

# INTERNAL SERVICE FUNDS

Activities that produce goods or services to be provided to departments within a governmental unit on a cost-reimbursement basis *may* be accounted for by internal service funds to assist with the management of resources.

- User charges need not cover the full cost (City's internal service funds do recover the full cost)
- Proprietary Funds - Not governmental funds - use accrual basis of accounting – like a business. Depreciation is booked because fixed assets are held as an asset in the fund.  
{Depreciation = the cost of the asset\* charged off (prorated over the estimated life) as an expense  
\*minus salvage value

- Depreciation *may* be included in the internal service charge to finance capital purchases – it is not a requirement (City is collecting the depreciation in addition to the General Fund paying the current bond payments)
- GASB and State of Michigan do not require budget appropriations for proprietary funds

- City Charter requires budget appropriations for all funds (except Trust & Agency Funds). No money shall be drawn from the Treasury of the City nor shall any obligation for the expenditure of money be incurred except pursuant to the budget appropriation.

## MUNICIPAL BUILDING BOND PAYMENT

*The payment of the Municipal Building bond is recommended to be funded by way of the Facilities Fund 'occupancy charge' as opposed to the General Fund transferring the monies directly to the debt retirement fund in addition to the occupancy charge collecting monies from all departments for future replacement costs of the City Hall building.*

# Change is based on the following:

- Taxpayers are currently funding the existing (newly constructed) City Hall building by way of the debt payment funded by the General Fund **in addition** to funding for future replacement costs for the City Hall building through the Facilities 'occupancy charge'

City Charter Section 4.2 provides "The annual ad valorem tax levy shall be sufficient to provide funding to adequately cover only budgeted expenditures for the fiscal year....."

## Additional fact to consider:

- Approximately \$155,000 for original City Hall building will continue to be moved to the Facilities Fund for future City Hall building replacement costs

## Additional fact to consider:

- Under the current methodology, in 2004 and 2005 alone, approximately \$1,600,000 has already been moved to the Facilities Fund for City Hall building's future replacement costs



## Additional fact to consider:

- Fourteen (14) years the debt will be retired, at that time the occupancy payments should continue, but to be directed to the Facilities Fund to support future City Hall building replacement costs

## Additional fact to consider:

- The Capital Improvement Fund is projected to have \$3,500,000 undesignated in fund balance at year-end to possibly fund any early building failures (significant)

\*Currently has \$3,400,000

## Additional fact to consider:

- Under the new method, all user departments will pay toward the City Hall debt retirement as opposed to just the General Fund

