

City of Mankato
Financial Management Policies

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OVERVIEW

The City of Mankato (the City) is responsible to its taxpayers to carefully account for public funds, to manage municipal finances wisely, and ensure it is capable of adequately funding and providing local government services needed by the community. Financial policies provide the framework for the overall fiscal management of a city.

Employees are responsible for being aware of and following City policies and state and federal statutes. This single resource guide has been compiled for the convenience of employees to assist with the faithful discharge of duties. These financial policies will be reviewed periodically to determine if changes are necessary. The reference to management in these policies refers to City management unless defined otherwise.

AUDITOR INDEPENDENCE

In accordance with the Government Accountability Office, the authority on local government audits, in all matters relating to audit work, the external auditor shall be free both in fact and appearance from personal, external and organizational impairments to independence.

- The City's external audit organization shall not be responsible for designing, developing and/or installing the City's accounting system or its operating system where this system generates information used in preparing financial statements for the City of Mankato.

- External auditors shall not develop a performance measurement system, or any other system relied upon in developing financial statements.

- The external auditors may prepare draft financial statements, schedules or perform other duties provided they are based on City management's direction and the work results in a recommendation to City management.

- Decisions based on the external auditor's recommendations must be approved by City management.

- External auditors shall provide routine advice to the City of Mankato and its management to assist them in activities such as establishing internal controls or implementing audit recommendations and can answer the technical questions and provide training, however, they may not direct or unduly influence management with those decisions.

Any non-audit work related to tax rulings, arbitrage, attestation, compilation, sales tax audits, counted value audits and financial report assistance proposed by the auditors must be approved by the City Manager prior to hiring them.

BUDGETARY AND FINANCIAL CONTROL

Overview

General budgetary and financial control is to be centralized in one department whose functions shall include, but not be limited to, the following:

- Budget compilation
- Budget monitoring
- Income and expenditure projections
- Capital improvement financing
- Risk management (see Risk Management Policy)
- Screening of Conduit Debt applications (see Conduit Debt Policy)
- Cash and investment management (see Investment Policy)
- Monitoring financial data for warning signals or trends
- Preparing financial summary reports for key funds at least quarterly
- Maintaining a detailed inventory listing of all material fixed assets to adequately ensure proper accounting of assets.
- Conducting financial analysis to provide the future staffing and operational expenditure implications.
- Accounts Receivable
- Receipts, Collections and Customer Billing
- Accounts Payable

The City will maintain a program for the investment of funds consistent with the City's Investment Policy.

Operating Budget

The City will develop two-year budgets in odd numbered years. In even numbered years, the previously developed budget for the following year will be fine-tuned, as necessary. The City will:

- Adopt a balanced operating budget for the General Fund. A balanced budget is one in which revenues and other financing sources are equal to expenditures and other financing uses.
- Pay for current expenditures with current revenues.
- Avoid, if possible, balancing current revenues with funds needed for future expenditures.
- Not budget to accrue future revenues.
- Place excess revenue from a specific fiscal year into the City's reserves in a manner consistent with the City's fund balance reserve policies.
- Avoid postponing expenditures, rolling over short-term debt, and using reserves to balance the operating budget.
- Set the salary or wages of each City employee through a determination by the City Manager, within the pay range for such employee established by the City Council.
- Protect against unforeseen events; the City Council may budget for and maintain a contingency reserve in accordance with the City's fund balance reserve policies.
- Appropriate administrative and general government costs to all its funds as appropriate and practical. These charges will be identified in the annual budget.
- Monitor revenues and departmental expenditures through the collaborative effort of the City Council, City Manager and Department Heads to ensure adherence to budgeted amounts. Budget roll-up group expenditures may not exceed the total budgeted amount. However, individual line items within a specific budget roll-up group may be exceeded. If budgeted roll-up group expenditures exceed or are expected to exceed the allotted budgeted amount, the Department Head can request a budget amendment which requires approval of the City Manager and/or Director of Administrative Services.
- Review and update the schedule of fund balances, reserves and working capital in all other operating funds of the City and determine adequacy of those money balances, using specified guidelines and criteria in conjunction with the budgets set annually.

The operating budget policies ensure the City's annual operating expenditures are consistent with past expenditures and respond to long-term objectives rather than short-term benefits. The policies allow the City to maintain stable levels of service, expenditures, and tax levies over time. These policies are most critical to programs funded with property tax revenue because accommodating large fluctuations in this revenue source can impose hardship on the citizens.

Department Heads will be responsible for administration of their respective Department Budgets and are required to submit requests for any required budget adjustments, such as supplemental appropriations, to the City Manager and Director of Administrative Services before the program incurs cost overruns for the annual budget period.

Primary responsibility for the management of budgeted funds lies with the Department Heads. Such management includes, but is not limited to, reviewing expenditures before authorization, reviewing monthly financial reports to detect errors and assess progress, and staying within expense or expenditure budget authorization. All costs incurred must be reasonable and necessary. Department Heads shall be responsible for contacting City Manager or Director of Administrative Services should there be any questions regarding financial management or if the issue or concern is related to internal controls. The City Manager and Director of Administrative Services will routinely monitor overall budget operating progress throughout the year.

- The City will not use one-time accounting principal changes to balance the budget for any fund.

- The City will provide ample time and opportunity for public input into its budget deliberations each year.

- The City Manager may make transfer of appropriations within a fund or organization code. The City Manager may transfer part or all of any unencumbered appropriation balance among programs within a fund or organization code. Upon written request by the City Manager, the City Council may transfer, by resolution, part of or all of any unencumbered appropriation balance from one fund or organization code to another.

- City Council approval is required for budget changes that reduce the amount of an appropriation. The budget changes can be made at any City Council meeting with prior approval from the City Manager.

- Annual requests to encumber current year funds must be sent to the Director of Administrative Services by mid-January. Encumbrance requests must be submitted on a prescribed form and have the available current year funds remaining in their budget roll-up. The City Manager and the Director of Administrative Services must approve all encumbrances for Departments to carry over into the following year. These approved encumbrances will be treated as accounts payable, on the general ledger at year end, as the City does not allow unused budgets to carry-over into the following year.

- The modified accrual basis will be used for all governmental funds in the budget. Under this basis, revenues are recognized in the accounting period as they become available and measurable. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable. The accrual basis will be used for the budgets of the enterprise funds in the operating budget. Under this basis, revenues are recognized in the accounting period that they are earned and measurable. Expenses are recognized in the accounting period that they are incurred, if measurable. The basis of budgeting is the same as the basis of accounting used in the City's audited financial statements.

The City will establish and maintain the highest standard of accounting practices, in conformity with Generally Accepted Accounting Principles (GAAP) and with recommended best practices as promulgated by the Government Finance Officers Association (GFOA).

The City will arrange for an annual audit of all funds and account types by independent certified public accountants qualified and licensed to issue such reports.

The City will strive to obtain each year the annual GFOA Certificate of Achievement for Excellence in Financial Reporting.

Regular monthly reports will present a summary of financial activity by major type of funds as compared to budget. Department Heads will review monthly reports comparing actual revenues and expenditures to the budgeted amounts.

The City will strive to obtain, each year, the GFOA Distinguished Budget Award and the Certificate of Achievement for Excellence in Financial Reporting.

The City integrates key performance indicators to measure operational performance where practical. Performance data for individual departments are included in the budget document. Performance data should be directly related to the stated goals and objectives of the unit and focus on results and accomplishments rather than inputs. Performance indicators should provide a meaningful way to assess the effectiveness and efficiency of each operational unit.

CAPITAL ASSETS

Overview

It is the policy of the City to maintain appropriate procedures regarding the procurement, management, and disposal of all capital assets in accordance with Governmental Accounting Standards Board Statement No. 34 (GASB 34). The Capital Assets Policy addresses classes of assets, determination of useful lives, and calculation of depreciation.

Capital assets include land, land improvements, buildings, building improvements, construction in progress, machinery and equipment, vehicles, infrastructure, easements, works of art and historical treasurers acquired by the City for use in providing services to its citizens. A capital asset is to be reported and depreciated in government-wide financial statements. In the government-wide financial statements, assets not capitalized are expended in the year of acquisition.

Capital assets purchased with debt proceeds will be depreciated over their estimated useful lives. Capitalizing these assets will minimize the potential of reporting negative net assets in the statement of net assets.

Capital Asset Definitions and Categories

Land - is the surface or crust of the earth, which can be used to support structures, and may be used to grow crops, grass, shrubs, and trees; and is characterized as having an unlimited life. Land is to be capitalized but not depreciated. It is recorded at historical cost and remains at that cost until disposal. If there is a gain or loss on the sale of land it is reported as a special item in the statement of activities.

Land Improvements - consist of betterments, site preparation, and site improvements (other than buildings) that ready land for its intended use. The costs associated with improvements to land are added to the cost of the land. Land improvements can be further categorized as inexhaustible, not requiring maintenance or replacement; or exhaustible, e.g., parking lots, landscaping and fencing.

Examples of items to be capitalized as land and land improvements include:

- Purchase price or fair value
- Commissions
- Professional fees, includes title searches, architect, legal, engineering, appraisal, surveying, environmental assessments
- Land excavation, fill, grading, and drainage

- Demolition of existing buildings and improvements, less salvage
- Removal, relocation or reconstruction of property owned by others, i.e., power, telephone and railroad lines
- Interest on mortgages accrued at date of purchase
- Accrued and unpaid taxes at date of purchase
- Other costs incurred in acquiring the land
- Water wells, including initial cost for drilling, the pump and its casing
- Permanent right-of-way

Other Improvements - include land improvements that are exhaustible in nature and enhance the quality or facilitate the use of land for a specific purpose.

Examples of items to be capitalized as other improvements include:

- Fencing and gates
- Landscaping
- Parking lots, driveways, and parking barriers
- Outdoor sprinkler and irrigation systems
- Recreation areas and athletic fields, including bleachers
- Paths and trails
- Septic systems
- Stadia
- Swimming pools, tennis courts, basketball courts, skate parks
- Fountains
- Plazas and pavilions
- Retaining walls

Buildings - refer to a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or moveable. Certain buildings or structures that are ancillary parts of infrastructure networks, such as well houses and pumping stations will be reported as infrastructure rather than as buildings.

Example of items to be capitalized as building:

Purchased Buildings:

- Original purchase price
- Expenses for remodeling, reconditioning, or altering a purchased building to make it ready for its intended purpose
- Environmental complies, i.e., asbestos abatement
- Professional fees, includes architect, engineer, management fees for design and supervision, legal
- Cancellation or buyout of existing leases
- Other costs required to place or render the asset into operation

Constructed Buildings:

- Completed project costs
- Cost of excavation or grading or filling of land for a specific building
- Expenses incurred for the preparation of plans, specifications, blueprints
- Building permits
- Costs of temporary buildings used during construction
- Additions to buildings, i.e., expansions, extensions, or enlargements

Building Improvements - include capitalized costs that materially extend the useful life of a building or increase the value of a building, or both, beyond one year. Building improvements should not include maintenance and repairs done in the normal course of business.

Examples of items to be capitalized as building improvements include:

- Installation or upgrade of heating and cooling systems, including ceiling fans and attic fans
- Original installation or upgrade of wall or ceiling covering such as carpeting, tiles, paneling, or parquet
- Structural changes such as reinforcement of floors or walls, installation or replacement of beams, rafters, joists, steel grids, or other interior framing
- Installation or upgrade of window or doorframes, upgrading windows or doors, built-in closet and cabinets
- Interior renovation of casings, baseboards, light fixtures, ceiling trim
- Installation or upgrade of plumbing and electrical wiring
- Installation or upgrade of telecommunication system

Example of items considered repairs or maintenance in nature and should not be capitalized as buildings or building improvements include:

- Adding, removing and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value of the building
- Improvement projects of minimal or no added life expectancy and/or value to the building
- Plumbing or electrical repairs
- Cleaning; pest extermination, or other periodic maintenance
- Interior decoration, i.e., draperies, blinds, curtain roads, wallpaper
- Exterior decoration, i.e., detachable awnings, uncovered porches, decorative fences
- Maintenance-type interior renovation including repainting, touch-up plastering, replacement of carpet, tile, or pane sections, and refinishing of sinks and fixtures
- Replacement of a part or component of a building with a new part of the same type and performance capabilities, e.g., replacement of an old boiler with a new one of the same type and performance capabilities
- Any other maintenance-related expenditure, which does not increase the value of the building

Equipment, Machinery, and Vehicles - refer to fixed or movable tangible assets used for operations, the benefits of which extend beyond one year from date of receipt.

Examples of expenditures to be capitalized as equipment, machinery, and vehicles include:

- Original contract or invoice price
- Freight charges
- Handling and storage charges
- In-transit insurance charges
- Sales, use, and other taxes imposed on the acquisition
- Installation charges
- Charges for testing and preparation for use
- Cost of reconditioning used items when purchased
- Parts and labor associated with the construction of equipment, machinery, or vehicle

Note that the cost of extended warranties and/or maintenance agreements, which can be separately identified from the cost of the equipment, machinery, or vehicle shall not be capitalized.

Infrastructure Assets - are long-lived capital assets that are linear and stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

Examples of infrastructure assets include:

- Roads, streets, curbs, gutters, sidewalks
- Bridges
- Water and sanitary sewer systems
- Drainage and storm water systems
- Streetlight systems
- Signage

Infrastructure assets shall be capitalized and depreciated unless the modified approach is used. The modified approach is an alternative to reporting depreciation for infrastructure assets that meet the following criteria:

- The assets are managed using a qualifying asset management system; and
- It is documented that the assets are being preserved at or above a condition level established by the City.

Under the modified approach the infrastructure, infrastructure assets are being maintained over time at a consistent physical condition level determined in advance by the government, assets are not depreciated, and only the costs that increase the capacity or efficiency of the asset are capitalized, while all other expenditures that preserve the useful life of the assets are expensed. Only infrastructure assets that comprise a network or subsystem of a network can be reported using the modified approach.

Other Capital Assets - includes computer software that is either purchased or developed for internal use, which should be capitalized, if the cost of the software exceeds the capitalization threshold and depreciated over the software's estimated useful life. Capitalization of computer software includes software license fees if the total dollar amount of the fee divided by the number of units or terminals exceeds the threshold.

Examples of expenditures to be capitalized as computer software include:

- External direct costs of materials and services, i.e., third-party fees for services.
- Costs to obtain software from third parties.
- Travel costs incurred by employees in their duties directly associated with development.
- Payroll and payroll-related costs of employees directly associated with or devoting time to encoding, installing, or testing.
- Costs to develop or obtain software that allows for access or conversion of old data by new information systems.

Note that upgrades and enhancements should only be capitalized to the extent that they increase the functionality of the product.

Leased Property - Any transaction meeting the definition of long-term leased property as defined by GASB standards, would be recorded as a lease payable and will be measured at the present value of the payments under the provisions of the lease. The asset would equal the lease liability plus any prepayments and certain initial direct costs. An exception is made for a short-term lease arrangement.

In the governmental funds, which report on a modified accrual basis, capital assets and long-term liabilities are not reported. Rather, when a lease is entered into the government reports an expenditure equal to that present value amount and another financing source - capital lease agreement.

