



**CITY OF ARDEN HILLS  
COUNTY OF RAMSEY  
STATE OF MINNESOTA**

**FINANCIAL POLICIES-  
FUND BALANCE**

**Fund Balance and Net Asset Guidelines (Fiscal Year-End)**

**Purpose**

The purpose of the fund balance policies is to establish appropriate fund balance levels for each fund that is primarily supported by property tax revenues or user fees. These policies will ensure that adequate resources are available to meet cash flow needs for carrying out the regular operations of the City, as well as to meet the fund balance requirements identified in the City's Long Range Financial Management Plan. The funds that will be addressed in this policy are: General Fund, Cable Fund, EDA Funds, Equipment, Building & Replacement Fund, Parks Fund, Public Safety Capital Fund, Permanent Improvement Revolving Fund (PIR), Risk Management Fund, and Enterprise Funds.

**Primary Policy Considerations**

1. To meet the cash flow requirements of the City.
2. To maintain adequate fund balances and net assets in each individual fund of the City.
3. To provide for emergencies and contingency needs of the City.

**Policy Statements**

1. The Finance Director/Director of Finance and Administrative Services as a part of the annual budget process shall prepare an analysis of this policy. The analysis shall project the status of the budget year ending fund balances and net assets.
2. The City Council authorizes the Director of Finance and Administrative Services and/or City Administrator to assign fund balance that reflects the City's intended use of those funds. 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, 3) unassigned. These fund balance classifications apply only to Governmental Funds, not Enterprise Funds.
3. The General Fund balance shall be assigned as of December 31<sup>st</sup> for the following purposes in the amounts described below:
  - a. The City will strive to maintain an unassigned balance in the General Fund of 50% of the general fund's total annual operating budget (this reserve includes the designation for cash flows). Since a significant source of revenue in the General Fund comes from property taxes, maintaining a fund balance that is equal to at least six months of operating expenditures ensures that sufficient resources are available to fund basic City functions

between property tax settlements. This range is in conformance with guidance from the Office of the State Auditor (OSA). ~~Amounts that exceed 50% may be transferred out to other funds.~~ The Director of Finance and Administrative Services is authorized to transfer any amount that exceeds 50% to the Permanent Improvement Revolving Fund(PIR). An assignment or restriction of fund balance may be used to offset revenues earned in one year where substantial services are required to be performed in the next fiscal period.

- b. The City will maintain an amount sufficient to cover accumulated vacation and compensatory time balances and that portion of PTO leave that would be payable under the City's severance pay policy or union contracts. This amount shall be adjusted annually as part of the year-end close and annual financial report process.
- c. For specific purposes as authorized by the City Council or the City's intended use of the funds.

Funds shall be assigned first for compensated absences, second for cash flow needs and lastly for emergencies/contingencies.

4. The Cable Fund is a Special Revenue Fund that provides for cable and communication related expenses to disseminate information to the public. It receives the majority of its funding from franchise fees which are restricted for this use.

The City will strive to maintain a fund balance in the Cable Fund in an amount sufficient to support the ongoing operating expenditures and capital expenditures planned in the CIP and in congruence with the Long Range Financial Management Plan.

5. EDA Funds are Special Revenue Funds that carryout economic and industrial development and redevelopment consistent with policies established by the City Council. It receives the majority of its funding from specific taxes or other earmarked revenue sources.

The City will strive to maintain fund balances in the EDA Funds in an amount sufficient to support the ongoing expenditures, obligations and in congruence with the Long Range Financial Management Plan. Revenues not legally restricted will be committed.

6. Fund balances in Debt Service Funds for future debt payments are restricted.
7. Capital Funds are used to account for the financing of street rehabilitations projects, equipment replacement, public safety equipment, and facility rehabilitation or renovation. Revenue sources are provided mainly through property taxes, special assessments, Park dedication fees, and charitable gambling. Street projects, equipment purchases, and renovations are programmed into the City's Capital Improvement Plan and are generally planned years in advance.

The City will strive to maintain fund balances in the Equipment Building & Replacement Fund, Public Safety Capital Fund, Parks Fund, and the Permanent Revolving Improvement Fund in an amount sufficient to support the ongoing capital expenditures planned in the CIP and in congruence with the Long Range Financial Management Plan. Revenues not legally restricted will be assigned.

8. Enterprise Funds were established to account for the operation of Water, Sanitary Sewer, Recycling, and Surface Water Management. These operations are designed to be self-supporting from user charges.

City enterprise funds shall have operating cash reserves sufficient to provide for monthly cash flow, and for a reasonable level of equipment and infrastructure replacement. Major reconstruction or system upgrades, may need to be funded from enterprise revenue bonds. Annual utility rate reviews will be made in regard to projected operating expenses and capital improvements. The Council will, on an annual basis, establish rates in accordance to operating cost recovery and the projected capital improvement.

9. Internal Service Funds were established to account for operations which are designed to be self-supporting from “internal” user charges.

- a. Risk Management Fund

This fund was established to pool dividends received the City’s insurance providers for positive claims experience. This funds tracks dividend revenues and deductible costs for claims. The goal of this fund is to build a fund balance that would allow the City to increase deductible limits in order to reduce premium costs. Dividends from the City’s health insurance provider are also used to provide wellness programs. Funds received from the League of Minnesota Cities Insurance Trust are committed while funds received from the City’s health insurance carrier are assigned.

- b. Engineering

This fund is used to account for the provision of engineering services to development projects, infrastructure projects, and the City in general. This fund is financed predominantly through user charges both internally and externally to developers and is normally not expected to carry a fund balance at year-end.

- c. Central Garage and Equipment

This fund is used to account for the materials, supplies, and expenses of the Central Garage and equipment of Public Works which is comprised of the following departments; Streets, Parks, Water, Sanitary Sewer, and Surface Water Management. This fund is financed predominantly through user charges internally to the public works departments. Fund balance is assigned for the purchase, replacement, and repair of equipment and vehicles used by public works.

10. Fund balances will be assigned according to the above guidelines up to the amount available after restrictions and other commitments. This policy is not intended to require the reporting of deficit unassigned fund balances.

**Nonspendable Fund Balances** – consists of amounts that are not in spendable form.

The City has several amounts unavailable for appropriation such as: prepaid items, inventories, etc.

**Restricted Fund Balance and Restricted Net Assets** – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions. It is the portion of fund balance that is not appropriable for expenditure or is legally segregated (restricted net assets) for specific future uses.

The City has several items that are legally restricted to a certain use such as: police forfeiture funds, federal and state economic development revolving loans, park dedication fees, and bond proceeds.

**Committed Fund Balance** – consists of internally imposed constraints. These constraints are established by Resolution of the City Council. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.

**Assigned Fund Balance** – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City’s intended use. These constraints are established by the City Council and/or management. Pursuant to City Council Resolution, the City’s Director of Finance and Administrative Services and/or City Administrator is authorized to establish assignments of fund balance.

**Unassigned Fund Balance** – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

*General Fund* – The unassigned fund balance should be at a minimum 50% of operating expenditures (this includes the designation for cash flows). The City’s goal will be to strive to follow this recommendation.

*Enterprise Funds* – It is expected that unrestricted net assets will be large. These funds have large investment in infrastructure that needs to be maintained. The City will periodically complete a rate study for these funds to ensure rates and unrestricted net assets are sufficient to operate and maintain these activities.

### **Review and Approval**

The fund balance policy shall be formally approved and adopted by resolution of the City Council and any future changes to the policy must be approved by the City Council.

Approval by the City Council the 28th Day of November, 2011.

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David Grant, Mayor

ATTEST:

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Patrick Klaers, City Administrator