

# CITY OF ROCHESTER HILLS

## FUND BALANCE POLICY

Adopted July 27, 2009

### 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 examples include:
    - a. Millage adopted in a November election misses the County's October certification deadline but has expenditures budgeted to begin in January and needs temporary funding until the millage can be billed.
    - b. Voters approve the issuing of Bonds for construction purposes but there are costs that need to be incurred before the debt can be sold. Therefore temporary funding is needed until the debt is offered.
  - 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.