Capitalization Thresholds

For financial reporting purposes only, the City will classify and establish capitalization thresholds for each asset class as follows:

Capital Asset Classification	Capitalization Threshold
Land	$1
Land Improvements	$25,000
Other improvements	$25,000
Building and building improvements	$50,000
Machinery and equipment	$10,000
Vehicles	$10,000
Infrastructure	$50,000
Construction-in-progress	Accumulate all costs and capitalize if over $25,000 when complete.
Other assets	$10,000

All information in regard to the City asset acquisition, retention, and disposal is maintained and reported to the Administrative Services Department-Finance.

Acquisition of Capital Assets

Report capital assets at historical costs, which includes most costs necessary to placing a capital asset into its intended use or state of operation. Historical cost includes the vendor's invoice, the value of any trade-in or allowance, sales tax, initial installation cost (excluding in-house labor), modifications, attachments, accessories, or apparatus; and ancillary charges such as freight and transportation charges, site preparation costs, and professional fees.

In the event the historical cost of a capital asset is not determinable, it will be necessary to record an estimated historical cost of the asset using alternative methods. Alternative methods include standard costing and normal costing. Standard costing estimates the historical cost of a capital asset by establishing the average cost of obtaining the same or a similar asset at the time of acquisition.

Normal costing estimates historical cost based on the current cost to either reproduce or replace the capital asset, indexed by a reciprocal factor from the estimated acquisition date, i.e., taking the value of acquiring the asset new today and then discounting that amount by an appropriate inflation factor back to the date of acquisition.

A significant issue when recording capital assets is the question of when an expenditure is capitalized as an improvement versus recorded as repairs or maintenance expense. The key consideration for determining whether to capitalize expenditures depends on whether the cost incurred, significantly extends the asset's useful life, increases its capacity, or improves its efficiency. Capitalize asset improvement costs if:

- The costs exceed the capitalization thresholds; and
- One of the following criteria is met:
    - The value of the asset or estimated life is increased by 25% of the original cost of life period
    - The cost results in an increase in capacity of the asset; or
    - The efficiency of the asset is increased by more than 10%.

If the above criteria are not met, then the cost should be recorded as a repair and maintenance expense within the appropriate expense function.

Capital assets donated to the City shall be reported at fair value. Fair value is the amount at which an asset could be exchanged in a current transfer at *arm's length* between willing parties, other than in a forced or liquidation sale. Donations are defined as voluntary contributions of resources to the City by a non-governmental entity. A voluntary contribution of resources between governmental entities is not a donation.

Best Practices

The responsibility for the custody, use, control, and care of City property lies within each department. The following best practices should be applied:

- Assets should be tagged, where practicable, with a unique identifier.
- All assets should be properly secured to deter theft, damage, or improper use.
- Periodic physical inventories of capital assets should be performed not less than annually to ensure the physical accountability of all capital assets and accuracy of financial records. The physical inventory should be performed by employees other than those responsible for the custody of the related assets or an outside firm.
- It is each City employee's responsibility to use property only for City purposes and to exercise reasonable care for its safekeeping.
- City assets should be properly maintained to prevent shortening of their useful life.
- Transfers of assets to a different department or disposals must be communicated to Finance within 30 days.

Depreciation of Capital Assets

Depreciation is the process of allocating the cost of a tangible asset to the periods of benefit. Capital assets shall be depreciated over their estimated useful life with exception of the following:

- Inexhaustible assets, i.e., land, and land improvements that do not require maintenance or replacement, e.g., certain works of art and historical treasures.
- Infrastructure assets reported using the modified approach.
- Construction work-in-progress.

For financial purposes the City will use the straight-line method of depreciation, which allocates the cost evenly over the life of the asset. Generally, at the end of an asset's life, the sum of the amounts charged for depreciation in each accounting period, or accumulated depreciation, will equal the original cost less salvage value.

Assets should be periodically evaluated to identify low-performing or idle assets that may need to be sold or disposed of.

Capital Assets Estimated Useful Life

Other Improvements

Fencing and gates	20 years
Landscaping	10 years
Parking lots, driveways, and parking barriers	20 years
Outdoor sprinkler and irrigation systems	20 years
Recreation areas and athletic fields, including bleachers	20 years
Paths and trails	20 years
Swimming pools, tennis courts, basketball courts, skate parks	20 years
Outdoor lighting	20 years

Building and Building Improvements

Buildings	40 years
Roof	20 years
HVAC (heating, ventilation, air conditioning)	20 years
Electrical	30 years
Plumbing	30 years
Sprinkler system	20 years
Security and fire alarm system	10 years
Cabling	10 years
Floor covering other than carpet	15 years
Carpeting	10 years
Interior construction	15 years
Interior renovation	10 years
Elevators	20 years

Equipment, Machinery, and Vehicles

Audio visual equipment	5 years
Business machines and office equipment	5 years
Telecommunication equipment	5 years
Computer equipment and software	5 years
Fire Department equipment	10 years
Furniture and fixtures, excluding structural components of a building	10 years
Grounds equipment (mowers, tractors, bobcats)	8 years
Kitchen equipment (appliances)	10 years
Lab equipment	10 years
Law enforcement equipment	5 years
Machinery, tools and other equipment	5 years
Outdoor equipment (playgrounds, scoreboards)	15 years
Photocopiers	5 years
Cars, light general-purpose trucks (actual weight less than 13,000 pounds)	10 years
Heavy general-purpose truck and equipment e.g., front loaders, graders (Actual weight greater than 13,000 pounds)	15 years
Firefighter trucks	15 years

Infrastructure

Roads, streets, curb, and gutter	20 years
Parking lots	20 years
Sidewalks	20 years
Water, sanitary sewer, storm sewer systems	50 years

[1] Estimated useful life values derived from the Internal Revenue Service Alternative Depreciation System (ADS) but adjusted by staff for the needs of the City.

CAPITAL EQUIPMENT DISPOSAL

Selling Capital Equipment Assets to External Entities - Departments can sell capital equipment assets that were purchased with non-sponsored or sponsored funds to external entities. The accounting for the transaction is dependent on the source of the funds, status of the project and the type of disposal. The City must have title to the asset before it can be sold. Finance can verify the City has title to the equipment. Contact Finance for assistance in determining ownership. **Selling Capital Equipment Assets that were Purchased with Sponsored Funds -** Departments can sell capital equipment assets that were purchased with sponsored funds; however, only when the capital equipment is no longer needed for the original project or program. Prior to selling, the department must use the equipment in connection with other federally-sponsored activities, in the following order of priority: (1) activities sponsored by the federal awarding agency which funded the original project, then (2) activities sponsored by other federal awarding agencies. If such activities don't exist, the department can sell the capital equipment.

Departments must:

1. Be good stewards of City property to ensure the Fair Market Value (FMV) or selling price is appropriate.
    - Determine the net book value (NBV) by using the existing asset management reports in the Tyler Munis Asset Management module.
    - For assistance in determining the NBV or ownership, please contact Finance.
    - The asset should be sold at Fair Market Value. Determine FMV by obtaining an official appraisal or comparable price information from three different external sources (EBAY, Vendor, etc.) in writing (print screen is acceptable).
2. Complete form *Capital Equipment Asset Disposal* form.
3. Forward the form to Finance.
    - The Department Head, Director of Administrative Services or City Manager's signature is required on this form.
4. Administrative Services - Finance will review the form to ensure the City has title to the asset.
5. If Administrative Services - Finance authorizes the disposal, an approved copy will be sent back to the submitting department.
    - The disposal cannot occur if it has not been approved by Administrative Services.
6. When the approved copy is received by the department, the property may be sold to the buyer.
    - The capital equipment asset number should be removed before the item leaves the City premises.
7. The Department must create an invoice within Tyler-Munis to the buyer for the amount of the sale.
8. The buyer should pay the department with a check made out to "City of Mankato."
9. The buyer must sign a receipt for the property. The receipt must be retained by the department, along with the approved *Capital Equipment Asset Disposal* form.
10. Administrative Services – Finance will make the appropriate adjustments in the Tyler Munis Asset Management module.

Other Consideration:

- Vehicles: All vehicle sales must go through the Central Garage Superintendent.

Technology: All technology sales must be approved by the Information Technology Director to be approved. IT will also ensure any technology asset is properly disposed of any data associated with the organization.

CAPITAL IMPROVEMENT PROGRAM

As part of the annual operating budgeting process a community investment plan is created which identifies short-term and long-term initiatives. This plan is comprised of two sections – surface transportation, capital replacement and sales tax construction – and reflects all identified capital improvement activity for a five-year period and is updated on an annual basis.

Capital improvements for the upcoming year will be incorporated into the operating budget.

The adoption of the five-year capital improvement is to assist in planning and provide direction for City departments, but it does not establish permanent City Council commitment to projects either in scope or timeline for construction. In the plan, the City will:

- Identify the estimated cost and potential funding sources for each capital project before the proposal is submitted to the Council for approval and in that process will determine the most effective financing method for the proposed project. All construction projects shall include at least a ten percent contingency prior to receiving bids.

- Ensure all capital improvements in accordance with the adopted capital improvement program, or as it is amended by the Council. Capital purchases, not otherwise funded through an approved budget, shall require City Council approval.

- Enact each five-year capital improvement program based on a rolling multi-year capital improvement plan update.

- Coordinate development of the capital improvement budget with the development of the operating budget. Future operating costs associated with new capital improvements will be projected and included in operating budget forecasts.

- Use inter-governmental assistance to finance only those capital improvements that are consistent with the capital improvement plan and City priorities and operating and maintenance costs have been included in operating budget forecasts.

- Maintain all assets at a level adequate to protect the City's and its citizens' capital investment and to minimize future maintenance and replacement costs.

CONDUIT DEBT

Overview

Under the Minnesota Municipal Industrial Development Act, *Minnesota Statutes, Sections 469.152 to 469.1655* (the "Industrial Development Act"), the City of Mankato, Minnesota has authority to issue revenue bonds or notes to attract or promote economically sound industry and commerce to the City, including the development of facilities by qualified 501(c)(3) organizations.

Under Minnesota Statutes, Chapter 462C (the "Housing Act") the City is authorized to issue housing revenue bonds to finance multi- family residential housing projects for low- and moderate-income persons and elderly persons.

The City Council is aware that such financing for certain private activities may be of benefit to the City and will consider requests for tax exempt financing subject to these Guidelines. The City Council considers tax exempt financing to be a privilege, not a right.

It is the judgment of the City Council that tax exempt financing is to be used on a selective basis to encourage certain development that offers a benefit to the City as a whole, including employment and housing opportunities. It is the applicant's responsibility to demonstrate the benefit to the City. The applicant should understand that although approval may have been granted by the City for the issuance of financing for a similar project or a similar debt structure that is not a basis upon which approval will be granted. Each application will be judged on the merits of the project as it relates to the public purposes of the Housing Act or the Industrial Development Act and the benefit to the City at the time the request for financing is being considered.

Policy

The City Council will consider tax exempt financing for manufacturing and health care facilities, and other facilities operated by qualified 501(c)(3) organizations, under the Industrial Development Act; and housing projects under the Housing Act. An applicant for tax-exempt financing pursuant to the Industrial Development Act must submit to the City the application on the form prescribed by the City Clerk.

The project must be a positive benefit to the City. The project must be of a nature that the City wishes to attract, or an existing business which the City wishes to retain or expand within the City, considering employment opportunities, incentive for further development, impact on City services, and support for the industrial, commercial or health care operations currently located in the City. A housing project must provide significant housing opportunities for low- and moderate-income persons or the elderly.

City staff, upon request, may grant an applicant a pre-application review. The purpose of the pre-application review is to inform applicants of the possibility of rejection or the possible basis for such a rejection. The fact that the project is not rejected at the pre-application stage is not to be construed as approval of the project or as an indication that the project will be approved upon formal request to the Council. Requests for tax-exempt financing may be rejected by the City whether or not the project was submitted to a pre-application review and regardless of the outcome or recommendation of that pre-application review.

A request for pre-application review must be in writing, addressed to the City Manager, and set forth the name of the project, the type of project intended and the name, address and telephone number of the person who will be representing the applicant at the pre-application review, together with such additional information as the applicant desires to submit.

The City will appoint bond counsel for the bond issue, which will normally be the City's regularly retained bond counsel.

Pursuant to the Industrial Development Act and the Housing Act, consideration of an application for tax exempt financing must be done at a public hearing held by the Council.

The City is to be reimbursed and held harmless for and from any out-of-pocket expenses related to the tax-exempt financing including, but not limited to, legal fees, financial advisor fees, and bond counsel fees, the City's expenses in connection with the application, and any deposits or application fees required under state law to secure allocation of bonding authority.

A non-refundable application fee in the amount of $2,500 must be included with the submission of the application, and a $7,500 refundable fee to be applied to the expenses of the City, any additional costs incurred by the City will be paid by the applicant.

- **Projects within City limits - .6% of bond issue amount**
    - Prior to closing and delivery of the bonds for the project, the applicant must pay to the City, or commit to pay a one-time administrative fee equal to .6% of principal of the bonds issue amount for any project commencing within City limits.

- **Projects outside of City limits - 1% of bond issue amount**
    - Revenue bonds issued for projects outside of the City limits shall be charged a one-time administrative fee equal to 1.0% of the bond issue amount. Notwithstanding anything to the contrary herein, the administrative fees required by this paragraph will be reduced to the extent needed to ensure that the fee does not affect the tax-exempt status of the bonds under Internal Revenue Code of 1986, amended and related regulations.

Should the tax-exempt financing request cause the City's total bonding for the year to exceed $10,000,000 in a year the City would otherwise be eligible to issue bank qualified bonds, (bonds with tax incentives to banks), any interest rate differential between bank qualified and non-bank qualified bonds shall be estimated and the difference paid by the borrower. If the City would have exceeded this amount without the tax-exempt issue, no differential would be calculated or paid by the borrower.

Applications for financing must be made on the forms attached to these Guidelines. In addition, the applicant must furnish a description of the project, together with a brief description of applicant and the proposed financing in such form as required at the time of application. The City will not review financial statements, nor form any opinions as to the financial success of the proposed business plan.

The City may, in its sole discretion, withdraw its preliminary approval of a project any time if in its judgment the purposes of the Act will not be served by going forward with the project and its financing.

Other Information

Ratings

The City will give its most favorable consideration to proposed tax-exempt bond issues that have the rating of "A" or better by Moody's Investment Service or Standard & Poor's Corporation. Issues carrying lower ratings or non-rated issues may be sold only to institutional or other investors on a private placement basis and must be in denominations of at least $100,000. A lower denomination, but not less than $25,000, may be allowed if specifically authorized by the City Council in cases where the bonds are rated above investment grade and the bonds are sold only to institutional or accredited investors as defined under the Securities Act of 1933. The City Council may depart from this guideline when, in its judgment, the project is of a level of merit and public purpose to justify the departure; and in the case of such a departure, the City Council must state its reasons therefore in the resolution awarding the sale of bonds.

Refundings

The City Council will normally approve the refunding of a tax-exempt issue but only upon a showing by the applicant of (i) substantial debt service savings, (ii) the removal of bond covenants significantly impairing the financial feasibility of the project, or (iii) both (i) and (ii). In the case of refunding of bonds, a one-time administrative fee of .025% of the bond issue amount and the non-refundable administrative application fee of $2,500 must be paid together with reimbursing the City all out of pocket costs. If the original financing was not completed with the City of Mankato, a fee of 0.50% of the bond issue amount shall be charged for the refunding. Such fees must be paid in full prior to closing the refunding bonds.

