

	<p>City of Durham, NC</p> <p>Memorandum</p>	<p>Effective Date</p> <p>September 1, 2011</p>	<p>Number</p> <p>FP 112.01</p>
<p>To: Deputy City Managers, Department Heads and All City Employees</p>		<p>Manual Finance</p>	<p>Revision</p>
<p>Signature:</p> <p>Thomas J. Bonfield, City Manager</p>		<p>Subject: Fund Balance Policy for General Fund and Operating Reserve Requirement for Water and Sewer Fund</p>	

I. Purpose

The purpose of this policy is to establish a fund balance target for the General Fund and an operating reserve requirement for the Water and Sewer Fund. Fund balance and reserve maintenance are important because they provide financial safety nets in the event of emergencies, economic downturns, or other unforeseen circumstances. Fund balance and reserve maintenance are also major factors considered by bond rating agencies when evaluating the City’s credit worthiness.

II. Policy

For the General Fund: To maintain Unassigned Fund Balance (“UFB”) in an amount no less than the greater of 12% of the current year’s originally adopted Adjusted Budgeted Expenditures, or the amount required by the Local Government Commission (LGC). UFB could fall to a level below 12% only at the direction of Council and if it is determined that it is prudent to do so to mitigate current or future risks (e.g., significant revenue shortfalls or unanticipated expenditures), to address unforeseen opportunities or for other emergency purposes. If Council directs actions which result in a UFB of less than 12%, then the next year’s budget must include a plan to restore the UFB to the minimum level within a reasonable amount of time. Any portion of the UFB in excess of 12 % of Adjusted Budgeted Expenditures may be considered only for one-time (i.e., non-recurring) expenditures.

For the Water and Sewer Fund: To maintain an Operating Reserve equivalent to 50% of annual Operating and Maintenance (O&M) Expenses. If the operating reserve is projected to fall below the target of 50%, then appropriate action, including rate increases and/or reductions in spending, will be taken to restore the reserve to the target level.

III. Definitions

Unassigned Fund Balance (UFB) – Fund balance amounts within the General Fund that are properly reported in the City’s financial statements as Unassigned as defined by the Governmental Accounting Standards Board (GASB) statement number 54. This amount represents fund balance that has not been restricted, committed, or assigned to specific purposes within the General Fund.

Adjusted Budgeted Expenditures – Total General Fund appropriations less any amounts appropriated within the fund for debt service and transfers to other funds. Calculations shall be made based upon the original annual budget adopted by City Council.

Operating Reserve- Current assets less inventories, accounts payable, accrued payroll and deposits held in escrow as reported in the City’s financial statements within the Water & Sewer Fund.

Operating and Maintenance Expenses – Total operating expenses less depreciation as reported in the City’s financial statements within the Water & Sewer Fund.

IV. Procedures

The Finance Department and the Budget & Management Services Department shall jointly develop projections of revenue and expenses to ensure that the City Manager’s recommended budget presented to Council each year is in compliance with this policy.

At the end of each fiscal year and upon completion of the audit of the financial statements, the Finance Department shall calculate the actual year-end UFB and Operating Reserve levels and report these amounts to the City Manager and City Council.

V. Other

- This policy supersedes Council resolution #8571 regarding the level of fund balance in the General Fund of the City of Durham’s annual budget.
- The Finance Department is responsible for revisions and updates to this policy.

VI. Attachments

None