



### Statement of Position Petty Cash (Imprest) Funds

By law, school districts, towns, counties, and cities are allowed to establish petty cash (imprest) funds.<sup>1</sup> These funds are cash funds with currency in the form of coins and bills, not separate checking accounts. Using an “imprest system,” you can only spend what you have in the fund and can only be reimbursed if you have receipts. Petty cash funds are allowed for the payment of claims if “it is impractical” to pay the claims in any other manner. The law prohibits their use for salaries or personal expenses of an officer or employee.

Each petty cash fund must be established by the governing body, and a “custodian” of the fund must be appointed. Meeting minutes should document the creation and amount of any petty cash fund. Periodically, the governing body should review these funds to determine whether they are still necessary. The designated petty cash custodian is personally responsible for the cash entrusted to the fund.

#### Disbursements from Petty Cash

There are two permissible methods of disbursing petty cash funds: 1) the reimbursement method, and 2) the advance method.

When using the reimbursement method, an individual purchases an authorized item with personal funds, provides the original detailed vendor receipt to the petty cash custodian, and is then reimbursed from the petty cash fund. This method is less complicated than the advance method. There is no risk of loss of petty cash funds due to the purchaser failing to buy the item and/or failing to submit supporting documentation for the purchase. It also allows the petty cash fund to be replenished more quickly than with the advance method. For these reasons, the reimbursement method is generally preferred.

When the advance method is used, the petty cash custodian advances petty cash funds to an individual for the purchase of a specific item. The custodian should document the date and the person to whom

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<sup>1</sup> Minnesota law on petty cash (imprest) funds is found at Minn. Stat. §§ 123B.11, subd. 1 (school districts), 366.01, subd. 12 (towns), 375.162, subd. 1 (counties), and 412.271, subd. 5 (cities). School districts and counties are also authorized to establish imprest funds for travel. Minn. Stat. §§ 123B.11, subd. 2 and 375.162, subd. 2. Money may be advanced to pay actual and necessary expenses for school district officers and employees traveling to attend school district meetings outside the school district, and for county officers and employees for travel related to the performance of their job duties or for attending meetings outside the county.

the funds were provided, the amount provided, and the purpose for the advance. The individual receiving the advance then purchases the authorized item, returning the original detailed vendor receipt and any remaining change to the petty cash custodian. Under the advance method, the custodian may need to follow-up if the individual does not return the receipt and change in a timely manner.

### **Replenishing the Petty Cash Fund**

To replace the petty cash fund, a claim itemizing all disbursements from the petty cash fund must be presented to the governing body at its next meeting after the disbursements are made. If the governing body approves the claim, the fund's custodian should be given payment to replenish the fund. If the governing body fails to approve the claim in full, the fund's custodian is personally responsible for the difference. When replenishing petty cash funds, the total of the original receipts maintained by the custodian should match the amount of the replenishing check.

### **Controls over the Petty Cash Fund**

Because these are cash funds, extra security precautions need to be taken to safeguard these funds. The petty cash custodian should properly secure petty cash funds in a metal lock box that is maintained in a locked desk, locked cabinet, or locked safe to which access is limited.

Reconciliations of the petty cash fund should be done by someone other than the person approving disbursements from the fund. At any time, the amount of cash on hand plus the receipts (plus any outstanding advances if the advance method of disbursement is used) should equal the amount of the approved petty cash fund. The original receipts should be maintained and filed as supporting documentation.

The governing body should consider adopting a petty cash policy. The policy could describe when petty cash funds may be used, items that may not be purchased with petty cash funds, proper petty cash documentation, and petty cash replenishing procedures.

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This Statement of Position is not legal advice and is subject to revision.