Subsequent Proceedings

Where changes to the underlying documents or credit facilities of outstanding bond issues are to be made and require Council action (including changes that are a "deemed reissuance" under Internal Revenue Service regulation), no administrative fee is charged but a non-refundable fee of $2,500 must be deposited with the City to cover administrative costs. Additional costs incurred by the City will be paid by the applicant. No formal application form is required.

Issue by another Political Subdivision

The City may consider requests for tax-exempt financing of projects in the City by other political subdivisions in cases where the project is done in conjunction with other communities, the financing needed for the [City Name] portion is small as compared to the total multi-jurisdictional project and where the development provides community services to the vicinity including [City Name]. In these cases, the non-refundable application fee of $2,500 must be paid and all procedures through the approval of the preliminary resolution followed.

City Contact

Initial contacts about tax exempt financing are made by contacting:

City of Mankato
City Manager
10 Civic Center Plaza
Mankato, MN 56001
507-387-8600

Deadlines

The City Council conducts all tax-exempt financing matters at regularly scheduled City Council meetings. Documents for City Council consideration must be at the City office no later than 10 calendar days prior to the next City Council meeting at which the matter is to be considered. In the case of a publicly offered bond issue, the documents, when submitted, may specify a maximum price and maximum effective interest rate if prices and rates have not yet been established.

DEBT MANAGEMENT

Overview

The debt management policy defines the role of debt in the City's total financial strategy to avoid using debt in a manner that weakens the City's overall financial condition, establishes limits on the amount of City debt which will allow for manageable debt service costs and maintains the best possible credit rating.

Policy

The City has established the following guidelines for the borrowing of funds:

- The City will confine long-term borrowing to capital improvements, equipment or projects that have a life of more than 5 years and cannot be financed from current revenues.
- The City will strive to keep the total maturity length of general obligation bonds below 20 years. In all cases, the maturity shall be shorter than the life of the related assets.
- The City may issue debt under the City Charter. Charter bonds may be issued in an amount equal to ¼ of 1% of the assessed valuation of the City in any calendar year without approval of voters in a referendum election (Section 6.15 of City Code).
- The Administrative Services Department-Finance may recommend the issuance of tax increment bonds. If the City has entered into a tax increment financing (TIP) plan with a developer that identified TIP bonds as a financing source, then a determination is made to either issue the bonds or internally finance the project.
- The Administrative Services Department-Finance may recommend the issuance of revenue general obligation bonds in the City intends to pledge the revenue of a particular fund.
- The City, when possible, will use special assessment revenue (including G.O. backed revenue) or other self-supporting bonds instead of general obligation bonds.
- The City will strive to keep the direct debt per capita and direct debt as a percent of estimated market value at or below the median set out by the credit rating agencies.
- Total general obligation debt will not exceed the statutory limit of three percent of the estimated Full Market Value of taxable property in the City as required by Minnesota State Statute.
- The City will not use long-term debt for current operations.

- The City will maintain frequent and regular communications with bond rating agencies about its financial condition and will follow a policy of full disclosure in every financial report and bond prospectus. The City will comply with Securities Exchange Commission (SEC) reporting requirements.

- The City will comply with IRS regulations concerning use of, and reinvestment of, bond proceeds. The City will monitor potential arbitrage earnings. If arbitrage earnings are believed to be above amounts provided by IRS regulations, the City will set aside funds to pay the appropriate amount as required.

- Refinancing or bond refunding will only be undertaken when there is significant economic advantage to the City, and when it does not conflict with other fiscal or credit policies.

- Interfund borrowing shall have a reasonable repayment schedule and be approved by Council resolution. Refer to the policies set for in the Interfund Loan Policy.

- The maintenance of the best possible credit rating shall be a major factor in all financial decisions. For the purposes of issuing debt, bond rating categories shall be used as a means of assessing the City's financial condition.

ELECTRONIC PAYMENTS

Overview

Electronic payments are financial transactions that are often initiated using computer terminals, online banking automated phone systems or other methods of electronic funds transfer in effort to reduce cost and improve security and efficiency. Use of the electronic payments will:

- Eliminate the storage, handling, and processing of paper checks.

- Reduce the time spent on reconciliation.

- Eliminate the occurrence of lost or stolen checks and the cost of check reissuance.

- Reduce security risks, including reducing the visibility of information used in check payment fraud.

- Improve the tracking of payments through enterprise resource planning (ERP) systems and integration with banking technologies.

Definitions

Automated clearing house (ACH) - movement of funds in a batch process, which is best for high volume, low dollar transactions such as payroll, expense reimbursement, and routine vendor payments, as the cost per transaction is low relative to other forms of electronic payment.

Wire transfer - immediate movement of funds between bank accounts with guaranteed settlement, which is most suitable for high dollar transactions because the cost per transaction is high relative to other forms of electronic payment.

Purchasing (procurement or PCard) cards - a credit card transaction designed to reduce the volume of local "house" accounts, purchase orders issued or to eliminate petty cash. Purchasing cards are used at the point of sale, which is convenient for the customer, and payments are made in aggregate. Vendors that accept the payment will pay a processing fee. There is usually no cost to the government, and the issuing bank usually provides a rebate based on transaction volume.

Electronic accounts payable - a credit card transaction, often without physical cards, that allows governments to pay invoices electronically. These transactions are similar to purchasing cards but occur after the point of sale and thus do not provide the processing benefits of purchasing cards. As with purchasing cards, the vendor pays a processing fee, and the government usually receives a rebate.

Policy

The City will ensure the use of electronic fund transfers and receipts are initiated, executed and approved in a secure manner. Payments issued by accounts payable are made by Automated Clearing House by means of Electronic Funds Transfers (EFT).

All EFT payments will be coordinated and submitted through the Administrative Services Department-Finance. The Controller will approve all new, and changes to, electronic funds transfer requests, ensuring the payment via wire is necessary, all required documentation is provided and appropriately approved, and the request and banking account information is accurate and valid.

EXPENSE REIMBURSEMENT & TRAVEL

Overview

This policy establishes guidelines and procedures for the payment and reimbursement of travel and other expenses incurred by employees and officials in the conduct of approved City business. This policy applies to all employees and City Officials. All travel time for non-exempt employees will be paid in accordance with State and Federal regulations or collective bargaining agreements.

Authorization

Acceptable forms of travel include, but are not limited to, meetings, workshops, continuing education, conferences, training/professional development, and license/certification maintenance for existing employees.

Employees must fill out a Travel Request Form prior to City related travel and submit to their designated approving authority for approval as indicated below. All out-of-state travel will be approved by the City Council. All requests forms will be retained in accordance with the approved data retention policy within Tyler content management (TCM).

Designated Approving Authority

- Department Heads: Approving authorities for all employees assigned to their departments.
- City Manager: The approving authority for all Department Heads.

Reimbursement Guidelines

All travel purchases should be made with a City issued purchasing card, if available. All reimbursable travel expenses must be itemized on a Travel Expenses Report and submitted to the employee's designated approving authority for approval within thirty (30) working days of returning from travel. Receipts must be provided for all expense reimbursements, except mileage, and can be provided as the original receipt, photocopies or in electronic format.

Reimbursable Expenses

Lodging

The City will pay for the cost of a single room or the next larger size if a single room is not available. Lodging should be chosen based on convenience and proximity to the reason for travel. Lodging should be comparable to other facilities in the area. All receipts need to be itemized.

Registration Fees

To be reimbursed, a completed registration form and website link to conference brochure showing schedule of sessions offered and meals provided must be submitted. Fees must be itemized on a Travel Expenses Report.

Transportation

Should be selected based on minimum expense to the City and convenience to the employee.

The City will reimburse the actual cost of a coach class airline ticket and one bag (if not included in the price of the ticket). Any credits toward free or reduced-rate airline tickets or other benefits received by an employee because of air travel paid for with City funds, shall, if possible, be transferred to the City or used by the employee for subsequent City travel. All such credits and other benefits must be reported to the City Controller within 90 days after they are earned or received.

The City will pay for the cost-effective type/size of rental car (i.e., compact). Other ground transportation such as buses or taxis will be reimbursed provided it is the most cost effective and efficient mode of ground transportation.

Employees shall use a City vehicle for all travel within the State of Minnesota except when authorized or instructed to use their own vehicle. An employee electing to use their personal vehicle when a City vehicle is available does so at their own risk and may not be reimbursed. The City shall not be responsible for any damage to the employee's vehicle or any other vehicle if the employee elects to use their own vehicle when City vehicle is available. This provision does not apply to those employees who receive a car allowance

Mileage will be reimbursed at the current standard mileage rate for each mile driven on City business, while using a non-city furnished vehicle. Reimbursement will not be made when a City vehicle is available. Toll charges shall be reimbursed.

Meals & Incidental Expenses

Reimbursement will be provided for meals and incidentals as a result of business travel, and which are not included in a registration fee.

Reimbursement will be based on the Meal & Incidental Expense (M&IE) table established by the General Services Administration (https://www.gsa.gov/travel/plan-book/per-diem-rates) and based on the location at which the expense occurred. The City will not reimburse for the cost of alcoholic beverages.

Incidental Expenses

Incidental expenses are included in the meals and incidental expense rate and are not reimbursed separately. An incidental expense is defined as tips given to porters, baggage carriers, hotel staff, and staff of ships.

Meals for Others

Meals for others may be reimbursed by the City with prior authorization. An employee, acting as a representative of the City, may occasionally be in the position of paying for a meal for other persons who have official business with the City.

Miscellaneous Expenses

Miscellaneous expenses may include parking meters and lot costs, or gas and other City vehicle related items.

Non-reimbursable Expenses

Non-reimbursable expenses o\include alcoholic beverages, movies in hotel room, hotel fees for items such as health club and dry-cleaning services.

International Travel

All international travel must be approved by the City Council.

Exceptions

Any deviation from this policy must be approved by the City Manager.

Mayor and Council Members

Per Sec. 2.04, effective January 1, 2009, the Mayor and Council Members are eligible to receive a per diem payment of one hundred fifty dollars ($150.00) per day up to four (4) days per calendar year. This compensation is expected to reimburse council members for full weekdays when they are absent from their primary employment to attend out-of-town Council retreats, training, or legislative events on behalf of the City.

INTERFUND LOANS

Overview

The interfund loan policy provides the parameters by which the City may alleviate cash flow shortages in the various City funds with temporary loans from other funds. Interfund loans are intended to be a temporary internal financing mechanism which may be used to alleviate the need for debt issuance on a project that requires only short-term financing and/or to provide temporary internal financing on a project for which permanent financing will take place at a later date.

Policy

It is the policy of the City Council that interfund loans between the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds or the Enterprise Funds may be used to alleviate a temporary cash deficiency. The loan shall be accounted for as a temporary borrowing between funds or accounts and shall not be available for appropriation or be considered revenue to the borrowing fund or account. Amounts transferred shall be repaid within 180 calendar days or as approved by Council resolution. Borrowing shall occur only when the fund or account receiving the money will earn sufficient revenue during the current fiscal year, to repay the amount transferred. No more than 75 percent of the maximum money held in any fund or account during a current fiscal year may be loaned or transferred.

Such loans shall not be used to balance the budget of the borrowing fund, nor shall they deter any function or project for which the loaning fund was established.

The City Council must adopt a resolution before any interfund loan transaction takes place. The resolution shall contain the exact amount of the loan, the funds involved, the purpose of the loan, the specific source of funds for repayment, the schedule for repayment and any interest rate involved.

INVESTMENTS

Overview

It is the policy of the City of Mankato to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow requirements of the City and conforming to all state and local statutes governing the investment of public funds. The purpose of this Policy is to develop an overall program for cash investments, designed and managed with a high degree of professionalism, worthy of the public trust; to establish that appointed officials and employees are custodians of a portfolio which shall be subject to public review; to establish cash investment objectives, delegation of authority, standards of prudence, internal controls, authorized investments, selection process for investments, and broker representations.

Scope

This Policy applies to the investment and deposit of all funds of the City of Mankato.

Except for cash in certain restricted and special funds, the City of Mankato will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

Objectives

At all times, investments of the City of Mankato shall be in accordance with Minnesota Statutes Chapter 118A and amendments thereto. The primary objectives of the City of Mankato's investment activities shall be in the following order of priority:

Safety

Safety of principal is the foremost objective of the investment portfolio. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk, interest rate risk, and custodial risk.

Credit Risk: Credit Risk is the risk of loss due to failure of the security issuer or backer. Thus, designated depositories shall have insurance through the FDIC (Federal Insurance) or the SIPC (Securities Investor Protection Corporation). To ensure safety, it is the policy of the City of Mankato that when considering an investment, all depositories under consideration be cross- checked against existing investments to make certain that funds in excess of insurance limits are not made in the same institution unless collateralized as outlined below. Furthermore, the City of Mankato will approve all financial institutions, brokers, and advisers with which the City of Mankato will do business. If the City of Mankato chooses to engage an investment advisor, that investment advisor may choose to utilize any broker-dealer that it deems prudent. Qualified investment advisors assisting the City in the management of its overall portfolio may purchase and sell investment securities in accordance with this policy and may utilize their own approved list of broker-dealers and security issuers; however, the list shall fully comply with the criteria maintained in this policy.

Interest Rate Risk: Interest Rate Risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. The City of Mankato will minimize Interest Rate Risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

Custodial Risk: The City will minimize deposit Custodial Risk, which is the risk of loss due to failure of the depository bank (or credit union), by obtaining collateral or bond for all uninsured amounts on deposit, and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.

Liquidity

The investment portfolio shall remain sufficiently liquid to meet projected disbursement requirements. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Generally, investments shall have "laddered" maturities so that money becomes available on a regular schedule. Liquid funds will allow the City to meet possible cash emergencies without being penalized on investments.

Yield

The investment portfolio shall be designed to manage the funds to maximize returns consistent with items A and B above and within the requirements set forth in this Policy. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal
- A security swap would improve the quality.
- Liquidity needs of the portfolio require that the security be sold.

Delegation of Authority

Responsibility for the investment program is hereby delegated from the City of Mankato to the Administrative Services Director and/or the Controller. Authority to conduct actual investment transactions may be delegated to the Administrative Services Director, and/or the Controller, who shall act in accordance with procedures as established with this investment policy. The authorized individuals, when acting in accordance with this Policy and exercising due diligence, shall not be held responsible for losses, provided that the losses are reported immediately, and that appropriate action is taken to control further losses.

Investment Advisors

The City of Mankato may utilize SEC registered investment advisory/management firms (External Investment Managers) to invest segments of the portfolio. The External Investment Managers will operate within the constraints of this Investment Policy and an executed Investment Advisory Agreement. The External Investment Managers shall have discretion over the assigned segment of the portfolio. All External Investment Managers shall purchase and sell investment securities in accordance with Minnesota Statute 118A, this Investment Policy and the Investment Advisory Agreement. External Investment Managers must be registered under the Investment Advisers Act of 1940 and be licensed and registered to do business in Minnesota and registered as an investment advisor through IARD (Investment Advisor Registration Depository) in Minnesota.

Prudence

The standard of prudence to be used by investment officials shall be the "prudent investor" and shall be applied in the context of managing the investments. All investment transactions shall be made in good faith with the degree of judgment and care, under the circumstances, that a person of prudence, discretion and intelligence would exercise in the management of their own affairs. This standard of prudence shall mean not for speculation, and with consideration of the probable safety of the capital as well as the probable investment return derived from assets.

