**FUND BALANCE POLICY**

**CITY OF BIRCHWOOD VILLAGE**

**Adopted May 11, 2011**

**Policy**

The city shall maintain adequate financial reserves to meet cash flow needs; to fund short-term capital improvements and special one-time projects; to meet emergencies; and to mitigate the effects of unexpected fluctuations in revenues or expenditure needs. The city shall maintain the unreserved general fund balance between 40 and 50 percent of the budgeted operating expenditures or six months of operating revenue whichever is greater and as measured on December 31st of each year.

**Definitions**

Fund balance means the difference between assets and liabilities in a governmental fund. There are five types of governmental funds: general fund, special revenue funds, debt service funds, capital projects funds, and enterprise funds.

Unreserved fund balance means all designated and undesignated financial resources in all general, special revenue, and capital project funds. These financial resources would be available to authorize for future expenditures.

Unreserved, undesignated fund balance means financial resources for which no legally binding commitment has been made and for which the city has not planned to expend for a specific purpose.

Unreserved, designated fund balance includes financial resources for which there is no legally binding commitment but for which the city council has designated how they will be used in the future. Designations reflect the government’s self-imposed limitations on the use of otherwise available expendable financial resources.

Reserve fund balance means that portion of the financial resources in the governmental funds that is not available for appropriation and can be spent only for the purpose for which they are reserved. (e. g. funds for which there is a legally binding commitment as to how the funds shall be used.)

**Guidelines**

1. The City will maintain the unreserved general fund balance at an appropriate level by:
2. Designating an amount of financial resources that are to be available for times of an emergency. An emergency may occur when budget deficits arise from significant revenue losses or expenditure increases; when there is a temporary revenue shortfall or when the city incurs an unpredicted expenditure.
3. Developing a specific plan for increasing or decreasing the level of unreserved general fund balance to bring it into compliance with the policy when the unreserved general fund balance doesn’t match the policy.
4. Designating a portion of any year-end budget surplus for major projects such as street improvements or water treatment system upgrades. The city shall hold these financial resources in a designated account for the specified purpose.
5. Designating a portion of any year-end budget surplus to increase the General Fund fund balance.
6. The unreserved general fund balance may be above the range when saving for a major project or purchase or in anticipation of taking on an expensive capital project.
7. For any planed use of the unreserved general fund balance below the minimum level, the city shall adopt a plan to restore the fund balance to the targeted level.
8. The policy should be reviewed every 3 years or more often if conditions change.