balance” applies only to governmental funds, not to proprietary (such as enterprise funds) or fiduciary funds (such as pension funds). A governmental fund’s fund

balance is the difference between its assets, deferred outflows and its liabilities and deferred inflows.

Fund Balance Components – An accounting distinction is made between the portions of fund equity that are spendable and non-spendable. Under GASB 54, these are broken up into five categories:

- 1) Non-spendable fund balance – Amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund)
- 2) Restricted fund balance – 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 dedicated millages.
- 3) Committed fund balance- Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint. This would be a Board action to commit a portion of fund balance.
- 4) Assigned fund balance – 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. The General Fund is the only fund with Unassigned fund balance.

Policy

Order of Resource Use

In general, restricted funds are used first when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. To further clarify, each fund is responsible for any directly related expenditures that arise in the course of carrying out its activities.

And, in the General Fund, for unrestricted fund balance, the order of use of fund balance shall generally be: 1) committed; 2) assigned; and 3) unassigned.

Minimum Unrestricted Fund Balance - General Fund

Scio Township with a March 31 year end and a tax levy of December 1 for the current year operations establishes a minimum fund balance goal of approximately 100% of the following year operating expenditures.

1. With approval of the board, the following reasons justify appropriations that may draw the fund balance below the 100%: Planned use of reserves for capital expenditure
2. One-time emergency expenditure said emergency having been declared by the board
3. One-time legal expenses

If unrestricted fund balance falls below the 100% minimum balance as evidenced by the current year audited financial statements, the board shall make a determination of replenishment during the next budget cycle with said plan of replenishment to implemented in the following year and have attained the minimum funding level within the following 5 years.

The fund balance of the Township's General Fund has been accumulated to provide stability and flexibility to respond to unexpected adversity and/or opportunities. The Township's basic goal is to limit expenditures to anticipated revenue in order to maintain a balanced budget.

Minimum Unrestricted Fund Balance – Special Revenue Funds

Special revenue funds are created to account for the proceeds from specific revenue sources that are legally restricted for specific purposes (i.e. grants, dedicated millages, etc.). No specific reservation of fund balance is created by this policy. Rather, each fund must adhere to any underlying guidelines attached to that revenue source. The largest funds are:

- Fund 206 Fire Department Fund – it is desirable to have a minimum of nine months of operating expenditures in fund balance as the primary revenue source is tax revenue.
- Fund 208 Parks and Pathways – fund balance should a minimum to complete any initiated capital projects (by phase) or to meet required local grant matches.
- Fund 230 Bus Service Fund- it is desirable to have a minimum of nine months of operating expenditures in fund balance as the primary revenue source is tax revenue.
- Fund 242 Open Space Land Preservation Millage – fund balance is for the purpose of acquiring development rights as they becomes available at an affordable price.

Minimum Unrestricted Net Assets-Water and Sewer Funds

Enterprise Funds- Enterprise funds should strive for positive net operating income to provide for necessary operating (25% of operational expenditures) and capital reserves while maintaining

sufficient debt service coverage ratios. A specific percentage or dollar amount will vary due to the following considerations:

1. Water – working capital, debt coverage, asset replacement, rate smoothing, and revenue volatility.
2. Sewage Disposal – working capital, debt coverage, asset replacement, rate smoothing and revenue volatility.