Internal Controls

Internal controls are designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. Before the City of Mankato invests any surplus funds, competitive quotations shall be obtained. Written quotations from local financial institutions shall be obtained via fax, email or other form of written documentation, with all of them receiving the exact same rate request. Verbal quotations shall be received from all other brokers, along with a subsequent confirmation. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, quotations will be requested for instruments that meet the maturity requirement. If no specific maturity is required, a yield analysis will be conducted to determine which maturities would be most advantageous. Quotations will be requested from financial institutions for various options with regard to term and investment type. The City of Mankato will accept the quotation, which provides the highest rate of return within the maturity required and within the limits of this Policy.

The Administrative Services Director and/or the Controller will report periodically to the City Council on the total of all funds invested and the total interest received on all securities year to date.

Authorized Investments and Collateralization

All City of Mankato investments and deposits shall be those allowable by Minnesota Statutes Chapter 118A and amendments thereto. In accordance with Minnesota Statutes 118A, collateralization will be required on all demand deposit accounts, including checking, savings, and money market accounts, and non-negotiable certificates of deposit in excess of federal deposit insurance.

State law defines the types of securities that a financial institution may pledge as collateral for public deposits. These securities include:

- United States Treasury Issues
- Issues of US Government Agencies and Instrumentalities
- Obligations of State and Local Governments
- Time Deposits (Certificates of Deposits fully insured by the federal deposit insurance company or federal agency).

Since the amount a public entity has on deposit will vary from time to time, the financial institution needs sufficient amounts of pledged collateral to cover 110% of the uninsured amount on deposit during peak deposit times.

State law permits investment in the following types of securities:

- Federal Securities - Treasury bills, notes and bonds, as well as bonds and notes issued by or guaranteed by U.S. Government Agencies such as the Small Business Administration or GNMA, or by U.S. Government instrumentalities such as FNMA, Federal Home Loan Bank, or Federal Farm Credit Bank or FHLMC (Freddie Mac)
- State and Local Securities - Bonds and other debt instruments issued by cities, counties, states or other governmental units subject to rating requirements as defined under Minnesota Statutes 118A.
- Commercial Paper-Rated short-term debt issued by U.S. corporations or their Canadian subsidiaries
- Guaranteed Investment Contracts
- Certificates of Deposit-Issued by U.S. Banks fully insured by FDIC
- Bankers' Acceptances-Issued by U.S. Banks
- Money Market Mutual Funds- Subject to certain ratings
- Government Investment Pools, including the 4M Funds, the Liquid Asset Fund, MAGIC Fund, and MN Trust

The following diversification parameters have been established and will be reviewed periodically by the Administrative Services Director and/or Controller for all funds:

Sector	Sector Maximum	Per Issuer Maximum	MinimumRatings Requirement
U.S. Treasuries	100%	100%	N/A
Federal Agencies	75%	40%	N/A
Federal Agency Mortgage-Backed Securities (MBS)	50%	5%	N/A
Municipal Bonds	50%	5%	General obligation bonds must be rated "A" or better by a NRSRO; revenue obligation bonds must be rated "AA" or better by a NRSRO
Commercial Paper	50%	5%	Rated in the highest quality category by at least two NRSRO's
Certificates of Deposit	50%	5%	None, if fully collateralized
Bankers' Acceptances	50%	5%	Highest short-term rating by two NRSROs
Money Market Mutual Funds	100%	100%	Highest fund quality and volatility rating categories by all NRSROs, if rated
Local Government Investment Pools	100%	100%	Highest fund quality and volatility rating categories by all NRSROs, if rated

Additional Portfolio Guidelines:

- Bonds must be rated by at least by one Nationally Recognized Securities Rating Organization ("NRSRO"). If the downgrade of a single bond forces the holding below the lowest rating allowed for that security, the advisor will notify City of Mankato within a reasonable timeframe, the holding will be discussed, and a decision made based on valuation by the Advisor whether to hold or sell the bond with consent of the City of Mankato.

- Individual holdings of obligors other than those backed by the U.S. Government, its agencies, or its instrumentalities are limited to 3% of the total market value of the portfolio at the time of purchase.

- Investment managers shall purchase or sell securities through firm(s) offering the best price and execution, unless otherwise directed by the Client.

- All fixed income investments will be U.S. dollar denominated.

- The percentage of the overall portfolio to be invested in certificates of deposit, commercial paper, bankers' acceptances, or municipal bonds shall be limited to a maximum of 50% for each security type.

- Investments made by the City must mature within five (5) years from the date of settlement unless the investments are matched to a specific obligation or debt of the City. This maximum maturity requirement applies to all individual investments except for federal agency mortgage-backed securities and for federal agency collateralized mortgage obligations. Federal agency mortgage-backed securities and federal agency collateralized mortgage obligations will be limited to a weighted average life (WAL) of five years.

- Any percentage limits, maturity length, rating requirements, or other investment parameters will be calculated and/or evaluated based on the original cost of each investment at the time of purchase, based on the settlement date, of the security in determining compliance with these investment guidelines.

An investment purchased by a public entity can only be held in safekeeping with:

- a Federal Reserve Bank,

- a United States bank with corporate trust powers,

- a primary reporting dealer to the Federal Reserve Bank of New York (primary reporting dealers), or

- a broker dealer having its principal executive office in Minnesota

Diversification

The City of Mankato will attempt to diversify its investments according to type and maturity. The portfolio, as much as possible, will contain both short-term and long-term investments.

The City of Mankato will attempt to match its investments with anticipated cash flow requirements. Extended maturities may be utilized to take advantage of higher yields.

Investment Monitoring

Investment Advisors will provide monthly reporting on the status of the current investment portfolio and individual transaction executed over the last month. The report will include the following:

- Listing of individual securities held at the end of the reporting period

- Realized and unrealized gains or losses resulting from appreciation or deprecation by listing the cost and market value of securities one-year duration that are not intended to be held until maturity

- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.

- Listing of investments by maturity date

- Percentage of the total portfolio which each type of investment represents

- The market value of the portfolio shall be calculated and issued monthly

Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. Benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken and the benchmark shall have a similar weighted average maturity as the portfolio.

- Stated Benchmark/or Fixed Income Portfolio: Barclays Capital 0-3 Government Index (75%)/ Bank of America/Merrill Lynch 3-month T-Bill (25%)

- Stated Benchmark/or Short-Term Cash Portfolio: Barclays 3 Month T-Bill

Marking to Market

The market value of the portfolio shall be calculated and updated in the financial reporting for the City of Mankato at least quarterly.

Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Officers and employees with authority to make, recommend, or vote on major decisions regarding the expenditure or investment of public funds must disclose certain information, as required under Minn. Stat. §10A.07, if they will be involved in decisions or take actions that substantially affect their financial interests or those of a business with which they are associated.

Broker Representations

Municipalities must obtain from their brokers certain representations regarding future investments. Pursuant to Minnesota Statutes 118A, the City shall provide each broker with the City's investment policy, and the securities broker shall submit a certification annually to the City stating that the officer has reviewed the investment policies and objectives, as well as applicable state law, and agrees to disclose potential conflicts of interest or risk to public funds that might arise out of business transactions between the firm and the City. All financial institutions shall agree to undertake reasonable efforts to preclude imprudent transactions involving the City's funds.

This policy shall be reviewed on an annual basis. Any changes must be approved by the City Council.

Financial Reporting

Finance staff is charged with the responsibility of preparing a periodic investment report, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last period in the City's Financial Reports. Reports will include listing of individual securities held at the end of the reporting period, name of broker agent, listing of investments by maturity date, yield, percentage of the total portfolio which each type of investment represents, gains or losses mark to market of all securities and other information as requested by the City.

INVENTORY ASSETS

Inventory assets include tangible items that are held for resale or are used/consumed in offering services. A few examples of inventory the City has are fuel, water meters, and parts/equipment. The following steps should be taken to ensure proper controls and financial reporting of inventory:

- Safeguard. All inventory assets should be safeguarded at all times using locks or kept in a secured building. Access to those buildings should be limited to employees who work there and if possible, further secured in a locked room or locked shelving/cabinets.

- Organize. Inventory should be stored in an organized manner, sorted with the same items grouped together.

- Verify new shipments. When a new shipment of inventory is received, the quantity of the items received should be verified against the quantity invoiced. Any variances should be addressed with the vendor.

- Accurate records. There should be accurate records of quantities on hand at all times. Inventory should be tracked with an inventory system or other recordkeeping. Finance will reconcile the reports to the financial records.

- Physical Inventory Count. A physical inventory count should be taken at least once a year at the end of December. Employees who do not have access to the inventory system/recordkeeping should be assigned to take the inventory. Discrepancies between the physical count and inventory reports should be researched. The year-end physical inventory should be submitted to Finance for review and to enter any adjustments, if necessary.

- Communicate. Any new inventory held by a department needs to be communicated to Finance to ensure proper financial reporting.

PETTY CASH

Petty cash is maintained by two separate locations: Civic Center and Parking.

Employee Reimbursements

Employees may request reimbursement for expenses less than $25 from the Administrative Services Department-Finance. In order to receive reimbursement, the employee must present a receipt that has been signed by their supervisor. Any amounts over $25 must be processed through Accounts Payable. Loans and employee check cashing are not allowed.

Cash Drawers

Departments utilizing cash drawers are responsible for:

- Safeguarding the cash.
- Knowing employee reimbursements are not allowed from departmental cash drawers.
- Knowing which expenditures are allowable prior to authorizing disbursement of funds.
- Keeping accurate daily records and supporting documentation of the fund.
- Reconciling the activity to the dollar amount of the fund
- Submitting a monthly reconciliation to Finance. Finance performs a physical audit of the petty cash quarterly (at a minimum)

Replenishment of the petty cash amount is done when necessary. Petty cash disbursements are processed through Accounts Payable. The amount of the replenishment is equal to the amount that has been disbursed since the last replenishment.

POST-ISSUANCE COMPLIANCE

Overview

These procedures are adopted by the Issuer to ensure that interest on tax-exempt bonds of the Issuer (the "Bonds") remains excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code").

These written procedures are intended to formally memorialize certain policies and practices of the Issuer previously adopted or followed by the Issuer in connection with its issuance of Bonds. The Issuer reserves the right to use its discretion as necessary and appropriate to make exceptions to these procedures as facts and circumstances warrant.

Expenditure/Use of Bond Proceeds

Expenditure of Bond proceeds will be regularly reviewed by the City Manager for consistency with the Bond documents, including any Bond Resolution and the Issuer's Tax Certificate.

The Issuer has separately established procedures for preparation and review of requests for Bond proceeds as part of its accounting system.

Requests must identify the Bond-financed property in conformity with the Issuer's Tax Certificate executed at closing of the Bonds, including the character of the Bond-financed property. Such information is contained as part of the Issuer's accounting system coding.

None of the proceeds of the Bonds will be used to reimburse the Issuer for costs paid prior to the date of issuance of the Bonds unless the Issuer shall have fully complied with Section 1.150-2 of the Treasury Regulations with respect to such reimbursed amounts, which section is summarized in Exhibit A.

Staff costs may be financed with Bond proceeds only to the extent they are properly capitalized as a cost of a capital project under generally accepted accounting principles and federal tax law.

Requests for expenditures will be summarized in a "final allocation" of Bond proceeds to uses not later than 18 months after the in-service date of the Bond-financed property (and in any event not later than 5 years and 60 days after the issuance of the Bonds and not later than 60 days after earlier retirement of the issue) in a manner consistent with the Code and Treasury Regulations and the applicable Tax Certificate.

Expenditure of proceeds of the Bonds will be measured against the Issuer's Tax Certificate expectation to spend or commit 5% of net sale proceeds within 6 months, to spend 85% of net sale proceeds within 3 years, and to proceed with due diligence to complete the capital project and fully spend the net sale and investment proceeds. If exceptions under the Code are not met, calculations of rebate liability will be performed or caused to be performed by as provided herein.

If there are any Bond proceeds remaining other than in a reserve or debt service fund established pursuant to the Bond Resolution after completion of the projects, such proceeds shall be applied in a manner consistent with the applicable Bond Resolution and Tax Certificate or pursuant to advice from Bond Counsel.

If Bond proceeds are to be used to make a grant to an unrelated party, a grant agreement will be reviewed prior to execution for compliance with the Code. Such agreement will be approved by the City Manager, with advice or consent of Bond Counsel, as necessary. The repayment of any portion of a grant by the grantee shall be treated as unspent Bond proceeds.

If Bond proceeds are to be loaned to a conduit borrower, such conduit borrower will be required to agree to all terms of the Tax Certificate and provide evidence of post-issuance tax compliance procedures deemed adequate and consistent with those set forth herein; and all such obligations for post-issuance tax compliance shall be assumed by such conduit borrower. The City Manager shall be the primary contact for all conduit borrowers and related compliance matters.

Use of Bond Financed Property

Use of Bond-financed property when completed and placed in service will be reviewed by the City Manager. Appropriate city facility managers, including staff responsible for asset management, shall be trained regarding restrictions on the use of Bond proceeds and facilities financed thereby and instructed to consult with the City Manager regarding any third-party contract concerning use of the facilities, including without limitation leases, use, management or service contracts, and research contracts.

Upon issuance of Bonds, there shall be no expectation that the Bond-financed property will be sold or otherwise disposed of by the Issuer during the term of the Bonds, except for replacement due to normal wear and tear or obsolescence.

Agreements with third parties for lease, use, management, or any other service agreement or research contract with respect to, or non-governmental use in respect of, Bond-financed property will be reviewed prior to execution for compliance with the Code. Such agreement will be approved by the City Manager, who will be responsible for determining whether the proposed agreement (1) results in private business use of the facilities, and (2) if applicable, meets the compensation, term and other requirements under Revenue Procedures 97-13 (included as Exhibit B) and 2007-47; all upon advice of Bond Counsel, as necessary.

No item of Bond-financed property will be sold or transferred by the Issuer without approval of the City Manager, who shall seek advice of Bond Counsel as necessary, to provide guidance as to "remedial action" that may be required under the applicable Treasury Regulations if Bonds financing such property remain outstanding as of the date of sale or transfer of such property. Remedial action is summarized in Exhibit C hereto.

The Issuer acknowledges that any sale, transfer, change in use, or change in users of the Bond financed property may require remedial action, as previously described, or resolution pursuant to the IRS Voluntary Closing Agreement Program (or "VCAP") to assist in resolving violations of the federal tax laws applicable to the Bonds.

Investments

Investment of Bond proceeds in compliance with the arbitrage and rebate requirements of the Code and applicable Treasury Regulations will be managed and supervised by City Finance Staff.

Guaranteed investment contracts ("GICs") will be purchased according to the fair market value provisions of applicable Treasury Regulations, including bid requirements and fee limitations.

Calculations of rebate liability will be performed annually, or as needed, by the City Controller or by outside consultants as delegated by the City.

Upon final expenditure of the gross proceeds of Bonds, and in any event promptly following the fifth anniversary of the date of issuance of the Bonds or earlier retirement of the Bonds, the City Manager will consult a qualified professional to prepare a spending exception report or an arbitrage rebate computation (as applicable) for the issue of Bonds.

Rebate payments, as required based upon the advice of a qualified professional, will be made with Form 8038-T no later than 60 days after (a) each fifth anniversary of the date of issuance of the Bonds and (b) the final retirement of the Bond issue.

Record Management and Retention

Management and retention of records related to Bond issues will be maintained by the City Manager.

