

CITY OF MOUNT PLEASANT  
ENTERPRISE FUNDS  
WORKING CAPITAL POLICY

Originally adopted: July 26, 1993  
Revised: April 28, 2003

I. Objective

The Enterprise Funds primary financial objective is to provide long-term quality utility service at the most economical cost possible. Having adequate financial resources will enable the City to achieve this objective and its mission of serving the citizens of Mount Pleasant.

II. Policy Considerations

The working capital is the net accumulation of prior years surpluses and deficits. While there is no specific rule or formula to determine the level at which the Enterprise Fund Working Capital balances should be maintained, the following areas need to be considered in setting a level.

- A) Cash flow requirements for ongoing operations.
- B) Long-term prospects for balancing the budget and expected economic conditions.
- C) Resources to react to emergency situations.
- D) Plans to purchase equipment and other capital expenditures.

III. Composition of the Working Capital

The Enterprise Fund's Working Capital are made up of both reserved and undesignated portions.

- A) The reserved portion of the Working Capital provides reserve funds for line and plant replacement and maintenance purposes in the future.
- B) The "undesignated" Working Capital refers to that portion of the Working Capital which is unencumbered and available for use to meet future expansion, emergency situations or operating costs.

IV. Policy

- A) The first goal is to maintain an undesignated Working Capital balance sufficient to provide for Enterprise Fund operations for three months, or meet a significant emergency situation. It is estimated that this would require the accumulation of approximately 40% to 50% of the ongoing annual budget.
- B) The second goal is to continue to accumulate within the reserved portions of the Working Capital the funds necessary to meet the anticipated future needs for pipeline and plant maintenance and replacement.

V. Action Plan

The City Manager and the Finance Director shall annually review the Enterprise Working Capital balance levels. After an assessment of planned capital acquisitions, debt service needs, and the City's capacity to achieve its Enterprise Working Capital balances goal, the City Manager will recommend, through the budget process, any necessary adjustments to the Working Capital balance.

Notwithstanding the above, a system-wide rate study should be performed at least every three (3) years to determine the sufficiency of the existing rate levels.