



CITY OF MARSHFIELD, WISCONSIN POLICIES AND PROCEDURES

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|-------------------|-------------------------|
| 1. COMMON COUNCIL | 4. FINANCIAL |
| 2. ADMINISTRATIVE | 5. PUBLIC WORKS |
| 3. PERSONNEL | 6. PARKS AND RECREATION |

CHAPTER: Budgets

SUBJECT: Fund Balance Policy

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DEPARTMENT OF PRIMARY RESPONSIBILITY: Finance Department

APPROVED BY: Finance, Budget and Personnel Committee

Special Notes: This policy/procedure manual does not in any way constitute an employment contract and the City of Marshfield reserves the right to amend this manual at any time subject only to approval by the Common Council.

I. POLICY STATEMENT

The objective of this policy is to establish a framework for reporting classification of fund balances and utilization of the unassigned fund balance in the general fund. These guidelines will provide direction during the budget and fiscal year-end processes to demonstrate commitment to long-term financial planning.

This policy will be a positive factor in the municipal market's assessment of the City's credit quality. It is important for the city to maintain appropriate reserves to withstand economic downturns and to have adequate cash reserves to maintain consistent operations. Bond rating agencies may look unfavorably if the unassigned general fund balance of the City falls below the parameters established in this policy.

II. PURPOSE OF UNASSIGNED FUND BALANCE

The purpose of this policy is to establish a reasonable level of unrestricted fund balance and to establish guidelines for the uses of fund balance. Fund balance is defined as the difference between assets and liabilities in governmental type funds. Fund balance is

comprised of both spendable and non-spendable forms. Spendable fund balance is available based on the constraints that control how specific amounts can be spent as defined by this policy.

Unassigned fund balance provides funds for unforeseen contingencies. Reserves provide flexibility to withstand economic downturns without compromising recurring structural balance (annual revenues equal to or greater than annual expenditures).

III. POLICY & PROCEDURE

Financial stability is important in safeguarding City assets, operations and providing a stable tax rate for City residents. The unassigned fund balance is an indicator of sound financial planning and impacts the following:

Bond rating – Ability to repay commitments increases bond rating potential. Higher bond ratings reduce the overall cost of long-term borrowing

Cash flow – Ability to utilize existing cash flow for normal operations without the need for short-term borrowing. Also, the ability to save for anticipated expenditures, such as equipment replacement, by budgeting level expenditures in order to keep the tax rate stable.

Investment Interest Income – Additional income reduces the reliance on property taxes and provides ability to fund on-going operations.

Non-Spendable Fund Balance

The non-spendable fund balance describes the amount of fund balance that cannot be spent because it is either in a non-spendable form or there is a legal or contractual requirement for the funds to remain intact.

Restricted Fund Balance

The restricted fund balance represents resources constrained by legal restrictions stipulated by outside parties or based on state statutes or grant requirements placed on the use for specific purposes.

Committed Fund Balance

The committed fund balance represents resources constrained by limitations imposed by the Common Council. Committed fund balances shall be set by City Policy 4.370 or additional specific recommendation of Finance, Budget & Personnel Committee and authorized by the Common Council. Action to authorize committed fund balance must occur prior to the end of the fiscal period and remain binding unless removed by action in the same manner. These fund balances along with imposed restrictions are maintained by the Finance Director by account number.

Assigned Fund Balance

The assigned fund balance reflects the City's intended use of resources. The assigned fund balance shall be set by the Finance Director. These assignments shall be reviewed by the Common Council as part of the end of fiscal year reconciliation. These fund balances along with imposed restrictions are maintained by the Finance Director by account number.

Unassigned Fund Balance

The general fund shall be the only governmental type fund with an amount of unassigned fund balance. The City shall maintain an unassigned fund balance that is between 25% to 30% of the annual general fund budgeted expenditures. Amounts exceeding 30% of the annual general fund budgeted expenditures shall be designated for non-recurring expenditures (e.g. a capital project or special program) if possible. As an alternative, the unassigned balance may be applied to reduce the subsequent year's tax levy during the annual budget process. Caution shall be exercised to ensure the utilization of fund balance does not result in a spike in the required subsequent year tax levy.

IV. PROCEDURE

The Finance Director shall annually provide an estimate of the current year-end unassigned fund balance to the City Administrator during the budget process. The City Administrator will recommend utilization of the unassigned fund balance according to this policy.

If the unassigned fund balance is estimated to fall below 25% of the General Fund budgeted expenditures, the budget shall be designed to ensure the unassigned fund balance is replenished to an amount representing at least 25% of the General Fund budgeted expenditures not including one-time purchases utilizing the unassigned fund balance.

V. FLOW OF FUNDS

The order of fund balance spend-down shall be as follows:

- 1) Restricted
- 2) Committed
- 3) Assigned
- 4) Unassigned

This order will be used for purposes of reporting fund balance.