Bonds records - will be retained for not less than the life of the Bonds, plus any refunding bonds, plus three years. Such records may be in the form of documents or electronic copies of documents, appropriately indexed to specific Bond issues and compliance functions.

Bond issuance records - shall include a transcript of documents executed in connection with the issuance of the Bonds and any amendments; and copies of rebate calculations and records of payments, including Forms 8038-T.

Bond proceed expenditures records - include requisitions; trustee statements, if applicable; and final allocation of proceeds.

Use of Bond-financed property records - include all third-party contracts concerning use of the facilities, including (without limitation) leases, use, management or service contracts, and research contracts.

Investments records - include GIC documents under the Treasury Regulations, records of purchase and sale of other investments, and records of investment activity sufficient to permit calculation of arbitrage rebate or demonstration that no rebate is due.

Overall Responsibility

Overall administration and coordination of this policy and the procedures set forth herein are the responsibility of the City Manager. Review of compliance with this policy and the procedures set forth herein shall be undertaken periodically, and in any event, not less than annually.

The Issuer understands that failure to comply with these policies and procedures could result in the retroactive loss of the exclusion of interest on Bonds from federal gross and Minnesota taxable net income; and, thus, it would be advisable to consult with Bond Counsel in advance regarding deviations from the facts and expectations as set forth in the closing certifications relating to any issue of Bonds.

Any violations or potential violations of federal tax requirements shall promptly be reported to the City Manager, and the City Manager will engage qualified consultants and bond counsel to further investigate potential violations or undertake appropriate remedial actions, which actions shall be approved by the governing body of the Issuer.

Exhibit A: Reimbursement Bond Summary

Following is a general summary of the requirements relating to bonds that are issued to reimburse expenditures that were paid prior to the date of issuance of bonds ("Reimbursement Bonds").

Reimbursement Bond proceeds cannot be used to reimburse expenditures paid more than 60 days prior to the adoption of the declaration of official intent/reimbursement resolution, which must contain:

- a general functional description of the property to which the reimbursement relates or an identification of the fund or account from which the expenditure is to be paid and a general functional description of the purposes of such fund or account; and

- the maximum principal amount of debt to be issued.

Reimbursement Bonds must be issued not later than 18 months after the later of (i) the date on which the original expenditure is paid, or (ii) the date on which the property is placed in service, but in any case, not more than three years after the date on which the original expenditure is paid. If possible, actual reimbursement should be made within 30 days of the date of issuance of the Reimbursement Bonds.

Note that there are exceptions for "de Minimis" amounts (not in excess of the lesser of $100,000 or 5% of proceeds of the issue) and for "preliminary expenditures" (such as architectural, engineering, surveying, soil testing and similar costs and costs of issuance), so long as such preliminary expenditures do not exceed 20% of the aggregate issue price.

Exhibit B: Summary of Revenue Procedure 97-13

Background

A management, service, or incentive payment contract with a private service provider with respect to tax exempt bond-financed property may result in private business use of that property, based on all facts and circumstances. None of the compensation may be based on a share of net profits.

Revenue Procedure 97-13 establishes conditions under which a management contract generally does not result in private business use. Issuers and bond counsel typically attempt to satisfy, or substantially satisfy, one of these "safe harbors" because of uncertainty as to the treatment of nonconforming contracts. Below is a brief summary of the provisions of Rev. Proc. 93-17, as modified by Rev. Proc. 2001-39.

Rev. Proc. 93-17 establishes conditions based on (1) the compensation arrangements and the term of the agreement, and (2) whether the service provider has any role or relationship with the "qualified user"[1] that substantially limits the qualified user's ability to exercise its rights under the contract.

General Rules

In all events, the contract must provide for reasonable compensation for services rendered, with no compensation based, in whole or in part, on a share of net profits from the operation of the facility. Reimbursement of the service provider for actual and direct expenses paid by the service provider to unrelated parties is not by itself treated as compensation. The compensation, with the percentage determined by the term of the contract, subject to additional conditions, as described under "Compensation Safe Harbors" below, generally may be computed by:

- a periodic fixed fee, which is a stated dollar amount for a specified period of time[2];
- a percentage fee, which is a percentage of gross revenues (or adjusted gross revenues) of the facility or a percentage of expenses of the facility, but not both;
- a capitation fee, which is a fixed periodic amount for each person for whom the service provider or the qualified user assumes the responsibility to provide all needed services for a specified period so long as the quantity and type of services actually provided to covered persons varies substantially[3];
- a per-unit fee, which is a fee based on a unit of service specified in the contract or otherwise specifically determined by an independent third party or the qualified user[4]; or
- a productivity reward equal to a stated dollar amount based on increases or decreases in gross revenues (or adjusted gross revenues), or reductions in total expenses (but not both increases in gross revenues (or adjusted gross revenues) and reductions in total expenses) in any annual period during the term of the contract.

[1] A "qualified user" of the financed property is a state or local governmental unit (or instrumentality thereof) or a 501(c)(3) organization if the financed property is not used in an unrelated trade or business under section 513(a) of the Internal Revenue Code.

[2] A periodic fixed fee may include an automatic increase based on a specific, objective, external standard that is not linked to the output or efficiency of the facility in question.

[3] A capitation fee may include an automatic increase based on a specified, objective, external standard that is not linked to the output or efficiency of the facility. A capitation fee may also include a variable component of up to 20 percent of the total capitation fee designed to protect the service provider against risks such as catastrophic loss.

[4] A periodic fee may include an automatic increase based on a specified, objective, external standard that is not linked to the output or efficiency of the facility.

The service provider must not have any role or relationship with the qualified user that, in effect, substantially limits the qualified user's ability to exercise its rights, including cancellation rights, under the contract based on all facts and circumstances. The relationship does not limit the qualified user's ability to exercise its rights if the following conditions are satisfied: (1) not more than 20 percent of the voting power of the governing body of the qualified user in the aggregate is vested in the service provider and its directors, officers, shareholders, and employees, (2) overlapping board members do not include the chief executive officers of the service provider or its governing body or the qualified user or its governing body, and (3) the qualified user and the service provider are not related parties.

Compensation Safe Harbors

A management contract generally will not result in private business use if the compensation arrangement meets the criteria in one of the following categories:

50% Periodic Fixed Fee Contracts

- At least 50 percent of the compensation for services for each annual period during the term of the contract is based on a periodic fixed fee;
- the term of the contract, including all renewal options[5] in favor of the service provider, does not exceed 5 years; and
- the contract is terminable by the qualified user of the facility on reasonable notice, without penalty or cause, at the end of the third year of the contract term.

80% Periodic Fixed Fee Contracts

- At least 80 percent of the compensation for services for each annual period during the term of the contract is based on a periodic fixed fee; and
- The term of the contract, including all renewal options in favor of the service provider, does not exceed the lesser of 80 percent of the reasonably expected useful life of the financed property and 10 years.

For purposes of this safe harbor (but not the 50% periodic fixed fee safe harbor), a one-time incentive award during the term of the contract under which compensation automatically increases by a single, stated dollar amount when a gross revenue or expense target (but not both) is reached may be considered part of a fixed fee arrangement.

95% Periodic Fixed Fee Contracts

- At least 95 percent of the compensation for services for each annual period during the term of the contract is based on a periodic fixed fee; and
- The term of the contract, including all renewal options in favor of the service provider, does not exceed the lesser of 80 percent of the reasonably expected useful life of the financed property and 15 years.

For purposes of this safe harbor (but not the 50% periodic fixed fee safe harbor), a one-time incentive award during the term of the contract under which compensation automatically increases by a single, stated dollar amount when a gross revenue or expense target (but not both) is reached may be considered part of a fixed fee arrangement.

[5]A provision under which a contract is automatically renewed absent cancellation by either party is not a renewal option (even if it is expected to be renewed).

Capitation Fee Contracts (with or without fixed fees)

- All of the compensation for services is based on a capitation fee or a combination of a capitation fee and a periodic fixed fee

- the term of the contract, including all renewal options in favor of the service provider, does not exceed 5 years; and

- The contract is terminable by the qualified user of the facility on reasonable notice, without penalty or cause, at the end of the third year of the contract term.

Per-unit Fee Contracts (with or without fixed fees)

- All of the compensation for services is based on a per-unit fee or a combination of a per-unit fee and a periodic fixed fee

- the term of the contract, including all renewal options in favor of the service provider, does not exceed 3 years; and

- The contract is terminable by the qualified user of the facility on reasonable notice, without penalty or cause, at the end of the second year of the contract term.

Percentage of Revenue or Expenses

- All the compensation for services is based on a percentage of fees charged or a combination of a per-unit fee and a percentage of revenue or expense fee;

- the term of the contract, including all renewal options in favor of the service provider, does not exceed 2 years; and

- The contract is terminable by the qualified user of the facility on reasonable notice, without penalty or cause, at the end of the first year of the contract term.

During the start-up period, however, compensation may be based on a percentage of either gross revenues, adjusted gross revenues, or expenses of a facility. The contract must be terminable by the qualified user on reasonable notice, without penalty or cause, at the end of the first year of the contract term. This safe harbor applies only to contracts under which the service provider primarily provides services to third parties and management contracts involving a facility during an initial start-up period for which there have been insufficient operations to establish a reasonable estimate of the amount of the annual gross revenues and expenses (for example, a contract for general management services for the first year of operations).

Revision of Compensation Arrangements

Please note that if the compensation arrangements of a management contract are materially revised, the compensation arrangements are "retested" as of the date of the material revision, and the management contract is treated as one that was newly entered into as of the date of the material revision.

Exhibit C: Remedial Provisions Applicable to Bonds

The Issuer acknowledges that any deliberate action by the Issuer after Bond issuance that results in a satisfaction of the private business tests or the private loan test will result in private activity bond status unless one or more qualifying remedial actions are taken by the Issuer. Specifically, Treasury Regulations provide that actions are not treated as deliberate actions if (A) five conditional requirements are met, and (B) one of three remedial actions is taken, with respect to the disposition proceeds and nonqualified bonds*:

*The portion of the outstanding bonds in an amount that, if the remaining bonds were issued on the date on which the deliberate action occurs, the remaining bonds would not satisfy the private business use test or the private loan financing test, as applicable. The amount of private business use is the highest percentage of business use in any one-year period, commencing with the deliberate action

Conditional Requirements

- *Reasonable Expectations* – The Issuer reasonably expected on the issue date that it would not meet the private business tests or the private loan test for the whole term of the bonds; and

- *Reasonable Bond Maturity* – The term of the issue must not be unreasonably long; this requirement is met if the weighted average maturity of the bond issue is not greater than 120% of the expected economic life of the property financed; and

- *Fair Market Value Consideration* – The terms of any agreement (relating to satisfaction of a private activity bond test) must be bona fide and at arm's-length, and the new user must pay a fair market value consideration for the use of the bond- financed property; and

- *Disposition Proceeds Are Gross Proceeds* – The Issuer must treat any disposition proceeds as gross proceeds subject to arbitrage/rebate restrictions; and

- *Proceeds Spent for Authorized Purpose* – Except as described with respect to redemption and defeasance options below, prior to deliberate actions, the affected proceeds must have been spent for the authorized purposes under the applicable bond documents.

<u>Remedial Actions</u> – Under Treasury Regulations, Sections 1.141-12(d), (e) and (f):

- *Redemption of Non-Qualified Bonds* – Under the general rule, all nonqualified bonds of the issue must be redeemed. Tax- exempt bond proceeds (i.e., refunding bond proceeds) cannot be used unless the tax-exempt bonds are qualified bonds, taking into account the purchaser's use of the facility. The bonds must be redeemed within 90 days of the date of the deliberate action or a defeasance escrow for the bonds must be established within such 90-day period. Special rules apply to transfers exclusively for cash and to defeasance escrows.
- *Alternative Use of Disposition Proceeds* – To meet this requirement, all disposition proceeds must be in cash, the issuer must reasonably expect to expend the proceeds within 2 years, the new use must not meet the private business tests or the private loan test (and the issuer cannot take any action subsequent to the date of the deliberate action to cause the tests to be met), and any unused proceeds must satisfy the redemption requirement in the preceding paragraph.

- *Alternative Use of Facility* – This remedial action is satisfied if the bond-financed property itself (as distinguished from the proceeds of the issue) is used in an alternative manner (e.g., for a different purpose or by a different person); the nonqualified bonds are treated as reissued on the date of the deliberate action and independently meet all of the requirements for tax exemption under Sections 141 through 150 of the Code, except the arbitrage and rebate rules of Section 148, for the remaining term of the nonqualified bonds; the deliberate action does not involve a transfer of the property to a purchaser that finances the acquisition with the proceeds of another issue of tax-exempt bonds; and any disposition proceeds, other than those arising from an agreement to provide services, resulting from the deliberate action are used to pay debt service on the bonds on the next available payment date or escrowed within 90 days of receipt and yield restricted to pay debt service on the next available payment date.

The above is only a brief summary of remedial actions, and additional special rules may be applicable. As provided in the Issuer's Compliance Procedures for Tax-Exempt Bonds, the City Manager shall seek advice of Bond Counsel as necessary to provide guidance as to "remedial action" that may be required under the applicable Treasury Regulations.

The Commissioner of the IRS may, by publication, provide for additional remedial actions. In addition, the IRS provides a program in which issuers/borrowers which cannot meet a listed remedial action can enter into a closing agreement with the IRS to avoid private activity bond status. The closing agreement program includes several conditions, including providing for the redemption of the bonds and paying the IRS an amount based on an assumption that the non-qualified bonds are taxable from the date of the subsequent act until they are redeemed.

PURCHASING

Overview

The City will procure goods and services required to meet the needs and fulfill the City's mission as economically feasible, in a manner that is efficient, unbiased, and complies with all federal, state, and local laws as well as all other City policies.

The budget allocates funds for the purchase of personnel, supplies, other services, and capital. Requests cannot be made for items outside the budget except under special circumstances. These special circumstances will have to be approved by the City Manager. The Purchasing Agent is the City Manager.

A City expenditure must meet the following standards to be legal:

- **Public Purpose** – There must be a public purpose for the expenditure.
- **Authority** – There must be specific or implied authority for the expenditure in statute or the City's charter.
- **Proper Procedure** – City processing guidelines must be followed including obtaining an appropriate receipt or invoice, meeting approval requirements, and timely processing of information.

General Purchasing Guidelines

- The majority of the City's purchases are decentralized, meaning each department negotiates with the vendor and processes the request for payments. Departments are responsible for ensuring policy compliance. Finance is responsible for processing requested purchase orders, processing payments, and monitoring policy compliance.
- The Administrative Services Department-Finance processes payments on a set schedule. Supporting documentation shall be provided with the invoice prior to payments being made. Cities are required by statute to pay invoices within 35 days unless there are pre-arranged payment terms or a dispute of the invoice.
- The purchaser and the person authorizing the purchase are responsible for ensuring that purchase prices are reasonable and accurate. The purchaser must confirm the prices charged by the vendor match the prices offered by the vendor when the original contract was signed.
- Invoices should be coded to the correct account codes based on the type of expenditure, not available funds in various line items of the budget. Failure to code properly skews actual expenses and provides inaccurate historical data for future budgeting.
- Before a city makes the final payment to a contractor under a contract requiring the employment of employees, it must make sure the contractor and any subcontractors have complied with withholding tax laws. For more information, please see the IC-134 section.
- At year end, invoices that are received early the next year which are for goods or services that were ordered and received in the previous year will be recorded against the previous year.

