

I. PURPOSE

- A. The purpose of this policy is to establish specific rules the City of Marshall will use to maintain an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other government aids, are received in the second half of the City's fiscal year.
- B. The purpose of this policy is to also establish specific rules the City of Marshall will use to classify fund balances into categories; based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in these funds can be spent.

II. CLASSIFICATION OF FUND BALANCE

- A. Non-spendable
 - 1. This category includes fund balance that cannot be spent because it is either (a) not in spendable form or (b) is legally or contractually required to be maintained intact. Examples include inventories and prepaid amounts.
- B. Restricted
 - 1. Fund balance should be reported as restricted when constraints placed on those resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- C. Committed
 - 1. Fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to commit those amounts.
 - 2. The City's highest level of decision making authority (City Council) will, annually or as deemed necessary, commit specific revenue sources for specified purposes by resolution. This formal action must occur prior to the end of the reporting period however, the amount to be subject to the constraint may be determined in the subsequent period.
 - 3. To remove the constraint on specified use of committed resources the City Council shall pass a resolution.

D. Assigned

1. Amounts that are constrained by the government's intent to use for specified purposes, but are neither restricted nor committed. Assigned fund balance in the General fund includes amounts that are intended to be used for specific purposes.
2. The City Council has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the Finance Director.

E. Unassigned

1. Unassigned fund balance represents the residual classification for the General fund. It includes amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General fund. The General fund should be the only fund that reports a positive unassigned fund balance amount.
 - a. The City will maintain an unrestricted fund balance in the General fund and the Economic Development special revenue fund of an amount not less than 40% of the next year's budgeted expenditures of the General fund and the Economic Development special revenue fund. This will assist in maintaining an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other government aids, are received in the second half of the City's fiscal year.
 - b. Fund balance exceeding 40% but less than 50% of the next year's budgeted General fund expenditures shall remain as an unassigned fund balance.
 - c. Fund balance in excess of 50% shall be reviewed by City Council to determine if such excess should be transferred to other funds to be used as a financing source for capital improvement, equipment purchases, or other needs as determined by City Council.
 - d. If spending unrestricted fund balance in designated circumstances has reduced unrestricted fund balance to a point below the minimum targeted level, as noted above, the replenishment will be funded by revenue and/or expenditure adjustments within the next year's budgeting process.

III. DESIGNATION OF ENTERPRISE FUNDS

1. It is the goal of each enterprise fund to cover the costs of operations, including depreciation and a transfer to the General fund, to maintain a financially healthy enterprise. The City will maintain cash reserves in the Enterprise funds at a minimum level equal to 25% of the annual operating costs plus one year of debt service payments
 - a. The Liquor fund shall be exempt from this provision since the majority of the profits are transferred to the General fund
 - b. The waste water fund in addition shall reserve 1/3 depreciation of all assets annually to fund future improvements. The City Council shall

determine the use of these reserves.

2. If the cash reserve balance falls below the minimum target level, the replenishment will be funded by revenue and/or expense adjustments within the next year's budgeting process

IV. STABILIZATION ARRANGEMENTS

- A. Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.
- B. The City will set aside amounts by resolution as deemed necessary that can only be expended when certain specific circumstances exist. The resolution will identify and describe the specific circumstances under which a need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely.

V. MONITORING AND REPORTING

- A. The City Administrator and Director of Administrative Services shall annually prepare the status of fund balances in relation to this policy and present to the City Council in conjunction with the annual audit.
- B. 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 as they are needed.
- C. 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.
- D. A negative residual amount may not be reported for restricted, committed, or assigned fund balances in the General fund.

Passed and adopted by the Common Council this 9th day of April , 2019.

THE COMMON COUNCIL

ATTEST:

Mayor of the City of Marshall, MN

City Clerk