



## **CITY OF LAKE ELMO FUND BALANCE / NET ASSETS POLICY**

---

### **PURPOSE**

It is important for the financial stability of the City of Lake Elmo to maintain fund balance/net assets for unanticipated expenditures or unforeseen emergencies, as well as to provide adequate working capital for current operating needs so as to avoid short-term borrowing. The Fund Balance/Nets Assets Policy of the City is managed closely with the City's Debt Management Policy. The City's Debt Management Policy calls for a pay-as-you-go strategy for supporting capital spending without use of debt whenever feasible. The City strives to pay cash for capital projects that can be anticipated and planned for in advance. The City recognizes that for certain projects that the use of debt may be of financial benefit to the City. The City's fund balance/net assets levels fluctuate, in part, based on capital project plans.

### **POLICY STATEMENT**

#### **Governmental Funds**

1. The City will maintain fund balances in the General and Special Revenue Funds at a level which will avoid issuing short-term debt to meet the cash flow needs of the current operating budget. Generally, the goal would be to maintain a minimum total General Fund unassigned balance of 35% - 50% of the operating budget revenues; however, this need could fluctuate with each year's budget objectives and appropriations such as large capital expenditures, and variations in the collection of revenues. The goal for the Special Revenue Funds is to maintain adequate cash flow to meet current operating needs, total amounts needed or percentage of operating budget may vary by Special Revenue Fund.
2. The City will maintain fund balance in designated Capital Funds at a minimum level sufficient to provide adequate working capital for current expenditure needs. Generally the City shall strive for a minimum of 3-months operating cash in these funds. (This minimum shall be calculated based on the approved budget multiplied by 25 percent.) The maximum amount shall be limited to the 3-months operating cash plus an amount of cash that is estimated to be needed to pay for future capital projects. Future capital projects must be identified and quantified in a written finance plan for the fund which shall be included in the City's annual budget document.
3. The City will annually review the adequacy of all fund balances.
4. Judicious use of fund balance within funds can be used to moderate fluctuations in capital projects and infrastructure maintenance expenses.

5. For financial reporting in the fund financial statements, governmental funds report fund balances that are nonspendable and spendable. Nonspendable balances by nature cannot be spent by the government (*i.e.*, prepaids, inventories, long-term receivables, etc.). Spendable balances are further classified by the relative strength of the constraints that control how amounts can be spent. Those classifications are:

- a. Restricted – constraint imposed for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- b. Committed – constraint imposed for a specific purpose determined by formal action of the City Council, the highest level of decision making authority. The council action must be approved no later than the close of the reporting period.

*\* Commitments apply to fund balances that are not otherwise nonspendable or restricted.*

- c. Designated – constraint imposed for a specific purpose by the intent of the City Council or an official to which the City Council has delegated the authority to assign specific amounts.

The City Council authorizes the City Administrator and/or his/her designee to assign fund balance that reflects the City's intended use of those funds.

- d. Undesignated – fund balance that has not been reported in any other classification. The General fund is the only fund that can report a positive undesignated fund balance. Other governmental funds would report deficit fund balances as unassigned.
  - Working Capital for the General Fund. The City's General Fund undesignated fund balance for working capital as of the end of the year should equal 50% of the next year's budgeted tax revenue. Any amount in excess of 50% will be used for budget stabilization. If the balance falls below 50%, a plan will be developed and implemented to replenish the funds. A balance equal to 50% of the next year's budgeted tax revenue is necessary to fund the following year's operations until the tax settlement is received at the end of June.
  - Undesignated Fund Balance for the General Fund for Contingencies and to Maintain Bond Rating. In recognition that the amount for working capital only covers operating costs for the first six months of the years, the City wants to maintain additional resources on hand to provide for contingencies. Therefore, at the end of each year, the City will maintain an amount for contingencies and maintenance of the City's bond rating of 5% of the next year's budget. The intent is not to use this balance except in extreme emergencies.

When any combination of committed, designated, or undesignated resources are available for use, the City will use committed resources first, then designated, then undesignated resources as they are needed.

### **Enterprise Funds**

1. The City will maintain net assets in the Enterprise Funds at a minimum level sufficient to provide adequate working capital for current expenditure needs. Generally the City shall strive for a minimum of operating cash in these funds equal to 50 percent of the operating budget. (This minimum shall be calculated based on the most current adopted operating budget - not inclusive of depreciation or other operating expenses - multiplied by 50-percent). The maximum amount in the Enterprise Funds shall be limited to the calculated minimum operating cash plus an amount of cash that is estimated to be needed to pay for future capital projects. Future capital projects must be identified and quantified in a written CIP.
2. The City will annually review the adequacy of all net assets balances.
3. The City will periodically complete a rate study for these funds to ensure that rates and unrestricted net assets are sufficient to operate and maintain these activities.
4. Judicious use of net assets within funds can be used to moderate fluctuations in capital projects and infrastructure maintenance expenses.