Purchase and Bidding Requirements

Value of Purchase or Contract	Type of quote required – construction, contracted services, goods & services contracts	Approval required by	Written bid specifications	Sealed bids required	Contract required:
Under $10,000	None	Department Head	Not required	No	No
$10,001 - $49,999	Two telephone quotes are preferred	City Manager	Not required	No	No
$50,000 - $174,999	Two written quotes required unless special circumstances are noted; consult cooperative purchasing programs	City Manager	As required based on type of purchase	No	Construction projects yes; commodities at discretion of City Manager
Greater than $175,000	City Clerk must advertise in City's legal newspaper	City Council	Required	Yes	Yes

[*] *Exceptions to the City Council approval requirement includes professional services (engineers, lawyers, architects, and accountants as well as other services requiring technical or professional training like refuse hauling and janitorial services) and insurance contracts (however, the City must seek requests for proposals for group insurance).*
[**] *Written quotes must be kept on file for at least one year.*
[***] *Contracts over $175,000 require a performance and payment bond*

Sealed Bidding Process

The originating department must ensure that the following steps are taken:

- Make sure that funds have been appropriated for this contract.
- Make proper publication in the official City newspaper(s).
- Distribute terms, conditions, and specifications, and answer any bidder questions.
- Open sealed bids at an appropriate time and place, and then tabulate.
- Award the contract to the lowest responsible bidder. *Minn. Stat. § 412.311, subd. 1.*
- In the event a low bidder is not recommended, fully document the reason(s). Consult the City Attorney.
- Prepare and present to the Council a request for approval of the award. The contract shall be signed by the Mayor. The signed resolution must be maintained for 10 years after the project completion. The department can retain these in the project file.

Advertisements for sealed bids must be published in the City's official newspaper at least ten days before the last date for submission of bids. The published notice must contain the following:

- A description of the project or purchase being sought.
- The availability and location of specifications.
- Bid requirements (such as sealed bids, or any accompanying bid security).
- Where the bids must be submitted.
- The deadline for submitting bids.
- The time and place of the bid opening.
- The City officers who will be present for the opening.
- A statement indicating that the City may delay the award until certain events occur.
- A statement indicating that the City reserves the right to reject all bids submitted.

Bid security in the amount of five percent (5%) of the bid shall be submitted to the City Clerk. The bid security guarantees that in the event the bidder's offer is accepted, the bidder will enter into a contract in accordance with the proposal. Bid security of the successful bidder will be returned upon execution of the contract documents. Bid securities of unsuccessful bidders will be returned within a reasonable time period (*Minnesota Statute §574.27*). Failure of the successful bidder to execute the contract and furnish applicable bonds within ten (10) days after receiving written notice of the award shall cause the bid security to be forfeited as liquidated damages to the City. The City Council at this time may award the contract to the next lower competent bidder unless the Council determines that public interest will be better served by accepting a higher bid, or the contract may be re-advertised.

The bids must be opened and tabulated at the time and place specified in the newspaper. Preferably this should be completed 10 working days in advance of the City Council meeting to allow for a thorough review and re-tabulation of the bids and to allow for reference checks as appropriate. If this timeframe is not attainable, the Department Director must be notified to ensure the bid process requirements can still be met.

A recommendation can then be made to the City Council, and the City Council will award or deny the contract.

Bids rejected by Council must be kept on file for 6 years and retained in the departmental project file.

Other Bidding Reminders:

- The City cannot avoid bidding requirements by splitting a contract into several contracts, each of which is below the minimum amount requiring bids.
    - For example, the City cannot purchase $200,000 of lumber in several transactions, each involving an expenditure of less than $175,000. However, if materials or work logically fall into two separate contracts because they involve separate transactions, as for the service of contractors specializing in different kinds of work, there is no reason why the City cannot negotiate the contracts individually without sealed bids if the bids do not exceed the $175,000 minimum.

- The proposals and specifications must allow for free and full competition. Specifications may not be written so as to exclude all but one type or kind of supplies or equipment.

- The City may not accept a bid that includes a number of items when the advertisement called for separate bids for each item.

- The City must re-bid when they make a material change in the specifications of the contract, even if the change would not affect the rank order of the bids received. With respect to contracts awarded on a unit price, after work has been commenced on the improvement undertaken, the council may, without advertising for bids, authorize changes in the contract so as to include additional units of work at the same unit price if the cost of the additional work does not exceed 25 percent of the original contract price. Original contract price means that figure determined by multiplying the estimated number of units required by the unit price.

- *Minnesota Statutes Chapter 429* (local improvement code) applies to all public improvement contracts (i.e., sewer, water and streets) being financed with special assessments.

- Cities are not required by statute to follow the competitive bidding process for the following types of contracts: professional services, insurance contracts, reverse auctions, purchases from other government agencies, real estate, cooperative purchasing allowed under Minn. Stat. §429.041 and public safety equipment.

- If the estimated cost of a local improvement project financed by special assessments exceeds $350,000 (twice the amount for mandatory competitive bidding), the publication must be made at least three weeks before the last date for submission of bids, in the City's official newspaper and either at least once in a newspaper published in a city of the first class or in a recognized industry trade journal.

Awarding Contracts

For contracts procured through sealed bids or multiple quotes, the City must award the contract to the lowest responsible bidder. The bidder who submits the lowest bid or quote in dollars is not necessarily the "lowest responsible bidder." Responsibility in bids means financial responsibility, but also integrity, skill, and the likelihood of the bidder doing faithful and satisfactory work. A contract must be awarded to the lowest responsible bidder unless the "Best Value" alternative set forth below is followed.

Rejecting Bids

The City has the right to reject any and all bids (requests for proposals, requests for bids, sealed bids). All data submitted in response to bid requests are private until bids are opened. If bids are rejected prior to the completion of the evaluation or selection process, all data, other than that made public at the bid opening, remain private until a re-solicitation of bids results in completion of the selection process. If the rejection occurs after the completion of the selection process, the data remains public. If a re-solicitation of bids does not occur within one year of the bid opening date, the remaining data becomes public.

“Best Value” Procurement Alternative

Minnesota Statute 471.345 allows the City to use a “Best Value” alternative instead of awarding the bid to the lowest responsible bidder. Best value procurement is a process based on competitive proposals that awards the contract to the vendor or contractor offering the best value, taking into account the specifications of the request for proposals, the price and specific performance criteria. Consulting with the City Attorney is advised if you wish to use the “Best Value” alternative.

State Contract Purchases

Cooperative purchasing contracts provide an opportunity for the City to purchase goods and services at reduced costs. The State of Minnesota periodically establishes specifications and publicly bid for various commodities and services. The City is empowered to make purchases under such cooperative purchasing arrangements and may purchase from this contract without otherwise rebidding or receiving quotations. It is still required to receive the appropriate approvals.

If the City is not utilizing the state's cooperative purchasing venture, the City may consider another national municipal association's purchasing alliance or cooperative created by a joint powers agreement that purchases items from more than one source on the basis of competitive bids or competitive quotations.

Guaranteed Energy Savings Agreements

State Statues authorize the City to enter into a guaranteed energy savings agreement with a qualified provider for the purpose of implementing comprehensive utility cost-saving measures to improve the energy efficiency of various municipal facilities within the City so long as the implementation costs will not exceed the amount to be saved in utility and maintenance costs over a twenty year period with said utility and maintenance cost savings guaranteed in writing by the qualified provider. The City shall follow all requirements as prescribed in Statute related to this authority to enter into Guaranteed Energy Savings Agreements.

IC – 134 - Withholding Certificates

No state agency or local unit of government can make final payment to a contractor until the Department of Revenue has certified that the contractor and any subcontractor have fulfilled the requirements of Minnesota withholding tax laws. The terms “contractor” and “subcontractor” are limited to those who supply labor, or a combination of labor and materials for specific construction, repairs, rehabilitation or improvements. The terms do not include dealers, merchants, suppliers or contractors who only supply materials. On-going maintenance services (such as mowing, road grading, or snowplowing) are excluded from this requirement. Contractors and subcontractors show compliance by submitting a withholding affidavit to the Minnesota Department of Revenue. If a contractor or subcontractor has withheld taxes as required, the Department of Revenue will return an electronic confirmation or sign and return the Form IC-134, certifying compliance. Finance will need a copy of the confirmed IC-134 form from the vendor to release final payment. Contact Finance if there is uncertainty if an invoice requires one. Work with the Minnesota Department of Revenue if a contract or a subcontractor are not cooperative in complying with IC-134 requirements.

Responsible Contractor Compliance

A contractor responding to a solicitation document of a contracting authority shall submit to the contracting authority a signed statement under oath by an owner or officer verifying compliance with each of the minimum criteria in *subdivision 3 of Minnesota Statute 16C.285*, with the exception of clause (7), at the time that it responds to the solicitation document. A contracting authority may accept a signed statement under oath as sufficient to demonstrate that a contractor is a responsible contractor and shall not be held liable for awarding a contract in reasonable reliance on that statement. A prime contractor, subcontractor, or motor carrier that fails to verify compliance with any one of the required minimum criteria or makes a false statement under oath in a verification of compliance shall be ineligible to be awarded a construction contract on the project for which the verification was submitted. A false statement under oath verifying compliance with any of the minimum criteria may result in termination of a construction contract that has already been awarded to a prime contractor or subcontractor or motor carrier that submits a false statement. A contracting authority shall not be liable for declining to award a contract or terminating a contract based on a reasonable determination that contractor failed to verify compliance with the minimum criteria or falsely stated that it meets the minimum criteria. A verification of compliance need not be notarized. An electronic verification of compliance made and submitted as part of an electronic bid shall be an acceptable verification of compliance under this section, provided that it contains an electronic signature as defined in section 325L.02, paragraph (h) of *Minnesota Statues 16C.285*.

Certificate of Insurance

Before beginning work on a contract, the Contractor must submit to the City, and obtain the City's approval, a certificate of insurance. This certificate shall be composed of a Standard Form C.I.C.C.-701 or an ACORD 25 form. The certificate of insurance shall list the City as the policies additional insured and shall be maintained at all times throughout the life of the contract and provide for the following minimum coverage.

- Comprehensive General Liability: $1,000,000.00 per occurrence; $2,000,000 aggregate
- Automobile Liability for All Automobiles: $1,000,000.00 combined single limit
- Workman's Compensation: Statutory Amounts

The insurance cancellation language should state that the company will provide the City with 30 days' written notice of cancellation (include this requirement in bid specifications if applicable).

Change Orders

The contract cost, once established by the Council, shall represent the maximum obligation to the City. Any change orders or supplemental agreements which affect the cost of the contract shall be reviewed by the City Manager and City Representative managing the contract. The City

Manager has the authority to and may authorize and approve any change order or supplemental agreement up to $25,000 and submit a report to City Council. For projects above $2,500,000, the City Manager will forward the justification for the change order to the City Council for approval in the event the total change orders to date exceed 5% of construction cost. This authority shall not apply to supplementary agreements for contracts for improvements financed by bonds issued pursuant to the provision of *Minnesota Statutes, Chapter 429*. The City Manager, as soon as practicable after approval of any supplementary agreement shall prepare and submit a report to City Council. In no event will payment in excess of the contract cost be made until such approval has been obtained. With respect to contracts awarded on a unit price, after work has been commenced on the improvement undertaken, the council may, without advertising for bids, authorize changes in the contract so as to include additional units of work at the same unit price if the cost of the additional work does not exceed 25 percent of the original contract price. Original contract price means that figure determined by multiplying the estimated number of units required by the unit price.

Purchase or Lease of Used Public Safety Equipment

Cities are granted authority to lease, or purchase used public safety equipment ("vehicles and specialized equipment used by a fire department, in firefighting, ambulance and emergency medical treatment services, rescue, and hazardous materials response") without bidding in certain specified circumstances. Competitive bidding or proposals are not required, "if the equipment is clearly and legitimately limited to a single source of supply, and the contract price may be best established by direct negotiation."

Contracts, Leases and Lease Purchases

All contractual, lease and lease purchase agreements require review and approval from the City Manager. The City Manager may elect to consult with various internal and external professional resources to evaluate risk, legality and consistency of a contract, lease or lease purchase. Lease Performance Bonds are sometimes prudent for lease purchases; if you are unsure whether a Lease Performance Bond should be required, consult the City Attorney.

Federal Awards

Under Uniform Guidance there are additional procurement requirements that need to be considered when making purchases related to a federal program. Departments need to consider the full requirements in relation to each procurement method as described in *2 CFR 200.317–326.*

Quick Reference Guide to Federal Awards Governed by Uniform Guidance

Value of Contract	Solicitation Process
Less than $10,000	Quotation (two, if practicable) or open market
$10,000–$175,000[1]	Direct negotiation (at least two written quotes)
Greater than $175,000[1]	Competitive Bidding (sealed bids) required

[1] *Federal guidelines are less restrictive than MN State Statute. These amounts represent the more restrictive State Statute guidelines which should be followed.*

Purchase Cards

Purchase cards will be issued to departments and various divisions as deemed necessary for use during emergencies, employee travel, online purchase(s) or unpredictable circumstances. Each purchase card, unless otherwise authorized by the City Manager, will contain a maximum limit of $1,000 per purchase, with a total monthly transaction limit not to exceed $5,000. These limits can be increased with a request, accompanied by a demonstrated need, to the Director of Administrative Services or his/her designee. All purchase cards will be processed in the City financial software by the last day of the month. Purchase cards is subject to the purchasing policy and the spending thresholds established within leases.

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Purchase cards should not be utilized for any purchase of goods and/or services associated with contracts, inventory items, PayPal/eBay, or unapproved travel related expenditure as outlined in the City of Mankato Personnel Policy.

Purchase cards should not be used for personal use.

Failure to adhere to the provisions associated above will result in additional user(s) training and/or revoking

utilization of City of Mankato purchase cards.

Emergency Purchases

During a declared emergency, the City is, notwithstanding any statutory or charter provisions to the contrary, empowered, through the Council, acting within or without the corporate limits of the City, to enter into contracts and incur obligations necessary to combat disaster by protecting the health and safety of persons and property and providing emergency assistance to the victims of such disaster.

In the event of a declared emergency, the City of Mankato may exceed its delegated purchasing authority and does not need to follow the solicitation process as specified in the emergency management state statutes. These statutes give cities the ability to declare an emergency for a limited period of time and waive the requirement to use mandated contracting procedures.

Only what is needed to expeditiously reestablish the functions of government, the protection of property, or the health or safety of people is eligible for the emergency authority exception.

Sales Tax

Purchases made by the City are generally not taxable. Purchases must be billed to and paid for by the City. Purchases made by employees are taxable, even if reimbursed. To purchase items exempt from tax, the vendor must be given a completed ST3 Certificate of Exemption form.

Some items remain taxable such as some motor vehicles, prepared food, lodging, construction materials and supplies purchased by a contractor or subcontractor under a lump-sum contract. Please review the sales tax exemption guidelines for governments on the MN Department of Revenue website. If an invoice does not itemize sales tax, you must obtain a corrected invoice from the vendor if sales tax is applicable on the item purchased.

Out of State Purchases

Sales tax is part of the total cost. Even though some purchases are made from an out of state vendor, the City is required to submit to the State of Minnesota use tax for applicable taxable items invoiced without the tax.

Classified Advertisement Websites (Craigslist, Facebook Marketplace, etc.)

