

# NORTHAMPTON COUNTY COUNCIL - EASTON, PA

Ordinance No. 632

SESSION 2018

Bill No. 719

Introduced by Robert F. Werner and Lori Vargo Heffner on February 15, 2018

Enacted March 2, 2018

Effective April 1, 2018

## Title:

AN ORDINANCE AMENDING NORTHAMPTON COUNTY ORDINANCE NO. 526-2010 ALSO KNOWN AS THE NORTHAMPTON COUNTY GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 54 FUND BALANCE POLICY ORDINANCE

**WHEREAS**, Ordinance No. 526-2010, the ordinance titled, "AN ORDINANCE ESTABLISHING THE COUNTY OF NORTHAMPTON GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 54 (GASB No. 54) FUND BALANCE POLICY; PROVIDNG SEVERABILITY; REPEALER AND EFFECTIVE DATE," was enacted by the Northampton County Council on November 19, 2010.

**NOW, THEREFORE, BE IT HEREBY ORDAINED AND ENACTED** by the Northampton County Council that, Ordinance No. 526-2010, the ordinance titled, "AN ORDINANCE ESTABLISHING THE COUNTY OF NORTHAMPTON GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 54 (GASB No. 54) FUND BALANCE POLICY; PROVIDNG SEVERABILITY; REPEALER AND EFFECTIVE DATE," shall be amended as indicated hereafter (sections marked with **bold underline** have been added and sections marked with ~~strikeout~~ have been deleted):

**WHEREAS**, the County of Northampton, Easton, Pennsylvania desires to establish a Fund Balance Policy consistent with the Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions; and

**NOW, THEREFORE, IT IS HEREBY ORDAINED AND ENACTED BY THE COUNTY COUNCIL OF THE COUNTY OF NORTHAMPTON, PENNSYLVANIA, THAT:**

## Section I. TITLE

This ordinance shall be known as the Northampton County Governmental Accounting Standards Board Statement No. 54 Fund Balance Policy Ordinance.

## Section II. DEFINITIONS

The following words and phrases when used in this Ordinance 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 and deferred inflows and deferred outflows 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) of the Northampton County Council, the County's highest level of decision making authority. Commitments may be changed or lifted only by the Northampton County Council taking the same formal action (ordinance) 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 the County Executive or Director of Fiscal Affairs 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.

SECTION III. PURPOSE

- A. The County 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 County, in accordance with policies established by the Northampton County Council.
  
- C. This Fund Balance Policy establishes:
  - 1. Fund balance policy for the General Fund;

2. Classifications 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 IV. FUND BALANCE POLICY (GENERAL FUND)

A. 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.

B. 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 enable legislation.

C. COMMITTED FUND BALANCE

- ~~1. Commitment of fund balance may be made for such purposes including, but not limited to:~~

- ~~(a) accumulating resources pursuant to a financial stabilization arrangement.~~

Commitment of fund balance may be made from time to time by ordinance of the Northampton County Council. Commitments may be changed or lifted only by the Northampton County Council taking the same formal action that imposed the constraint originally (ordinance).

D. 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 the County Executive'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.

E. 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.

SECTION V. CLASSIFICATIONS OF FUND BALANCE (GENERAL FUND)

A. ~~COMMITTED~~ **UNASSIGNED FUND BALANCE**

The Northampton County Council hereby establishes the following ~~committed~~ **unassigned** fund balance classes in the General Fund:

1. Financial Stabilization - The Financial Stabilization Fund Balance is ~~committed~~ **established** by the Northampton County Council as recommended by the GFOA.
2. The **suggested** balance of the Financial Stabilization Fund will **is recommended to** be maintained at a minimum of 5% of current year budgeted general fund expenditures, including transfers out. The Financial Stabilization Fund is not to exceed 15% of current year, budgeted general fund expenditures, including transfers out.
3. Additions to the financial stabilization fund will **can** occur by:
  - (a) An increase in additional real estate tax levied annually, or
  - (b) Commitment by ordinance **or budget amendment** of excess unassigned fund balance upon completion of the annual audit as described in Section VI, C.
4. ~~The Financial Stabilization Fund will be available to fund a catastrophic event such as a natural disaster, disaster related event or unanticipated expenditure requirements such as, an unforeseen major building or bridge structural failure. Such an event must be of an unusual or infrequent nature.~~
5. ~~The Financial Stabilization Fund will only be accessed when the result of the emergency expenditures would likely exceed 2% of current~~

~~year, budgeted general fund expenditures, including transfers out.~~

~~6.4.~~ 6.4. The Financial Stabilization Fund ~~cannot~~ **should** **not** be considered in whole or in part, as available funds approval of the annual budget.

