

**POLICY: FUND BALANCE POLICY**

ORIGINAL ADOPTION: 12-13-2011

REFERENCE NO. FIN-002

REVIEWED/UPDATED: NA

**PURPOSE**

The City understands that it has a responsibility to maintain prudent financial operations to ensure stable city operations for the benefit of city residents and businesses. Fund balance reserves are an important component in ensuring the overall financial health of the community, by giving the City cushion to meet contingency or cash-flow timing needs. The Office of the State Auditor recommends that at year-end, local governments maintain an unrestricted fund balance in their general fund and special revenue funds of approximately 35% to 50% of fund operating revenues, or no less than five months of operating expenditures. While the bond rating agencies do not have recommended fund balance levels, the agencies look favorably on larger fund balances, which protect against contingencies and cash flow needs.

In addition, this policy integrates and further defines the City of Mound's governmental fund balance classifications to be in compliance with the Governmental Accounting Standards Board Statement 54: Fund Balance Reporting and Governmental Fund Type Definitions.

**POLICY**

It is the City's general guideline to maintain an unassigned General Fund balance, also referred to as the "minimum fund balance", of not less than 20% of budgeted operating expenditures; however, this need could fluctuate with each year's budget objectives.

Annual proposed budgets shall include this benchmark policy. The City Council shall review the accounts in fund balance in conjunction with the annual budget approval, and make adjustments as necessary to meet expected cash-flow needs.

In the event the unassigned General Fund balance will be calculated to be less than the minimum requirement at the completion of the fiscal year, the City shall plan to adjust budget resources in subsequent fiscal years to bring the fund balance into compliance with this policy.

The adopted budget resolution indicates the amount that can be expended by each fund and is supported by detailed budget estimates for individual expenditure accounts, also referred to as "line items". Variances to budget in these line items expenses may occur as long as the fund remains at or above budgeted levels. If a fund is not expected to meet or exceed its budget, a budget revision at the fund level must be authorized by the City Council at the request of the City Manager. The City Council, under Minnesota Statutes 412.731, can modify or amend the budget resolution if funds are available and a 4/5 vote is obtained.

The City Council may consider appropriating (for authorized purposes) year-end fund balance in excess of the minimum fund balance or increasing the minimum fund balance. An example of

preferred use of fund balance over and above the minimum fund balance would be for one-time expenditures, such as capital expenditures, which do not result in recurring operating costs.

Appropriation from the minimum fund balance shall require the approval of the City Council and shall be used only for non-recurring expenditures, unforeseen emergencies or immediate capital needs that cannot be accommodated through current year savings. Replenishment recommendations will accompany the decision to utilize fund balance.

At the discretion of the City Council, fund balance may be committed for specific purposes by resolution designating the specific use of fund balance and the amount. Fund balance commitment resolutions must be completed before December 31<sup>st</sup> to be effective for that fiscal year and remain in effect until the commitment is changed or eliminated by Council resolution.

The City Council authorizes the City Manager to assign fund balance for reporting purposes only, that reflects the City's intended use of those funds. This does not change the authority to actually spend resources, but to assign resources for presentation purposes only.

When both restricted and unrestricted resources are available for use, it is the City's policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1. Committed, 2. Assigned, and 3. Unassigned.

## **DEFINITIONS**

Governmental Fund Balance classifications are defined as follows:

**Fund Balance:** The difference between assets and liabilities reported in a governmental fund.

**Nonspendable Fund Balance:** Amounts that are not in a spendable form or are required to be maintained intact. Examples include prepaid items, inventory, land held for resale, and long-term receivables that are not otherwise restricted, committed, assigned, or offset by deferred revenue.

**Restricted Fund Balance:** Amounts subject to externally enforceable legal restrictions. Examples include fund balance related to unspent bond proceeds, tax increments, debt service fund balances, and park dedication fees.

**Unrestricted Fund Balance:** The total of committed fund balance, assigned fund balance, and unassigned fund balance.

**Committed Fund Balance:** Amounts that are constrained by a City Council resolution for a specific purpose.

**Assigned Fund Balance:** Amounts a government intends to use for a specific purpose; intent can be expressed by the government body or by an official or body to which the governing body delegates the authority. This would include any remaining positive fund balance in all funds

other than the general fund. Examples include all special revenue balances that are not restricted or committed, due to the specialized intent of the revenue source.

**Unassigned Fund Balance:** Residual amounts that are available for any purpose in the general fund. Unassigned fund balance will occur only in the General Fund or in other fund when there is a negative fund balance that can't be eliminated by reducing restricted, committed, or assigned fund balances.