The City, as a whole, typically does not recommend utilizing classified advertisement websites for purchases. If a purchase is made through one of these marketplaces, the seller must be agreeable to receiving a check and providing a receipt at time of pickup. Under no circumstances will payment be made in advance of receiving product. A copy of the advertisement with the purchase price must be submitted to Finance.

Payment of Rewards

Rewards will only be paid out when verifiable information is received that leads to the arrest of the suspect(s) for whom the reward money is offered. Within 30 days of the arrest of the person responsible for committing the crime in question, the City will make payment to the tipster(s) via check. Authorization of payment will be made by the Director of Public Safety, or their designee, to the City's Finance Department.

1099 Information

The City is obligated to report to the Internal Revenue Service payments to an individual or partnership for services rendered that exceed $600 in a calendar year. To do so, the City needs the recipient's business tax identification number or social security number. This tax information should be collected on a W-9 form and provided to the Finance Division when a new vendor is used. Vendors who should receive a 1099 are noted when they are entered into the financial management software.

REVENUES

Policy

The City will provide a diversified and strong set of revenues to ensure a stable revenue system and match revenues with similar uses to ensure adequate funding for the various City services and programs over the long-term. In order to accomplish these goals, the City will do the following:

- Conservatively estimate and budget for its annual revenues by an objective, analytical process. All existing and potential revenue sources will be re-examined annually.

- Formally designate, by resolution, all Federal, State, County, or other grants towards a specific program or service (absent any outside legal restrictions). When possible, general-purpose aids will only be used for capital or non- recurring expenditures and not for on-going operations.

- Direct Local Government Aid (LGA) allotments that exceed the prior year towards capital needs. In doing this, it is the objective of the City to utilize as much LGA towards capital projects and minimize, to the extent possible, the use of LGA for operational expenditures.

- Strive to establish all user charges and fees for General Fund program activities at a level related to the full cost of providing the services, or as adjusted for particular program goals. The City will review the full cost of activities supported by user fees to identify the impact of inflation and other cost increases and will review these fees along with the resulting net property tax costs during the budget process. Sensitivity to market rates will also be considered in setting fees.

- Set fees and user charges for each enterprise fund such as water, sewer, or storm water at a level that fully supports the total direct and indirect cost of the activity, including depreciation of capital assets and debt service, to maintain a positive cash flow and provide adequate working capital. Replacement (or bonding for replacement) of enterprise infrastructure will be paid for from accumulated (or annual) earnings of the respective system.

Revenue Collections

Departments should exercise prudent cash management in the handling of cash receipts. "Cash" receipts refer to all revenue collected in the form of cash, coin, checks and credit cards. The following steps should be taken to ensure proper cash handling:

- **Safeguarded**. All revenue received at each location should be adequately safeguarded at all times. Until deposited, all revenue collections should be kept in locked drawers, cash boxes or a locked safe.

- **Timely receipting.** Revenue collected throughout the day should be properly receipted and/or documented at the time the transaction occurred.

- **Daily cash counts**. At the end of each day, two employees must count the cash. A register or other supporting documentation should be printed and reconciled to the cash counted. Any discrepancies should be researched and resolved or reported to Finance immediately.

- **Deposits brought to Finance daily**. A daily deposit should be prepared, placed in a sealed, tamper evident bag and brought to the Administrative Services Department-Finance daily.

- **Communication with Finance**. New revenue sources should be communicated to Finance and all billings must be processed through the city's ERP software. No cash, other than approved petty cash, can be held within a department unless it is approved by the Controller.

RISK MANAGEMENT

Overview

The risk management program will minimize the impact of legal liabilities, natural disasters or other emergencies through the following activities:

- Loss prevention - prevent losses where possible.

- Loss control - reduce or mitigate losses.

- Loss financing - provide a means to finance losses.

- Loss information management - collect and analyze data to make prudent prevention, control and financing decisions.

Policy

In the risk management program, the City will:

- Review and analyze all areas of risk to, whenever possible, avoid and reduce risks or transfer risks to other entities. Of the risks that must be retained, it shall be the policy to fund the risks which the City can afford and transfer all other risks to insurers.

- Conduct periodic educational safety and risk avoidance programs within the various departments.

- Analyze on an ongoing basis the feasibility of self-funding and other cooperative funding options in lieu of purchasing outside insurance to provide the best and most economical loss coverage available.

- Maintain the deductible amount considered prudent factoring in the relationship between the cost of insurance and the City's ability to sustain the loss.

STANDARDS OF CONDUCT

Receipt or Solicitation of Gifts (Gift Law)

No employee shall receive or solicit any gift from any person, business or organization having any business, administrative, legislative, and contractual or any other relationship with the City. A gift is any money, tangible or intangible personal property, food, beverage, loan, forbearance or forgiveness of indebtedness, promise, service, or entertainment.

Gifts may not be accepted which are intended for a specific employee or official. Goodwill gestures not exceeding an estimated $5 are permitted. An example of an acceptable goodwill gesture is holiday cookies from a resident which can be shared among employees. Employees attending a grand opening, expo, or other public event, where food, gifts or small memorabilia are available to the public, are permitted. City employees are also permitted to accept food or beverage given at a reception, meal, or meeting away from the recipient's place of work by an organization before whom the recipient appears to make a speech or answer questions as part of a program. The prohibitions do not apply if a gift is given to a staff member due to their membership in a group when an equivalent gift is given to the other members of the group.

The law prohibits gifts to city officials, not to cities themselves. Cities may accept gifts of real or personal property and use them in accordance with the terms prescribed by the donor. A resolution accepting the gift and the donor's terms must receive an affirmative vote of two-thirds of the members of the City Council. A city may not, however, accept gifts for religious or sectarian purposes.

Personal Conflicts of Interest

The credibility of the City of Mankato rests heavily upon the confidence which taxpayers have in City employees to render fair and impartial services to all without regard to personal interest and/or political influence. The delivery of public services to our citizens requires that employees avoid any activity which suggests a conflict of interest between their private interests and City responsibilities.

City employees and their family members, shall not engage in or have financial interest in any business or other activity which could reasonably lead to a conflict of interest with the employee's primary City responsibilities. “Family members” shall be deemed to include the employee; the spouse, parents, children, and siblings of the employee; the parents, children and siblings of the spouse; and direct descendants of any family members.

Examples of activities which violate this policy include, but are not limited to:

- having an interest in any business which has contracts or other direct dealings with the City of Mankato.
- activities which require the employee to interpret City Codes, ordinances, or regulations when such activity involves matters with which the employee has business and/or family ties.
- consulting activities carried out within the City of Mankato if such consulting involves talents or skills primarily related to the employee's City work responsibilities.
- using City time or equipment to engage in activities intended to produce income for the employee.

Federal Grant Policy

This policy is to document federal grant procedures and to form a policy in accordance with required audit standards and to Office of Management and Budget (OMB) Federal requirements.

The intent of the policy is to ensure compliance with General Procurement standards and Equipment Management Requirements.

These procedures will be decentralized which means each department will oversee and document the requirements and fulfillment the federal grant requirements; this could and should also be used for more sizable and complex state grants. As a standard practice, the city will address Federal Grant Standards as part of the bidding process where applicable.

Under federal guidelines the City (including the EDA) will need to have a single audit when federal expenditures (grants) are greater than $750,000.

Please note, in many cases this money is passed through the state; so just because it comes from a state department does not mean it is a state grant. You will need to review the grant document in each case and determine whether it is a state or federal grant; if you are not sure you may receive a definitive answer from the grant representative from the state. At this same time, you may obtain the Catalog of Federal Domestic Assistance (CFDA) number from the agency if it is not in the grant document. This is a five-digit number in this format: ##.### (two numbers which denotes an administering federal department, and then 3 numbers which is

the grant number within the federal department. According to regulations the Federal award ID and year; name of federal awarding agency; and the pass-through entity's name (if applicable) need to be included in the financial system when applicable.

General Grant Guidance

- Find a project or purchase that fits a federal grant criteria.
- Responsible department will contact appropriate state or federal department to start the process and inquire about the grant requirements.
- Start a file during this process and label everything well so there is no difficulty finding the documents needed when being audited.

department will create an appropriate notice for the government body (City Council and/or EDA) to request approval of the application to receive this new grant.

  - This action form should contain ALL important information concerning this grant even INCLUDING any additional requirements that the grant may have such as continuing reporting for years to come; inability to sell an asset after used for certain amount of time; required future upkeep of an asset at local entities expense; or other important information as deemed appropriate.

- Responsible department needs to document all requirements and then follow the grant procedures whenever applicable. These requirements may need to be fulfilled before the grant can be submitted. Some requirements may be (please note that some of these may not be able to be documented or completed until after grant award):
  - Improvement plan
  - Is this improvement plan in a 5-year capital plan
  - Plans and specifications
  - Bidding requirements
  - Data requirements (i.e., invoice and receipt retention, reports, schedules, etc.)
  - May need to hire a consulting firm
  - Scope of project
  - Cost estimates
  - Projected timelines
  - What project reports will be required
  - Document what steps will be needed for grant closeout
- Once you have all the documents required to apply for the grant, then you may submit the grant application.
- You need to obtain all necessary grant documents and requirements once the grant is approved.
- Follow through the project to completion.
- File all grant reports as required per the grant on a timely basis. Ensure all requirements are well documented.

Internal Controls

Uniform guidance requires our organization to have effective controls in place to manage federal awards and show compliance with Federal statutes, regulations, and terms and conditions of the award when applicable.

- The section "General Grant Guidance" and following our internal policies will fulfill these requirements.

Uniform guidance requires there are reasonable procedures in place to protect Personally Identifiable Information (PII) as sensitive by Federal agency or pass-through entity when applicable.

- The City of Mankato and the Mankato EDA have approved the City of Mankato Data Practices Policy that outlines different types of data and what must be followed regarding dissemination of data. This policy may not be all encompassing; however, between that and implementation of other grant rules and procedures the controls are in place to protect PPI.

- PPI data must be kept in a locking file cabinet or computer system that is only accessible to people authorized to have that access.

- Follow other normal operating procedures in regard to purchase requisitions, contracting and bidding, and submitting of claims.

Travel

According to federal grant guidelines, the City's travel policy is in accordance with what is allowed for travel costs.

- Travel guidelines must be followed. Travel policies are within the personnel policy guidelines and Human Resources Department sends out updates to any mileage and meal per diems that have changed.

- If costs for a conference are being charged to a grant directly or through an indirect cost allocation; the supporting documentation of attendance must be retained by the participant and/or department.

Financial Management and Accounting Records

Financial system must identify all federal awards in all accounts that are received and expended by:

- CFDA number and title

- Federal award ID and year

- Name of federal awarding agency

- Pass-through entity's name

Major Federal Grants - Each department will need to contact either the Finance Director or the Accountant with the information in number one above for major federal grants so that we can oversee the set up the appropriate Project Accounting Codes by each department.

- Project accounting is a system that works along with the main general ledger. This will allow for proper identification the federal government is requiring.

- Major federal grants will be defined as grants that require multiple entries for the receipt of the federal grant and multiple expenditure items of the federal grant. It would also be further defined as greater than $100,000 in expenditures or revenues.

Minor Federal Grants – Each department, when asking for a federal grant to be receipted into the general ledger system, will need to be accompanied by the information in number one above so the information can be entered into the detailed description. The same is true for expenditures. When entered into the system the information required above will need to be entered into the detail description.

- A minor program would be a grant that is less than $100,000 and only has very a few number of transactions needing to be entered such as one receipt and one expenditure.

Each department must know the requirements of the grant they are receiving and ensure the allowability of costs are well documented including allowability of costs in accordance with Subpart E Cost Principles if applicable on the grant.

To receive advance payments, written procedures must be in place by the departments to minimize time between transfer of funds and disbursement by the entity whenever applicable.

Payments to subrecipients are:

- Not required to be maintained in separate depository accounts for federal awards,

- Required to be accounted for by receipt, obligation, and expenditure of federal awards. Documentation must be retained and detailed descriptions used on expenditures to the system. If using a project account, more defining items could be set up to provide better information but each department will need to contact finance department to assist with this process

Documentation

Examples of documents associated with a particular action:

- Travel, e.g., airline tickets, authorized travel request, hotel receipts, conference registration, mileage records, etc.

- Procurement, e.g., request to buy (purchase), quotes from suppliers, written agreement/contract to purchase or an order, receipt of goods or completion of services, invoice, etc.

- Personnel Compensations (T&E), e.g., timesheets, calendars with worked hours, approved or authorized schedules.

- Performance Reports, e.g., activities completed, associated costs, log of attendees/those served, publications or written material, etc.

- Financial Reports, e.g., receipts, invoices, payroll schedules, etc.

Personnel Compensation Documentation

Written policies and procedures for personnel compensation

- Employees will follow current personnel policies.

- Management must communicate with employees how to record their time on timesheets to designate the work is for a federal grant or possible federal grant.

- When entering time information, staff must enter the appropriate project accounting codes so payroll time is properly recorded.

- Timesheets must be recorded in Human Resources software for imaging and sorting for backup documentation to the federal grant (primarily used for FEMA grants).

- Documentation must be maintained for all employees whose salaries are paid in full or in part by a federal award and used in meeting cost sharing or matching requirements on federal awards whenever applicable.

Conflict of Interest

All potential conflicts of interest must be disclosed in writing to the federal awarding agency.

City officials need to be aware of other interests employees may have or own. For example, if they are involved in a sideline business or a spouse involved in a business.

- Officials must be aware of their own business interests.

- Officials need to keep note of other businesses employees may be involved with.

- Officials should state to their employees and ask questions whether they are involved with other businesses.

- All employees should read and understand the code of Conduct in the City of Mankato employee handbook.

Federal award recipients must disclose, in a timely manner, all violations of Federal criminal law in writing that involve fraud, bribery or gratuities that affect a federal award. This information must be reported to the federal agency or pass-through entity. If you fail to do so you may forfeit a portion or all the federal award.

Activities Allowed/Un-allowed and Allowable Costs/Cost Principles

Source of Governing Requirements – The requirements for activities allowed or un-allowed are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award. The requirements for allowable costs/cost principles are contained in 2 CFR 200 Subpart E, program legislation, Federal awarding agency regulations, and the terms and conditions of the award. In order to ensure compliance with these requirements, the City has implemented the following policies and procedures:

- All grant expenditures will follow 2 CFR 200 Subpart E, State law, City policy, and the provisions of the grant award agreement, which will also be considered in determining allowability. Grant funds will only be used for expenditures that are considered reasonable and necessary for the administration of the program.

- Grant expenditures will be approved initially through the purchasing process and again when the bill or invoice is received. This will be evidenced by approval via the City's accounting software. Accounts payable disbursements will not be processed for payment by the Administrative Services Department-Finance until necessary approval has been obtained.

- Payroll costs will be documented in accordance with 2 CFR 200 Subpart E. An indirect cost rate will only be charged to the grant to the extent that it was specifically approved through the grant budget/agreement.

Cash Management

Source of Governing Requirements – The requirements for cash management are contained in OMB UG 2 CFR 200.302 & 305, program legislation, Federal awarding agency regulations, and the terms and conditions for the award. In order to ensure compliance with these requirements, the City has implemented the following policies and procedures:

- Substantially all the City's grants are awarded on a reimbursement basis. As such, program costs will be expended and disbursed prior to requesting reimbursement from the grantor agency.

- Cash draws will be initiated by the Administrative Services Director or designee who will determine the appropriate draw amount. Documentation of how this amount was determined will be retained and signed/dated.

