

2nd Draft

CITY OF ROCHESTER HILLS

FUND BALANCE POLICY

Purpose:

The City Council believes that sound financial management practices require that a sufficient amount of fund balance be retained, by the City, to provide a stable financial base. To retain this stable financial base, the City needs to maintain a fund balance within the General Fund to fund the cash flows of the City and to provide financial reserves for unanticipated revenue shortfalls and/or expenditures.

This policy shall serve as a benchmark or frame of reference, against which current and future decisions related to the use of Unrestricted, Undesignated fund balance of can be made.

Policy Statement:

- 1) To preserve the City's sound financial system and to provide a stable financial base, the City Council believes, at a **minimum**, that the Unreserved, Undesignated Fund Balance percentages of regular operating revenues be maintained:

General Fund	20%
Special Revenue Funds (Voted and Non-Voted Millage Funds	20%
Internal Funds (Retained Earnings)	20%
Enterprise Funds (Water and Sewer Retained Earnings)	25%

Funds with special purposes (Debt Service, Perpetual Care, Capital Expenditure, Tree Fund, Green Space, etc.) are exempted from this policy due to the nature of their individual function.

- 2) As part of the annual budget preparation process, the Mayor and/or the Director of Finance shall prepare a report, to City Council, documenting the status of the fund balances with regard to this policy.
- 3) Use of fund balance should be considered if any of the following reasons exist:
 - A) Loss of a significant budgeted item(s) (revenue or expenditure).
 - B) Local Disaster.
 - C) Monetary Judgment against the City.
 - D) Unfunded mandates.

- E) Unanticipated local share in unanticipated capital improvement program or project in calendar current year.
 - F) Gap in funding between voted millage.
 - G) Loss of excess insurance coverage.
 - H) Unanticipated Cash Flow requirement that is non-recurring.
- 4) Should the Unreserved, Undesignated fund balance fall **below** the prescribed minimums stated in (1) above, the City Council shall enact a plan, within 90 days, to restore the fund balance to the prescribed level within two budget years of its occurrence.
- 5) Use of Unreserved, Undesignated fund balance **above** the minimums as stated in (1) above will be allowed as directed by City Council.

Definitions:

Fund Balance: Fund balance means the difference between fund assets and fund liabilities also sometimes referred to as the fund's net asset position.

Reserved Fund Balance: Reserved fund balance is the portion of fund balance that is *legally restricted* and is not available for use.

Unreserved Fund Balance: Unreserved fund balance represents fund balance available for revenue shortfalls, unanticipated expenditures or capital improvement projects. It is generally further divided into designated or undesignated.

Designated Fund Balance: Designated fund balance is that portion of *unreserved fund balance* that reflects the City's self-imposed limitations on the use of otherwise available financial resources.

Undesignated Fund Balance: Undesignated fund balance is that portion of *unreserved fund balance* available as a financial resource and has not been obligated to a specific purpose.