



## Request for Council Action

**TO:** Mayor and City Council  
**THROUGH:** Tim Murray, City Administrator  
**FROM:** Jeanne Day, Finance Director  
**MEETING DATE:** May 11, 2021  
**SUBJECT:** Resolution 2021-096 Approve Revised Fund Balance Policy

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### **Background:**

City officials and staff have the responsibility to maintain prudent financial operations to ensure stability for the benefit of City residents and businesses. Fund balance reserves are an important component when ensuring the overall financial health of a community, by giving the City cushion to meet contingency or cash-flow timing needs. The Office of the State Auditor (OSA) recommends that at year-end, local governments maintain an unreserved 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.

Under GASB 54, municipalities need to report five different components of fund balances to the Office of the State Auditor each year: 1) non-spendable, 2) restricted, 3) committed, 4) assigned, and 5) unassigned. The first two are considered restricted fund balances, and the last three are considered unassigned fund balances.

City Council approved a Fund Balance Policy July 10, 2018. This policy allowed the allocation of General Fund surplus of all unassigned fund balance exceeding 50% to be transferred to the Capital funds. While the Office of the State Auditors recommends a General Fund fund balance of 35%-50% of unreserved or unassigned fund balance. With the allocation in accordance with the current policy, funds that have been set aside by Council for items such as buying down the tax levy to balance the budget, the PCA agreement, or donations received for various purposes, these dollars would remain unrestricted and transferred to the Capital Funds. The revised policy will leave these dollars in the General Fund as they are classified as reserved, restricted, committed, or assigned dollars.

The City also has an obligation for compensated absences which is an entitlement of a cash payment of unused vacation and sick leave balances based on the Personnel Policies when employment is terminated. While this is a long-term liability, a portion of it is paid each year as individual employment discontinues. These amounts vary from year to year but average around \$90,000 each year. The revised Fund Balance Policy would also assign the current amount of compensated absences. The current amount is calculated based upon employee's eligibility to retire from employment and is about 12% of the overall liability.

**Recommendation:**

Staff recommends approval of Resolution 2021-096 Approve Revised Fund Balance Policy.

**Attachments:**

- Resolution 2021-096 Approve Revised Fund Balance Policy
- Revised Fund Balance Policy

**CITY OF FARIBAULT**

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**RESOLUTION #2021-096**

**APPROVE REVISED FUND BALANCE POLICY**

**WHEREAS**, the City Council recognizes the need to maintain current fiscal policies; and

**WHEREAS**, formal adoption of fiscal policies helps maintain stability, continuity, limitations, bond ratings, long-term strategic thinking, risk management, and overall compliance; and

**WHEREAS**, the City Council wishes to define certain practices and procedures as they relate to fund balances; and

**WHEREAS**, the City Council previously adopted a Fund Balance Policy through Resolution 2018-146 on July 10, 2018; and

**WHEREAS**, City Staff has completed a review of the policy and revised the policy to comply with MN Office of the State Auditor and Government Finance Officers Association recommended practices, and in accordance with Government Accounting Standards Board.

**NOW, THEREFORE BE IT RESOLVED**, that the attached Fund Balance Policy be hereby adopted as written to supersede the previous policy.

**Date Adopted:** May 11, 2021

**Faribault City Council**

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**Kevin F. Voracek, Mayor**

**ATTEST:**

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**Timothy C. Murray, City Administrator**



## Fund Balance Policy

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**Purpose:** The purpose of this policy is to establish guidelines to maintain financial stability by ensuring adequate fund balances and cash reserves.

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### 1. PURPOSE

The City officials and staff have the responsibility to maintain prudent financial operations to ensure stability for the benefit of City residents and businesses. Fund balance reserves are an important component when ensuring the overall financial health of a community, by giving the City cushion to meet contingency or cash-flow timing needs. The Office of the State Auditor (OSA) recommends that at year-end, local governments maintain an unreserved 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.

### 2. GUIDELINES

A. Fund Balance: Under GASB 54, municipalities need to report five different components of fund balances to the OSA each year: 1) non-spendable, 2) restricted, 3) committed, 4) assigned, and 5) unassigned.

- 1) Non-spendable: These are dollars that cannot be spent because they are not in a spendable form or they are legally or contractually required to remain intact. Examples are inventories, pre-paid items, or long-term receivables in the City's General Fund.
- 2) Restricted: These are dollars on which there are constraints placed regarding their use. External constraints include those imposed by creditors, grantors, or laws of other governments. Other constraints might be those imposed by law. Examples would include debt covenants and grants earned by not yet spent, as well as taxes dedicated to a specific purpose and revenues restricted by enabling legislation.
- 3) Committed: These are dollars that must be kept for specific purposes as determined by formal action of the decision-making authority. An example is funds set aside by Council for a specific project.
- 4) Assigned: These are dollars that the City intends to use for a specific purpose but they are not committed. An example is regularly using fund balance to balance the City's budget at the end of the year.
- 5) Unassigned: These are the remaining unreserved dollars that do not fall into any of the other classifications.

The City Council may agree to commit a portion of the fund balance for a specific purpose. This commitment of fund balance would require the approval of City Council. The Finance Director may assign fund balance as needed to maintain the appropriate levels of fund balance for specific purposes including, but not limited to, compensated absences, donated funds for specific uses.

- B. General Fund: The City shall maintain a minimum unassigned fund balance in the General Fund not less than 35% and a maximum unassigned fund balance not more than 50% of the following year's General Fund budgeted expenditures to be used for (1) cash flow purposes, (2) unanticipated expenditures of a non-recurring nature, (3) to meet unexpected expenditure increases due to local disasters or (4) unexpected revenue shortfalls.
- C. Capital Funds: The excess of revenues over expenditures in the General Fund at year-end will be transferred to the capital funds on an annual basis, provided the maximum 50% unassigned fund balance has been met. The split of excess funds to the capital funds shall be at the discretion of the City Administrator and Finance Director.
- D. Enterprise Funds: The City shall maintain a minimum cash balance in its Enterprise Funds equal to approximately four months of operating expense, or 33% of the funds' annual operating budgets as well as subsequent years capital appropriations. This balance shall be maintained to ensure adequate maintenance reserves, operating cash flow balancing requirements, emergency improvements for capital repair or replacement, debt service requirements and legal restrictions.
- E. Other Funds: The City shall maintain appropriate balances in all other funds in the amounts needed to maintain positive cash balances at year-end with exceptions made for those funds associated with economic development purposes which may be aggregated by fund type to maintain a positive balance.
- F. Use of Fund Balances: Fund balance is the accumulation of prior years' excess or deficit of all revenues and expenditures. Available fund balances shall not be used for ongoing operating expenditures, unless a determination has been made that available balances are in excess of required guidelines and plans have been established to address any future operating budget shortfalls. Emphasis shall be placed on one-time uses that achieve future operating cost reductions and/or service level efficiencies.
- G. Annual Review: An annual review of cash flow requirements and appropriate fund balances shall be undertaken to determine whether modifications are appropriate for the reserve policy.

THIS POLICY SPECIFICALLY REPEALS AND REPLACES PRIOR CITY POLICIES AND ADMINISTRATIVE MEMORANDA RELATIVE TO FUND BALANCE POLICIES.

Approved:

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Mayor

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City Administrator

Revised May 11, 2021, Resolution 2021-096