- The physical draw of cash will be processed through SWIFT (Minnesota's State-wide Integrated Financial Tools payment system) or through the means prescribed in the grant agreement.

- Supporting documentation from SWIFT or a copy of the cash draw paperwork will be filed along with the approved paperwork described above and retained for audit purposes.

- When cash is received in advance or drawn, the City will work to minimize time lapse between transfer of funds and disbursement by the City.

Eligibility

Source of Governing Requirements – The requirements for eligibility are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

- Federal grants will only benefit those individuals and/or groups of participants that are deemed to be eligible.

Equipment and Real Property Management

Source of Governing Requirements – The requirements for equipment are contained in OMB UG 2 CFR 200.310-316, program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

The following policies and procedures will also be applied to the extent that they do not conflict with or contradict any existing policies:

- All equipment will be used in the program for which it was acquired or, when appropriate and allowable, other federal programs.

- When required, purchases of equipment will be pre-approved by the grantor or pass-through agency. The designee will be responsible for ensuring that equipment purchases have been previously approved, if required, and will retain evidence of this approval.

- Equipment records will be maintained, and an appropriate system shall be used to safeguard equipment.

- When equipment is no longer needed for a federal program, it may be retained or sold with the Federal agency having a right to a proportionate amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return.

Procedures for Disposition of Equipment

The City will keep, sell or otherwise dispose of the equipment with no further obligation unless disposal requirements are specifically detailed in the grant.

A record of the date, reason and method of disposal or sale will be maintained with the equipment inventory.

Equipment purchased will be identified and kept in a capital asset listing. An equipment listing shall be maintained that includes the following:

- Asset number and description of the equipment
- Depreciation method & years of expected life
- Acquisition date
- Cost of the equipment
- Equipment classification (land, building, equipment, etc.)
- Make, Model, & Serial number or other identification number
- Vendor and invoice number to purchase equipment
- Disposition data including date and sale price of the equipment

A physical inventory of the property will be conducted periodically, and the results will be reconciled with the capital asset listing. A control system will be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage or theft will be investigated.

Maintenance procedures are in place to keep the equipment in good condition.

Matching, Level of Effort and Earmarking

Source of Governing Requirements – The requirements for matching are contained in OMB UG 2 CFR 200.306, program legislation, Federal awarding agency regulations, and the terms and conditions of the award. The requirements for level of effort and earmarking are contained in program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

The City defines "matching", "level of effort", and "earmarking" consistent with the definitions of the OMB UG Compliance Supplement:

Matching or cost sharing includes requirements to provide contributions (usually non-federal) or a specified amount or percentage of match federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in-kind contributions).

Level of effort includes requirements for (a) a specified level of service to be provided from period to period, (b) a specified level of expenditures from non-federal or federal sources for specified activities to be maintained from period to period, and (c) federal funds to supplement and not supplant non-federal funding of services.

Earmarking includes requirements that specify the minimum and/or maximum amount of percentage of the program's funding that must/may be used for specified activities, including funds provided to sub-recipients. Earmarking may also be specified in relation to the types of participants covered.

In order to ensure compliance with these requirements, the City has implemented the following policies and procedures:

- Compliance with matching, level of effort and earmarking requirements will be the responsibility of the Administrative Services Director or designee.

- Adequate documentation will be maintained to support compliance with matching, level of effort, and earmarking requirements. Such information will be made available to City administration, auditors, and pass-through or grantor agencies, as requested.

- Maintenance of effort for grants through the State Minnesota will be determined at the State level.

Period of Performance

Source of Governing Requirements – The requirements for period of performance of federal funds are contained in OMB UG 2 CFR 200.308-309 & 344, program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

In order to ensure compliance with these requirements, the City has implemented the following policies and procedures:

- Costs will be charged to an award only if the obligation was incurred during the funding period (unless pre-approved by the Federal awarding agency or pass-through grantor agency).

- All obligations will be liquidated not later than 120 days after the end of the funding period (or as specified by program legislation).

- Compliance with period of performance requirements will initially be assigned to the individual approving the allowability of the expense/payment. This will be subject to review and approval by the Administrative Services Department-Finance as part of the payment processing.

Procurement, Suspension and Debarment

Source of Governing Requirements – The requirements for procurement are contained in OMB UG and 2 CFR 180, program legislation, Federal awarding agency regulations and the terms and conditions of the award. The requirements for suspension and debarment are contained in OMB UG and 2 CFR 180, which implements Executive Orders 12549 and 12689, Debarment and Suspension; program legislation; Federal awarding agency regulations; and the terms and conditions of the award.

The City must have written procurement procedures that comply with federal, state, and local laws and regulations.

- Follow state guidelines (which are also in our internal control procedures document) in regard to bidding and contracting.

- Follow the internal controls document from the City of Mankato in relation to purchasing, bidding and contracting, purchase orders, and accounts payable. *If we follow these procedures, it should and must include full and open competition consistent with uniform guidance standards.*

    - Purchasing from small and minority businesses, women's business enterprises and labor surplus firms when applicable. Steps must include

        - Placing qualified small and minority businesses and women's business enterprises on a solicitation list;

        - Assuring that small and minority business, and women's business enterprises are solicited whenever they are potential sources;

        - Dividing total requirements, when economically feasible, into smaller tasks or quantities to permit maximum participation by small and minority businesses and women's business enterprises;

        - Establishing delivery schedules, where the requirement permits, which encourage participation by small and minority businesses and women's business enterprises;

        - Using the services and assistance, as appropriate, of such organizations as the Small Business Administration and the Minority Business Development Agency of the Department of Commerce; and

        - Requiring the prime contractor, if subcontracts are to be let, to take the affirmative steps listed in these five items above.

- Contract only with responsible contractors that can meet the requirements, and terms and conditions. Some items to consider are:

    - Contractor integrity

    - Compliance with public policy

    - Record of past performance

    - Financial and technical resources

- Conflicts of interest for procurement:

    - Follow code of conduct in the personnel policy manual.

    - Avoid purchasing unnecessary or duplicative items under the grant contract.

    - Maintain sufficient detailed records to provide an audit trail for the procurement.

- Identify the procurement method: Under federal guidelines there are different sizes of purchases and requirements that they follow.

    - Micro purchases are purchases not to exceed $10,000. This can increase up to $50,000 on an annual basis if the self-certification is done with any of the following supporting documentation: qualification as a low-risk auditee, annual internal institutional risk assessment, or a higher threshold consistent with State law ($25,000).

        - Follow normal purchasing procedures in the internal control documents. Issue purchase requisitions when policy requires.

        - Distribute as equitably as possible among qualified suppliers.

        - Policy is that you should get more than one price quote if the purchase is over $5,000. If the purchase is under $5,000 more than one quote is not required.

- Small purchase procedures which are relatively simple and informal procurement methods for securing services and supplies between $25,000 and $174,999 under federal guidelines.
    - Follow City guidelines in relation to purchasing, contracting and bidding for these items and follow state statutes which would require competitive quotes above $25,000 and sealed competitive bids after $174,999 when applicable or unless there is an exception to policy.
    - Stay in contact with the federal or state agency you are coordinating this grant with to ensure compliance.
- Sealed bid procurements with formal advertising are for items exceeding $175,000 (> $175,000 for the City of Mankato and Mankato EDA).
    - Follow city guidelines in relation to contracting and bidding which are the same as MN State statute (> $175,000).
    - Stay in contact with the federal or state agency you are coordinating this grant with to ensure compliance.
- Sealed bid procurements without formal advertising are for items exceeding $175,000. This would be a rarity that this will occur.
    - Follow city guidelines in relation to contracting and bidding (> $175,000) which are the same as MN State statute.
    - Stay in contact with the federal or state agency you are coordinating this grant with to ensure compliance.
    - Complete cost/price analysis;
        - Method used and level of analysis depends on facts surrounding the procurement action;
    - Recipient must make independent estimates before receiving bids or proposals.
- Non-competitive proposals or bids
    - Review use of non-competitive proposals, if used and when to use:
        - Item or service is available from only one source;
        - Public emergency exists;
        - Awarding agency or pass-through entity expressly authorizes non-competitive proposals in response to a written request from the City of Mankato or Mankato EDA;
        - Competition is inadequate after a solicitation is issued.

- Recipient must ensure that awarded contracts are not awarded to a contractor that is debarred or suspended.
    - Verify in Excluded Parties List System (EPLS) in the System for Award Management (SAM).

Program Income

Source of Governing Requirements – The requirements for program income are found in OMB UG 2 CFR 200.307, program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

In order to ensure compliance with these requirements, the City has implemented the following policies and procedures:

- Program income will include (but will not be limited to): income from fees for services performed, the use or rental of real or personal property acquired with grant funds, the sale of commodities or items fabricated under a grant agreement, and payments of principal and interest on loans made with grant funds. It will not include interest on grant funds unless otherwise provided in the Federal awarding agency regulations or terms and conditions of the award.

- The City will allow program income to be used in one of three methods:
    - Deducted from outlays
    - Added to the project budget
    - Used to meet matching requirements

  In the absence of specific guidance in the Federal awarding agency regulations or the terms and conditions of the award, program income shall be deducted from program outlays.

- Program income, when applicable, will be accounted for as a revenue source in the same project code as the federal grant.

Reporting

Uniform guidance requires Federal agencies to include performance goals or measures in awards and recipients are to report against those goals or measures.

- Read and understand the grant document in relation to performance reporting requirements.

- Performance reporting will require the following:
    - Recipients are to relate financial data to performance accomplishments;
    - Oversight and monitoring must cover each program or activity.
    - Performance report timeframes will be defined by awarding agency or pass-through entity.

- Expectations of performance reports (non-construction):
    - Comparison of actual accomplishments of each federal award for the established reporting period by submitting:
        - Quantifiable data (cost/units) when available
        - Trend data or data analysis
        - Other defined measures
    - Reasons why goals were not met:
        - Analysis/reason why goals not met
        - Explanation of any cost overruns
        - (Identification of or if goals will be met)
- Expectations of performance reports (construction)
    - On-site technical inspection report
    - Certified percentage of completion data
    - Additional reports as required by Federal agency
    - Data and Information that identifies:
        - Significant developments between scheduled reporting dates, e.g., delays, problems, adverse conditions
        - Identify any action taken, contemplated, or assistance needed
        - Identify favorable conditions
    - Policy and Procedures considerations:
        - Entities should consider having procedures that describe when to start collecting data for the report, who shall review the report, who shall sign the report, and when the report will be submitted.
        - Build in a timeline for submission and know the reportable measures for the reporting period to eliminate constant revisions.
        - For special data collection, procedures may need to reflect unique steps to take to collect and analyze data for reporting purposes - may require interim procedures to satisfy current reporting.

Report Certification:

- An authorizing official must sign a certification regarding the filing of documents.
    - When the grant is approved by the governing body the official that will be signing the grant documentation approved for all the grant documents going forward including this certification.
    - Certification: "By signing this report, I certify to the best of my knowledge and belief that the report is true, complete, and accurate, and the expenditures, disbursements and cash receipts are for the purposes and objectives set forth in the terms and conditions of the Federal award. I am aware that any false, fictitious, or fraudulent information, or the omission of any material fact, may subject me to criminal, civil or administrative penalties for fraud, false statements, false claims or otherwise. (U.S. Code Title 18, Section 1001 and Title 31, Sections 3729-3730 and 3801-3812)."

Financial Reporting

- Use OMB approved government wide data collection instrument (currently SF-425 Federal Financial Report).
- Frequency of reporting will be identified in the grant documents. Check documentation.
- If more guidance is needed, please check with the federal agency or pass-through entity.

Sub-recipient Monitoring

The City will ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and, if any of these data elements change, include the changes in subsequent subaward modification. Required information includes:

Federal Award Identification

- Subrecipient name (which must match the name associated with its unique entity identifier);
- Subrecipient's unique entity identifier;
- Federal Award Identification Number (FAIN);
- Federal Award Date (see §200.39 Federal award date) to the recipient by the Federal agency;
- Subaward Period of Performance Start and End Date;
- Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;
- Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;
- Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;

- Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);

- Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;

- Assistance Listing Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the Assistance Listing Number at time of disbursement;

- Identification of whether the award is R&D; and

- Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs).

The City will perform a written risk assessment of each subrecipient, evaluating their risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in 2 CFR 200.332.

The City will monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

The City will verify that every subrecipient is audited as required by OMB UG 2 CFR 200 Subpart F when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold.

Special Tests and Provisions

In order to ensure compliance with these requirements, the City has implemented the following policies and procedures:

- The Administrative Services Director or designee will be assigned the responsibility for identifying financial-related compliance requirements for special tests and provisions, determining approved methods for compliance, and retaining any necessary documentation. Program-related compliance requirements will be the responsibility of the department administering the grant.

FUND BALANCE RESERVE POLICY

This policy will ensure that adequate resources are available to meet the cash flow needs for carrying out the regular operations of the City, while also providing the financial ability to address catastrophic events or major downturns in the economy.

Fund Balance Classifications

Nonspendable – amounts that are not in a spendable form (e.g., inventory, prepaid items).

Restricted – amounts that are externally imposed by creditors, grantors, contributors, laws, or regulations of other governments, or by law through constitutional provisions of enabling legislation (e.g., grants or donations).

Committed – amounts that are imposed by City Council and can only be removed by Council action. Action to commit funds must be taken prior to the end of the fiscal year, but the amount may be determined in the subsequent period.

Assigned – amounts that are intended to be used for a specific purpose but are neither restricted or committed**.**

Unassigned – includes all amounts not contained in other classifications which are available for any legal purpose.

The City Council authorizes the City Manager and/or Director of Administrative Services, to *assign* fund balance that reflects the City's intended use of those funds.

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. When unrestricted resources are available for use, it is the City's policy to use resources in the following order: 1) committed 2) assigned 3) unassigned. These fund balance classifications apply only to Governmental Funds, not Enterprise or Internal Service Fund

Fund Balance Targets

General Fund – The City will maintain a total fund balance of 40% of the following year's expenditure budget. If the fund balance exceeds 40%, the City Council may transfer such amounts to the capital fund(s) to reduce future capital and/or debt related costs. Additionally, the General Fund balance should not exceed 55% of the following year's expenditures.

Special Revenue Funds – Since the funds are established to account for the proceeds of specific revenue sources that are legally restricted, the amount of fund balance reserves is governed by those restrictions.

Debt Service Funds – The City will maintain sufficient reserves which equal or exceed the requirements dictated by bond covenants or federal regulations.

Capital Project Funds – The approval and financing of capital projects is provided in the City's Community Investment Plan. The City will strive to maintain a fund balance to fully support internally funded projects identified in the appropriate budget years of the plan. Each capital project fund balance will be reviewed annually to ensure projects in current and future years will have adequate funding.

Enterprise Funds – The City will strive to maintain a fund balance of three months of the following year's operating expenses (excluding depreciation), 100% of the following year's debt service and the average five-year balance of scheduled capital replacement costs.

Internal Service Funds – The City will strive to maintain a fund balance of three months of the following year's operating expenses (excluding depreciation) plus the average five-year balance of scheduled capital replacement costs.

Monitoring and Replenishment of Reserves

The City Manager and Director of Administrative Services will review the adequacy of the reserves annually. If the actual reserves fall below the fund balance targets, the City Manager and Director of Administrative Services will create a detailed financial plan to restore balances to the minimum requirements that will be submitted to the City Council for review and approval.