
FUND BALANCES

Policy

The county believes sound financial management principles require that sufficient funds be retained by the county to provide a stable financial base at all times. To maintain this stable financial base, the county needs to have sufficient fund balances to fund cash flows, and to provide financial resources for unanticipated expenditures and/or revenue shortfalls.

Guidelines

The county will manage the level of unrestricted fund balance to protect against the need to raise taxes and fees, or incur short-term borrowing, because of temporary revenue shortfalls or unpredicted one-time expenditures.

All funds, as determined by Generally Accepted Accounting Principles (GAAP) and reported in the county's annual financial statements, shall use the following guidelines to manage appropriate fund balance levels:

- A. Fund Balance Classifications: The county's reporting and communication relating to fund balance will utilize the following hierarchical fund balance classification structure:

Restricted:

1. Non-spendable: fund balance amounts that cannot be converted to cash, such as inventories or prepayments, or are legally or contractually required to be maintained intact.
2. Restricted: fund balance amounts that have externally imposed constraints placed on their use which are legally enforceable.

Unrestricted:

1. Committed: fund balance amounts that have self-imposed constraints on items that can be used only for the specific purposes as determined by formal action of the county board. Amounts within this category require the same formal board action to remove the commitment.

2. Assigned: fund balance amounts that have self-imposed constraints to demonstrate intent, which can be established by board action or delegated by the county board to others.
3. Unassigned: fund balance amounts that are available for any public purpose. The county's general fund is the only fund that should report a positive unassigned fund balance as the remaining balance after all other amounts have been classified. Positive unassigned fund balances available in all other funds will be moved to the General Fund (Fund 110) as part of year-end closing procedures.

B. Fund balance authorizations and resource flow.

1. Commitments: any funds set aside as committed fund balance requires the passage of a resolution that must take place prior to December 31st. If the actual amount of the commitment is not available by December 31st, the resolution will state the process or formula necessary to calculate the actual amount as soon as the information is available.
2. Assignments: the county board authorizes the county administrator as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.
3. Resource flow: when fund balance resources are available for a specific purpose in more than one classification, it is the county's policy to use the most restrictive funds first: restricted, committed, assigned, and unassigned as they are needed.
4. Intergovernmental loans: unrestricted county fund balance may be used to assist local municipalities with its share of project costs as long as the loan does not result in a negative aggregate unrestricted fund balance in the associated fund group. County assistance that is greater than \$500,000 and has a repayment term greater than three months is considered an intergovernmental loan. In cases where intergovernmental loans are used, the agreement documents shall state repayment terms that include interest payments at least equal to the current rate of return on county investments. Intergovernmental loans shall be reviewed by the finance committee and require board approval; exceptions to the interest requirement will be at the discretion of the county board.

C. Fund Balance Targets.

1. The General Fund Group.

- a. The aggregate unrestricted fund balance shall have a minimum and maximum target range of between 20% and 50% of the subsequent year's budgeted annual total expenditures of the General Fund Group. This shall be determined as of December 31st of each year, after all adjustments to fund balance categories have been completed.
- b. If the aggregate unrestricted fund balance falls below the minimum target range, the county administrator will provide, to the county board, a written plan to restore minimum compliance.
- c. If the aggregate unrestricted fund balance amount exceeds the maximum target range, the excess amount, taken from the unassigned category, may be used, as recommended by the county administrator, to build reserves in appropriate capital funds, to finance high-priority projects requiring one-time funding, to lower the amount required from future bond sales, or to provide additional funding towards the county's Other Post-Employment Benefit (OPEB) liability.
- d. Unless noted below, the unrestricted fund balance in individual sub-funds within the General Fund Group shall be reviewed annually during the budget cycle. The county administrator and the responsible department will take necessary actions to maintain a fund balance that meets the intended needs of the individual sub-fund.
- e. Funds 114 (Solid/Hazardous Waste) and 115 (SCORE) shall have an aggregate restricted and unrestricted target range of 20% to 100% of the subsequent year's budgeted annual total expenditures unless a planned expenditure exists. These target levels will be reviewed jointly with the county administrator and the managing department. The managing department will take necessary actions if the levels are anticipated to become out of target range.

