



# City of Rochester

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## Fund Balance Policy

The City of Rochester deems it essential to maintain adequate levels of fund balance to maintain financial stability and to mitigate current or future contingent liabilities or risks. Therefore, the following outlines the City's policy on maintaining what the City deems to be an adequate amount of General Fund unrestricted fund balance to ensure stable tax rates and to serve as a guide in long term financial planning. Also, as bond rating agencies evaluate the City's general fund to determine its creditworthiness and economic condition, it is important to maintain appropriate levels of fund balance to enhance the City's bond rating.

As all funds accounted for in the City's general ledger must be utilized for a specific purpose with the exception of the General Fund, this policy addresses the fund balance of the General Fund. The unrestricted portion of the General Fund's fund balance is intended to serve as a measure of the unrestricted financial resources available to the City.

The Governmental Accounting Standards Board (GASB) has distinguished five separate categories of fund balance based on external and internal restraints on how the funds may be utilized: *nonspendable*, *restricted*, *committed*, *assigned*, and *unassigned*. Nonspendable and restricted fund balances refer to external restrictions, whereas the committed, assigned, and unassigned fund balances refer to amounts without external constraints but may include amounts constrained by the City Council.

*Nonspendable* fund balance includes amounts that are constrained legally or contractually.

*Restricted* fund balances refers to amounts restricted in nature including dedicated millages, debt covenants, bond proceeds, or grants received.

*Committed* fund balance includes amounts that can only be used for specific purposes as defined by formal City Council action. Formal City Council action is defined as approval by motion or resolution at a City Council meeting or by actions set forth by the City Council in the adopted budget. City Council would have the ability to reclassify or remove the limitation for the specific purpose by formal action.

*Assigned* fund balance refers to amounts intended to be used by the City for a specific purposes but does not have the formal constraints that the committed funds have.

*Unassigned* fund balance is the residual amount not contained in the other classifications.

The following factors will be considered by the City in establishing its fund balance policy:

- The predictability of its revenues and volatility of its expenditures.

- Exposure to significant one-time outlays (i.e. disasters, cash flow shortfalls, short term capital needs).
- Potential need of General Fund resources from other funds as well as availability of resources in other funds.
- Potential need of General Fund resources from the City's long-term liabilities (i.e. debt obligations, pension unfunded accrued liability, Other Post Employment Benefits (OPEB) unfunded actuarial accrued liability.
- Specific and planned future capital projects, including retaining funds for grant matching opportunities.
- Liquidity and cash flow needs.
- Legal, contractual, or regulatory constraints or obligations.

The City shall utilize GASB categories to designate the fund balances which are rolled together for reporting of fund balance in accordance with GASB 54. The only *unassigned* fund balance of the City shall be that of the General Fund. The Funds directly associated with the General Fund include:

- General Capital Projects Fund: fund balance is *committed* for the acquisition of new or the replacement of capital assets related to the general activities of government (parks, building, etc.).
- Pension Unfunded Liability Funding Fund: fund balance is *committed* or *assigned* to be available to fund the unfunded actuarial accrued liability of the City's defined benefit pension obligations.
- OPEB Unfunded Liability Funding Fund: fund balance is *committed* or *assigned* to be available to fund the unfunded actuarial accrued liability of the City's other post employment benefits OPEB, which include the City's post-retirement employee health care obligations.

General Fund balance may be transferred to other funds of the City. However, once transferred this funding is no longer designated as fund balance of the General Fund, and is considered fund balance of the receiving Fund.

Annually, as part of the budget process, City Council shall designate the desired fund balance for the General Fund (unassigned), General Capital Projects (committed), Pension Unfunded Liability Funding (assigned) and OPEB Unfunded Liability Funding (assigned). In addition, Administration shall review and offer recommendations to City Council regarding changes to the fund balance in each of the designated funds at times when significant changes occur or new actuarial information is available.