~~7.5.~~ 7.5. Appropriations from the Financial Stabilization Fund may ~~only~~ be made by ordinance **or budget amendment** with a majority vote of the Northampton County Council.

~~8.6.~~ 8.6. The ordinance **or budget amendment** requesting appropriations from the Financial Stabilization Funds ~~must, at a minimum,~~ **should** include the following:

(a) Dollar amount requested.

(b) A description of the ~~emergency~~ situation requiring the appropriations.

~~(c) A description of the consequences of not releasing the funds.~~

~~(d)~~ **(c)** The dollar amount remaining in the Financial Stabilization Fund after the proposed appropriations of funds.

~~9.7.~~ 9.7. The County ~~must~~ **should** begin to restore the Financial Stabilization Fund in the year following its use. The County Executive ~~will~~ **should** prepare and submit a plan for a reduction of assigned fund balance, expenditure reductions and/or revenue increases to the Northampton County Council. ~~County Council shall take action necessary to restore financial stabilization fund to the minimum balance within two (2) years. Additionally, the Northampton County Council shall take action necessary to replace all the appropriated funds within three five (3-5) years.~~

~~10-8~~. It will be the responsibility of Northampton County's Director of Fiscal Affairs to report the current Financial Stabilization Fund Balance in the County's Quarterly Financial Statements.

B. ASSIGNED FUND BALANCE

The Northampton County Council 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 the County Executive 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 Northampton County 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 three year period from inception.
3. It will be the responsibility of Northampton County's Director of Fiscal Affairs to report the current Assigned Fund Balances in the County's Quarterly Financial Statements.

SECTION VI. BUDGETING

A. APPROPRIATION OF UNRESTRICTED FUND BALANCE

The actual amount of unrestricted fund balance is not known until the completion of the annual audit which takes place 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 (October through December 17) 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 County Executive 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, unassigned 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 10% of budgeted operating expenditures, including

transfers out, in the General Fund, the excess may be used in one or a combination of the following ways:

- (a) Committed, in accordance with the funding policy in Section V, to increase the Financial Stabilization Fund; or
- (b) Left in the General Fund to earn interest and roll forward into the subsequent year's beginning fund balance; or
- (c) Appropriated by ordinance of the Northampton County Council for a one-time expenditure or opportunity that does not increase recurring operating costs; or
- (d) Appropriated for start-up expenditures of new programs undertaken at mid-year, provided that such action is considered in the context of council-approved multi-year projections of revenues and expenditures.

SECTION VII. SPENDING ORDER OF OPERATING REVENUES AND FUND BALANCES

The County will first use Federal, then State, and lastly County revenues to meet its financial obligations. The County requires restricted amounts to be spent first when both restricted and unrestricted revenue or 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 County would first use assigned fund balance, followed by unassigned fund balance when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

SECTION VIII. 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 IX. ADDITIONAL INFORMATION, REQUIREMENTS AND RESPONSIBILITIES

It will be the responsibility of the Northampton County Director of Fiscal Affairs to keep this policy current.

SECTION X. EFFECTIVE DATE

This Policy shall take effect thirty (30) days after the date of enactment of this ordinance.

SECTION XI. REPEALER

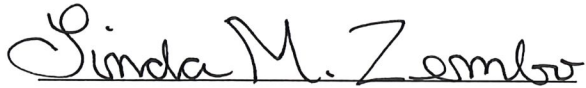
That any Ordinances, or part of Ordinance, conflicting with this Ordinance be and the same is hereby repealed insofar as the same affects this Ordinance.

SECTION XII. SEVERABILITY

If any sentence, clause, section or part of this Ordinance 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 Northampton County Council that this Ordinance would have been adopted had such unconstitutional, illegal or invalid sentence, clause, section or part thereof not been included herein.

This ordinance was advertised on the 18th day of February 2018 and was adopted by the Northampton County Council on the 1st day of March 2018.

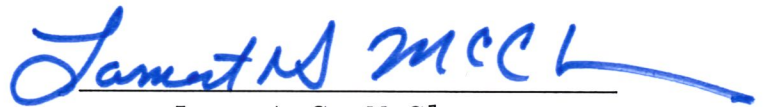
Attest:



Linda M. Zembo  
Clerk to Council

Kenneth M. Kraft

Kenneth M. Kraft  
County Council President



Lamont G. McClure  
County Executive

(J:\2018\bills\bill1719)