



CONNECTING & INNOVATING
SINCE 1913

SAMPLE FUND BALANCE POLICY

*This sample policy was compiled by
Ehlers & Associates Inc. at the request of
the League of Minnesota Cities.*

I. PURPOSE AND NEED FOR POLICY

The City understands 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 a 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 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. 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.

II. POLICY

- Provide and maintain an unreserved General Fund balance of __%¹ of budgeted operating expenditures
- Annual proposed budgets shall include this benchmark policy
- Council shall review the amounts in fund balance in conjunction with the annual budget approval, and make adjustments as necessary to meet expected cash-flow needs
- Council may consider appropriating (for authorized purposes) fund balance in excess of the policy level. An example of preferred use of excess fund balance would be for one-time expenditures such as capital expenditures

III. PROCEDURES

- City shall maintain necessary funds in accordance with City policy and Minnesota statutes
- Annual financial statements shall be prepared in accordance with generally accepted accounting principles establishing the fund balance at the end of each year
- Council shall review fund balance and cash-flow needs during the budget process in accordance with this policy

¹ The Office of the Minnesota State Auditor (OSA) recommends a fund balance in the range of 35-50% of revenues. In establishing an appropriate fund balance, cities should consider the demands of cash flow, need for emergency reserves, ability to manage fluctuations of major revenue sources, credit rating, and long-term fiscal health.

- Staff and Council should review the policy periodically, especially if the composition or timing of revenue receipts change.

IV. RESPONSIBILITY AND AUTHORITY

Administrative implementation of policies is the responsibility of staff and council.