



FUND BALANCE POLICY

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A. ScopePurpose

The purpose of the fund balance policy is to provide adequate working capital for cash flow and contingency purposes, while maintaining reasonable tax rates and user fees.

The Government Finance Officers Association (GFOA's) guiding principle for classifying the various components of fund balance is to indicate the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent.

Following governmental accounting standards, the City has three basic categories: governmental funds, proprietary funds, and fiduciary funds. The fund balance classification policy applies only to the governmental and proprietary categories.

B. Definitions

B.1. Fund Balance/Equity/Net Position

Fund balance is the difference between the assets and liabilities in a governmental fund. A governmental fund generally involves tax support and the focus of accounting is the flow or control of money. The General, Special Revenue, Debt Service and Capital Projects funds are governmental funds.

Net position ~~Fund equity~~ is similar to fund balance but applies to enterprise and internal services fund and has a longer-term focus including fixed assets, accumulated depreciation and long-term debt.

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2. Nonspendable fund balance

Amounts that are not in a spendable form (e.g., prepaid items and inventories of supplies). Resources that must be maintained intact pursuant to legal or contractual requirements are also considered nonspendable.

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3. Restricted fund balance – amounts subject to externally enforceable legal restrictions (creditors, grantors, contributors, and by law through constitutional provisions or enabling regulations).

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4. Unrestricted fund balance – the total of committed fund balance, assigned fund balance, and unassigned fund balance, as described below.

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a) Committed fund balance – amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority (City Council). Commitments may be changed or lifted only by the City Council taking the same formal action that imposed the constraint originally. The City Council must take action on these commitments before year end.

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b) 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.

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c) Unassigned fund balance – amounts that are available for any purpose in the general fund. Only the general fund can report a positive amount of unassigned fund balance.

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C. General Fund:

The General Fund is established to account for all revenues and expenditures which are not required to be accounted for in other funds. Revenue sources include property taxes, license and permit fees, fines and forfeits, program revenues, intergovernmental revenues, investment interest earnings, and transfers. The General Fund's resources finance a wide range of functions including the operations of general government, public safety, public works, and recreation.

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The General Fund may have a portion of its fund balance classified as nonspendable if there are long term receivables, inventories, or prepaid items on the balance sheet.

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The General Fund is the only fund that can have any unassigned positive fund balance. The working capital balance of the general fund will fall into the unassigned fund balance classification.

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The target level of unassigned fund balance as recommended by the Office of the Minnesota State Auditor is 3540 to 5045% of ensuing year's expenditure budgets. This amount of unassigned fund balance will is to provide adequate funds until the next property tax revenue collection cycle working capital for cash flow, unexpected decline in revenue such as state aid unallotment and unforeseen expenditures such as natural disasters.

Unassigned fund balance can be spent down by City Council action or appropriation or due to emergency situations. Replenishing fund balance when it falls below the target level shall be accomplished by interfund transfers or budgeting for expenditures and other uses to be less than revenue and other sources over a period not to exceed three years. Annually the City Council will decide what to do with the General Fund unassigned reserved fund balance that exceeds 50% of the ensuing year's expenditure budgets and transfers out. Any excess fund balance transfers will not be used as a funding source for ongoing recurring expenditures.

Unrestricted fund balance can be spent down by City Council action or appropriation or due to emergency situations. Replenishing fund balance when it falls below the target level shall be accomplished by inter-fund transfers or budgeting for expenditures and other uses to be less than revenue and other sources over a period not to exceed three years.

- ~~• This Fund Balance Policy applies to unrestricted fund balances comprised of committed, assigned, unassigned amounts.~~
- ~~• When more than one category of fund balance can be used to fund an expenditure, the highest (most restrictive) level shall be used first.~~
- ~~•~~

- ~~This policy applies to the General Fund. Other governmental fund type fund balance categories are determined by the nature of the fund.~~
- ~~This Fund Balance Policy applies to unrestricted fund balances comprised of committed, assigned, unassigned amounts.~~
- ~~When more than one category of fund balance can be used to fund an expenditure, the highest (most restrictive) level shall be used first.~~
- ~~The target level of unassigned fund balance is 40 to 45% of expenditures. This is to provide working capital for cash flow, unexpected decline in revenue such as state aid unallotment and unforeseen expenditures such as natural disasters.~~

G.D. Special Revenue Funds

These funds shall maintain sufficient fund balance to provide for working capital.

D.E. Debt Service Funds

These funds shall maintain sufficient fund balance to provide for the timely payment of principal, interest and service charges.

E.F. Capital Project Funds

There are no fund balance requirements for these funds. Long-range planning through use of the Capital Improvement Plan (CIP) and other forecasting methods should be utilized to ensure long-term sustainability.

F.G. Enterprise Funds

These funds shall have sufficient equity and liquid assets to provide for ~~six three~~ to ~~twelve~~ five months operating costs, annual debt service requirements and ~~to have~~ at least ten percent (10%) as much as the amount of accumulated depreciation to provide for capital outlay.

G.H. Internal Service Funds

These funds shall have sufficient equity to smooth out the “peaks and valleys” of major expenditures over the long term; ~~and to~~ provide ~~full~~ funding equal to at least the current liability for employee compensated absences and other post-employment benefits; ~~and provide sufficient funding to take advantage of premium discounts for general liability and workers’ comp premiums.~~

I. Order of Fund Balance Spend-down

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 unrestricted 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.

H.J. Assigning Fund Balance

The City Council can assign fund balance by expressing its intent or the Finance Director is hereby authorized to assign fund balance.