2. The Special Revenue Fund Group.

- a. Unless noted below, the unrestricted fund balance in individual special revenue funds shall be reviewed annually during the budget cycle. The county administrator and the responsible department will take necessary actions to maintain a fund balance that meets the intended needs of the individual special revenue fund.
 - b. Fund 212 (Regional Rail) shall be reviewed annually during the budget cycle. The county administrator and the responsible department will take necessary actions to maintain a fund balance that meets the intended needs of the individual special revenue fund.
 - c. Fund 216 (Metro Gold Line) shall be reviewed annually during the budget cycle. The county administrator and the responsible department will take necessary actions to maintain a fund balance that meets the intended needs of the individual special revenue fund.
3. The Capital Projects Fund Group.
- a. Unless noted below, the unrestricted fund balance in individual capital project funds shall be reviewed annually during the budget cycle. The county administrator and the responsible department will take necessary actions to maintain a fund balance that meets the intended needs of the individual capital fund.
 - b. The minimum unrestricted fund balance of Fund 411 (Capital Repair Fund) should be maintained at a level equal to the five-year average of expenditures as reported in the most recently adopted Capital Improvement Plan (CIP) for the Capital Repair Fund area. The maximum fund balance should not exceed the total five-year expenditures as reported in the same Capital Improvement Plan (CIP) for the Capital Repair Fund area.
 - c. The unrestricted fund balance of Fund 414 (Capital Road & Bridge Fund) should have a minimum and maximum target range of between 20% and 50% of the subsequent year's County Program Aid plus Wheelage Tax revenues budgeted in the Capital Road & Bridge Fund, unless a planned expenditure exists.

- d. The unrestricted fund balance of Fund 416 (Capital Technology Fund) should be maintained at a level not less than 50% of the subsequent year's Technology Plan (TP) expenditure for the Capital Technology Fund area. The maximum fund balance should not exceed double the highest annual expenditure as reported in the same TP for the Capital Technology Fund area.
 - e. If the unrestricted fund balance of the individual capital funds falls below the minimum targets as described above, the responsible department will provide, to the county administrator, a written plan to restore minimum compliance.
 - f. If the unrestricted fund balance of the individual capital funds exceeds the maximum targets as described above, the excess amounts may be used as recommended by the county administrator to lower the amount required from future bond sales, to finance high-priority projects requiring one-time funding, or to provide additional funding towards the county's Other Post-Employment Benefit (OPEB) liability.
 - g. The aggregate restricted and unrestricted fund balance of the Capital Projects Fund Group should not be in a negative status at any time.
4. The Debt Service Fund Group.
- a. Fund balances shall be managed to meet the scheduled debt service obligations as they become due and to provide for the statutory (MS 475.61 Subd. 1) 5% excess amount, if that amount is not budgeted annually.
 - b. Fund balance shall be managed to comply with tax exempt debt requirements as defined by the United States Internal Revenue Service.
 - c. If the fund balance of the Debt Service Fund Group falls outside of the requirements stated above, the responsible department will provide, to the county administrator, a written plan to restore compliance.

Responsibility

- A. The accounting and finance director shall prepare reports that document the status of the fund balance as of December 31st, after all fund balance category adjustments have been finalized. This report shall be presented to the county administrator for review. After review, the county administrator may recommend finance committee review and county board approval.
- B. The county administrator may require cash flow analyses and corrective action plans from departments with responsibility for a fund to satisfy the guidelines and intent of the policy.
- C. Departments with responsibility for a fund as identified in the county’s financial system shall be required to provide annual budgets, and written action plans, if needed, regarding the fund balances for which they are responsible.
- D. Departments are responsible for managing within these budgets and plans and notifying the Department of Administration if they will not be able to accomplish the stated budgets or plan objectives.
- E. The County Board is responsible for approving the recommended use of excess fund balance above the maximum targets.

Source

MS 475.61 Subd. 1

County Board action July 26, 2005

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