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Jonathan B. Kanipe,
Town Manager

MEMORANDUM

To: Mayor and Board of Commissioners

From: Jonathan Kanipe, Town Manager

Re: Consideration of Resolution Approving Town's General Fund Balance Policy

Date: August 6, 2018

The Board of Commissioners has long had an informal policy of keeping the Town's fund balance at or above 20 percent. The North Carolina Local Government Commission (LGC) recommends that local governments keep a minimum of eight (8) percent available for emergency purposes. The Town historically has been fortunate and able to keep fund balances above this threshold, and staff felt it appropriate to present the Board with a formal policy outlining these plans.

This policy requires sound fiscal management practice from the Town Manager and finance staff. The Town must walk a fine line between having enough funds set aside in fund balance for emergency purposes and allocating fund balance when necessary, as is typical with capital projects. Again, the attached policy does not stray from what the Town is presently doing; rather, this codifies with Board action the Town's existing and sound fiscal policy in regards to fund balance. Please let me know what questions you may have regarding this policy proposal or any of its inclusive sections.



FUND BALANCE POLICY- GENERAL FUND

Presented to the Board of Commissioners August 14, 2018

SECTION 1. PURPOSE

- 1.1 The purpose of this policy is to define the level of Unassigned Fund Balance and establish guidelines for preserving an adequate fund balance in the Town of Biltmore Forest operating funds in order to provide sufficient financial flexibility to meet future obligations, enhance the financial position of the Town, plan for contingencies in the event of emergency, and to ensure adequate cash flow.

SECTION 2. DEFINITIONS

- 2.1 Fund Balance: the difference between a fund's assets and liabilities.
- 2.2 Types of Fund Balance. An accounting distinction is made between the portions of governmental fund balance that is spendable and non-spendable. Governmental Accounting Standards Board (GASB) Statement 54 classifies fund balance based on relative strength of the constraints that control the purposes for which designated amounts may be spent.
 - 2.2a Non-spendable: Amounts not in a spendable form or are required to be maintained intact. Examples include inventory and prepaid items.
 - 2.2b Restricted: Amounts that can be spent only for the specific purposes stipulated by external resource providers, whether constitutionally or through enabling legislation. Examples include grants and debt proceeds.
 - 2.2c Committed: Amounts that can be used only for specific purposes determined by a formal action of the Town's highest level of decision making authority, which is the Town Board of Commissioners. Commitments may be changed or lifted only by the Board of Commissioners taking the same formal action that originally imposed the commitment.
 - 2.2d Assigned: Amounts intended to be used by the Town for specific purposes. Intent may be expressed by the Town Board of Commissioners by the approval of a budget appropriation. 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. An example includes funds assigned by the Town Board of Commissioners for specific capital projects.
 - 2.2e Unassigned: The residual classification of the general fund and includes all amounts not contained in other classifications. The Town uses the term available fund balance when referring to unassigned fund balance. Available fund balance (or unassigned fund balance) is the amount that is available for appropriation for public purposes.

SECTION 3. OBJECTIVES

- 3.1 The Town recognizes that it is essential to maintain adequate unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances.



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- 3.2 The fund balance also provides cash flow liquidity for the Town's operations and increases the potential for investment income.
- 3.3 Ample fund balance enhances short term and long term financial credit by helping to achieve the highest credit and bond ratings possible to provide the Town the ability to borrow at the lowest possible rate.
- 3.4 A fund balance policy promotes the long-term financial stability by establishing clear and consistent guidelines.
- 3.5 Adequate unassigned fund balance will provide funding flexibility during unanticipated emergencies and natural disasters.

SECTION 4. GUIDELINES

- 4.1 The Town commits to maintained reserves required by law, ordinance, and/or bond covenants.
- 4.2 North Carolina Local Government Commission, which is charged with the oversight of the fiscal health of North Carolina cities and counties, recommends that a minimum of eight percent (8%) of annual budgeted expenditures be maintained for unassigned fund balance. Higher levels may be set based on the current operating needs of the Town and the individual fund and future funding needs.
- 4.3 The Town Board of Commissioners hereby establishes a goal for unassigned fund balance for the General Fund in the range of twenty five to thirty five percent (25%-35%) of budgeted expenditures.
- 4.4 The State and Local Government Finance Division of the North Carolina Department of State Treasurer publishes a memo annually regarding the management of cash and taxes and fund balance available for municipalities for fiscal year end date. The division compares fund balance available and the trend of percentage of fund balance available and will advise units if fund balance available is materially below the average of similar units or the trend is for fund balance available to decline. The Town will review the memo annually to ensure fund balance available is in the acceptable peer group range. The Town will, as part of the Comprehensive Annual Financial Report, monitor the trend of change in available fund balance to ensure there is not a trend of decline.
- 4.5 All expenditures made using appropriation(s) from fund balance will require the Board of Commissioners approval unless previously authorized by the Board of Commissioners for expenditure within the Town's annual budget.
- 4.6 Should fund balance fall below the goal levels, the Town Manager shall implement a plan to restore fund balance to the goal level within thirty-six (36) months from the date of appropriation. The restoration plan shall be included in the annual budget until the goal level is reached.
 - 4.6a Should the fund balance fall below goal levels as a result of a declared fiscal emergency or to protect long-term fiscal security, and the restoration of fund balance cannot be completed within thirty-six (36) months without severe hardship to the Town, the Board of Commissioners will establish an alternative restoration plan.



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- 4.7 The Town Manager is authorized by the Board of Commissioners to credit all revenue in excess of expenditures realized at the end of any fiscal year for the General Fund that is not non-spendable, restricted, assigned, or committed to the unassigned fund balance.

SECTION 5. EXPENDITURE OF FUNDS

- 5.1 Available fund balance above the Town's goal should be considered, through the annual budget process, as a funding source for capital needs funded with pay-as-you-go capital. Appropriations outside the annual budget will generally be limited to:
- 5.1a Expenditures to support or facilitate projects that generate new revenues or cost savings in excess of the investments within established time frames;
 - 5.1b Interim partial year funding for new programs that are needed before the next fiscal year;
 - 5.1c Cost related to unanticipated workload in the current fiscal year that cannot be addressed with budgeted resources;
 - 5.1d 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.
- 5.2 Appropriation of available fund balance exceeding the minimum funding levels may only be used at the discretion of the Board of Commissioners in dire financial circumstances in order to:
- 5.2a Provide resources to offset unforeseen revenue shortfalls in combination with expenditure reductions;
 - 5.2b Fund emergency expenditures in a disaster.
- 5.3 If multiple categories of fund balance are available for expenditure, the Town will start with the most restricted category and spend those funds first before moving down to the next category with available funds.