



David Williamson, CPA  
Post, Smythe, Lutz and Ziel of Plymouth, LLP

**Q. We maintain a fund balance in the general fund as a "rainy day fund." What are some guidelines for appropriate fund balance levels?**

All township funds (other than Agency funds, which have no equity) must have positive "fund balance" since townships are not permitted by state law (MCL 141.435(2) and 141.921) to have deficits. Determining the size of the fund balance is subjective, since every community is different. Some townships have the need for higher fund balance reserve, due to the composition of their tax roll, possibility of unforeseen expenditures, fiscal year, and "risk tolerance" of board members. For example, townships with March 31 year-ends have the need for higher fund balances than Dec. 31 year-end townships, because they both recognize revenues for the same winter tax billing on Jan. 1. The March year-end township must wait nine months until it realizes tax revenues, while the township with a December year-end township waits has tax revenue prior to commencement of its fiscal year.

Some townships prefer to accumulate resources for "non-operating" reserve items, such as future capital expenditures. Given these factors, and the uncertainty over state shared revenues, many township officials believe that the operating reserve or rainy day fund should be 10 to 20 percent of annual revenues.

Townships may wish to consider establishing a formal fund balance policy, which reflects the board's financial objectives. This policy could address the level of unreserved fund balance that the township wishes to accumulate for contingencies and other purposes, and explain the reasons for accumulating resources and under what circumstances they will be expended.

**Q. Are there other funds we should consider to retain fund balance?**

The township's general fund is the primary operating fund of the township, but many townships use the budget stabilization fund (number 257) and the public improvement fund (number 245) for rainy day funds. The budget stabilization fund is only used for operating reserve funds, while the public improvement fund is used as a non-operating reserve for future capital needs. Both funds have specific statutory procedural requirements that guide their use. As special revenue funds, annual budgets must be prepared for each of these funds.

*Budget stabilization funds* are authorized by the Budget Stabilization Fund Act (MCL 141.441-141.445). The township can set aside 15 percent of current general fund budget expenditures or 15 percent of the average of the past five general fund budgets, whichever is less. Monies transferred to the budget stabilization fund can only be brought back to the general fund by a two-thirds vote of the township board to cover general fund

deficits and certain natural disaster costs, and to prevent service reductions or employee layoffs when current year revenues or projected budget revenues fall short. The budget stabilization fund must be established by ordinance adopted by the township board, which requires a two-thirds vote.

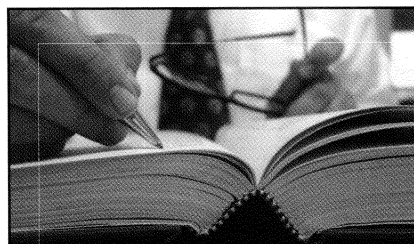
*Public improvement funds* are authorized by the Public Improvement Funds Act (MCL 141.261-141.263). A public improvement fund can be used by townships to accumulate non-tax revenue for activities to construct, acquire, extend, alter, repair or equip public improvements or public buildings as authorized by law. Unexpended balances cannot be transferred back to the general fund.

**Q. What are the advantages and disadvantages of using these funds to retain fund balance?**

Generally, townships use budget stabilization and public improvement funds when they want to permanently allocate their accumulated resources from the general fund. For example, if the township board wants to set aside \$100,000 for a new township hall, officials can choose to approve a resolution reserving a portion of the general fund balance, or they can transfer the money to the public improvement fund. Reserving part of the general fund balance can be reversed by future board actions. A transfer to the public improvement fund, however, is permanent.

If a township wants flexibility in using the fund balance, surpluses should be kept in the general fund. Townships that use the general fund as a vehicle to accumulate resources should consider making, by resolution, formal designations of general fund balances for specific purposes. These internal restrictions on fund balance use should be disclosed in the township's annual audited financial statements.

*Information provided in Financial Forum should not be considered legal advice, and readers are encouraged to contact their township auditor and/or attorney for advice specific to their situation.*



**POST, SMYTHE, LUTZ & ZIEL  
OF PLYMOUTH, LLP**  
CERTIFIED PUBLIC ACCOUNTANTS  
1034 West Ann Arbor Trail • Plymouth, MI 48170  
Ph. 734.453.8770 Fax. 734.453.0312

*experience  
knowledge  
integrity*

Auditing  
Governmental Accounting  
Financial Consulting  
Services