

## **City of Mounds View Fund Balance Policy**

### **Purpose:**

It is important to establish sound financial management policies to ensure financial stability of the City of Mounds View for the benefit of residents and businesses. Fund balance reserves are an important component in ensuring the overall financial health of a community, by giving the City sufficient funds to meet contingency and cash-flow timing needs. In establishing an appropriate fund balance, the City needs to consider the demands of cash flow, need for emergency reserves, ability to manage fluctuations of major revenue sources, credit rating, long-term fiscal health, and charter restrictions.

### **Policy:**

Governmental Fund Balance classifications are defined as follows:

- **Non-spendable** – resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. (inventories, prepaid amounts, long-term amount of loans and notes receivable, property acquired for resale)
- **Restricted** – resources that have constraints placed on their use that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- **Committed** – resources can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council.
- **Assigned** – resources that are constrained by the government’s intent to be used for specific purposes. This would include any remaining positive fund balance in all funds other than the General Fund. The City Administrator and/or Finance Director are authorized to assign fund balance that reflects the City’s intended use.
- **Unassigned** – is the residual classification for the General Fund.

### **Minimum General Fund Balance Target:**

The City will strive to maintain an unassigned General Fund balance of between 35% and 50% of the subsequent years budgeted revenues and transfers or at a minimum five months of expenditures and transfers; however, this need could fluctuate with each year’s budget objectives. The City Council will strive to take the appropriate steps necessary to maintain this minimum balance if the General Fund balance is below the minimum level for three consecutive years. The City Council will review the sufficiency of the “minimum” balance annually.

### **Order of Resource Use:**

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. 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.