

GENERAL FUND – FUND BALANCE POLICY

Adopted by the Township Board on:

1. Purpose

The purpose of this Fund Balance Policy is to establish the minimum fund balance level necessary to ensure the financial stability of the Township of Hamburg. This policy provides guidelines for classifying, maintaining, and using fund balance in accordance with **GASB Statement No. 54**, while supporting long-term fiscal sustainability, stabilizing service delivery, and maintaining adequate reserves for emergencies and unexpected events.

2. Scope

This policy applies to the **General Fund** of the Township only. Other funds may maintain separate reserve or fund balance policies if required by law, debt covenants, grant agreements, or board directive.

3. Fund Balance Classifications

The Township adopts the five classifications of fund balance required by GASB 54:

1. **Nonspendable Fund Balance**
Amounts not in spendable form or legally/contractually required to be maintained intact (e.g., prepaid expenses, inventories).
2. **Restricted Fund Balance**
Amounts constrained for specific purposes by external parties, constitutional provisions, or enabling legislation.
3. **Committed Fund Balance**
Amounts constrained by formal action of the Township Board.
 - Commitments require a **resolution of the Township Board**.
 - Commitments can only be changed or removed by equivalent Board action.
4. **Assigned Fund Balance**
Amounts intended for specific purposes but not formally committed.
 - Authority to assign fund balance is delegated to the Township Supervisor.
 - Assignments may include appropriations for the next fiscal year's budget.

5. **Unassigned Fund Balance**

Available for any purpose and only reported in the General Fund. This represents the Township's primary operating reserve.

4. Minimum Unassigned Fund Balance Requirement

To ensure stable operations, protect against revenue volatility, and maintain adequate cash flow, the Township shall maintain an **Unassigned General Fund Balance equal to no less than 100% of annual General Fund expenditures.**

5. Conditions for Use of Fund Balance

Unassigned fund balance may be used only under the following circumstances:

1. **Operational emergencies** such as severe revenue shortfalls, unexpected major expenditures, or significant timing delays in revenue collection.
2. **Declared emergencies or disasters**, including those recognized by the State of Michigan or federal government.
3. **Non-recurring expenditures** or investments that improve long-term efficiency, reduce future costs, or address public safety or infrastructure needs.
4. **Cash flow needs**, particularly in the first half of the fiscal year before property tax collections are received.

Use of fund balance **shall not** be for recurring operational costs unless a plan exists to sustain operations thereafter.

Any use that brings reserves **below the minimum required level** must be accompanied by a formal repayment plan (see Section 6).

6. Replenishment of Fund Balance

If unassigned fund balance falls below the minimum threshold:

1. The Township Supervisor shall prepare a **replenishment plan** for Township Board approval within **90 days** of the deficit determination.
2. The plan must restore fund balance to required levels within **three (3) fiscal years**, using any combination of:
 - spending reductions
 - revenue enhancements

- one-time transfers where appropriate
 - postponement of capital outlay
 - 3. The Township Board may extend the replenishment period in extraordinary economic conditions, such as statewide recession or declines in taxable value.
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7. Order of Resource Use

When expenditures are incurred for purposes with multiple fund balance classifications available, the Township will use resources in the following order unless otherwise directed by Board action or legal requirements:

1. Restricted
 2. Committed
 3. Assigned
 4. Unassigned
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8. Authority Over Fund Balance Actions

- **Township Board:**
 - Adopts and amends this policy
 - Approves all **committed** fund balance amounts
 - Approves use of unassigned fund balance falling below minimum levels
 - **Township Supervisor and/or Clerk:**
 - May assign fund balance for specific purposes
 - Monitors compliance with this policy
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9. Compliance with Michigan Law

This policy is consistent with and subordinate to the requirements of:

- **Michigan Uniform Budgeting and Accounting Act (PA 2 of 1968)**
- **Michigan General Law Township Act / Charter Township Act**
- **GASB Statement No. 54** and subsequent accounting standards

Where conflicts arise, statutory requirements supersede this policy.

10. Annual Review

The Township Board shall review this policy as part of the annual budget process. The Director of Accounting shall report the fund balance position annually, including:

- Total General Fund balance by classification
 - Compliance with the minimum fund balance requirement
 - Cash flow sufficiency during the fiscal year
 - Recommendations for adjustments, if necessary
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11. Policy Adoption

This policy shall become effective upon adoption by the Township Board of Hamburg, Michigan, and remain in effect until amended or rescinded by formal board action.