COMPREHENSIVE FINANCIAL MANAGEMENT POLICY

Adopted April 18, 2011
Adopted Revision – December 19, 2011
Adopted Revision – February 24, 2014

ORIGIN
The City's 2030 Vision and Strategic Plan calls for the establishment of a Comprehensive Financial Management Policy in its Vision, as one of seven Strategic Elements and as a Goal.

The Vision
"STRONG FINANCIAL MANAGEMENT - For the 2030 Vision to become a reality, the City must ensure that there is financial confidence in the City and that financial resources are available, in the amount and within appropriate time frames, to fund the operating and capital costs associated with implementing the Strategic Plan regardless of the pace of development. Financial strength includes always assuring that financial resources are used to achieve maximum value for the lowest reasonable expenditure needed to achieve the 2030 Vision" – 2030 Vision and Strategic Plan, adopted February 21, 2012

Strategic Element
"Strong Financial Management," one of the seven Strategic elements of the 2030 Vision and Strategic Plan (2030 VSP), represents an area of strategic importance that must be addressed to make the 2030 VSP a reality.

Goal
"Adopt remaining components identified in the Comprehensive Financial Management Policy by June 30, 2012."

(The above language was removed from the most recent version of the 2030 Vision and Strategic Plan based on the assumption that the Comprehensive Financial Management Policy was to be updated in the near future.)

PURPOSE
The Comprehensive Financial Management Policy serves three main purposes:

1. To draw together in a single document the City's major financial policies;
2. To establish principles to guide both staff and Council members to make consistent and informed financial decisions.
3. To inform the citizenry that the City is a prudent steward of their resources.

POLICY AREAS
The Comprehensive Financial Management Policy establishes City policy in the following areas:

I. Reserves
II. Revenues
III. Expenditures
IV. Debt
V. Financial Planning & Reporting

OBJECTIVES OF THIS POLICY

1. To provide both short-term and long-term financial stability to city government by ensuring adequate funding for providing services and protecting infrastructure needed by the community today and for years to come;
2. To protect the City Council's policy-making ability by ensuring that important policy decisions are not constrained by financial problems or local, state, regional or national emergencies;
3. To provide sound financial principles to guide the decisions of the City Council and City management;
4. To create a document that City management and City Council members can refer to when engaged in financial planning, day to day decision making, budget preparation and other financial management endeavors.

I. RESERVES
The goal of the City Council in establishing a Reserve Policy is to ensure the long-term economic stability of the organization by providing sufficient funds for cash flow purposes, to accumulate savings for projects (one-time and grant-matching opportunities), and to have reserves for unexpected revenue shortfalls or emergencies, while providing a specific plan for increasing or decreasing the level of fund balance as appropriate. In creating this policy, the City Council expressly acknowledges that a key element in sound financial management is having a reserve at all times. This policy seeks to establish parameters for the reserves so it is neither larger than needed nor less than desirable and based upon financial and management analysis and principles. This policy also establishes the specific guidelines that will be used to classify fund balances into categories based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in these funds can be spent.

A. CLASSIFICATION OF FUND BALANCE / PROCEDURES

1. Non-spendable
   This category includes fund balance that cannot be spent because it is either (i) not in spendable form or (ii) is legally or contractually required to be maintained intact. Examples include inventories and prepaid amounts.
2. Restricted
   Fund balance should be reported as restricted when constraints placed on those resources are either (i) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (ii) imposed by law through constitutional provisions or enabling legislation.
3. Committed
   Fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The committed

amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to commit those amounts. The City's highest level of decision making authority (City Council) will annually, or as deemed necessary, commit specific revenue sources for specified purposes by resolution. This formal action must occur prior to the end of the reporting period; however, the amount to be subject to the constraint may be determined in the subsequent period. To remove the constraint on specified use of committed resources the City Council shall pass a resolution.

4. Assigned
   Amounts that are constrained by the government's intent to use for specified purposes, but are neither restricted nor committed. Assigned fund balance in the General Fund includes amounts that are intended to be used for specific purposes. The City Council has delegated the authority to assign and remove assignments of fund balance amounts for specified purposes to the Finance Director.
5. Unassigned
   Unassigned fund balance represents the residual classification for the General Fund. It includes amounts that have not been assigned to other funds and that have not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. This classification is also used to account for deficit fund balances in other governmental 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 committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order: 1) committed, 2) assigned and 3) unassigned.

B. GENERAL FUND

The City will maintain a General Fund reserve balance at a level which takes into consideration the following:

1. Cash Flow
   a. Six months of projected operating expenditures recognizing that an increasingly larger share of the General Fund is dependent upon property taxes and that this trend is likely to continue;
   b. Debt service for market referenda debt obligations;
2. Contingency
   a. Potentially volatile revenue sources recognizing that the City is dependent upon others in large funding categories of state aid, township fire agreements and SMSC contributions;
   b. Unforeseen natural or man-made disasters and emergencies which will require advance payment by the City without any guarantee of repayment by the federal government or an insurer;
3. Savings
   a. Planned one-time expenditures and grant matching opportunities which become available but require immediate liquidity to take advantage of;
   b. Initial establishment of a plan for long-term obligations;
4. Other Factors
   a. Impact on City's bond rating;

b. Status of public retirement systems and understanding that as an employer the City has a statutory obligation to fund unforeseen deficits.

Reserve Amount
Based on the above criteria, the goal would be to maintain a General Fund unrestricted fund balance (which includes Committed, Assigned and Unassigned classifications) within a range of 40 – 50% of projected expenditures for the subsequent year; however, this need could fluctuate with each year's budget objectives and appropriations such as large capital expenditures, and variations in the collections of revenues. This amount meets the financial needs of the City and is also consistent with the expertise and official opinion of the Minnesota State Auditor.

Reserve Expenditure Criteria
The City Council may consider the judicious use of reserve balances in the following situations:

1. to fund an expenditure of significant long-term benefit or legacy to the community
2. to fund a one-time (non-recurring) expenditure or grant matching opportunity
3. to fund a one-time unplanned revenue shortfall
4. to fund an unplanned expenditure due to an emergency or disaster
5. to moderate property taxes
6. to retire existing debt
7. to fund policy shifts by other governmental entities having a negative impact on the City
8. to provide catch-up funding for long-term obligations not previously recognized

Reserve minimum: In no case will the reserve be allowed to fall below 40%.

The City Council recognizes that any such funds may be appropriated for non-recurring expenditures as they represent prior year surpluses that may or may not materialize in subsequent fiscal years. This should only be considered after reviewing the long-term financial plan to ensure that short-term decisions are not compromising the long-term viability of the Fund.

The City Council also recognizes that the use of reserves to moderate property taxes is a temporary situation such that a future funding source will be needed to replace it; therefore, the City Council should evaluate the use of reserves for this purpose during the budget process and in conjunction with the long-term financial plan.

Replenishment of Reserve
In the event that the yearend reserve balance is projected to be less than the target level due to the use of reserve balances for purposes identified above, a plan must be presented at the time the reserve funds are appropriated that will reestablish the target level within 24-36 months.

Should the Fund Balance Reserve amount fall below the 40% targeted level, the City Council must approve and adopt a plan to restore this balance to the target level within 24-36 months. If restoration of the reserve cannot be accomplished within such period without severe hardship to the City, then the City Council will establish a different time period.

A negative residual amount may not be reported for restricted, committed or assigned fund balances in the General Fund.

C. ENTERPRISE FUNDS

The City will maintain reserves in Enterprise Funds at levels sufficient to provide adequate working capital for current expenditure needs, for the replacement of capital assets within the Fund over their estimated useful life and to pay for future capital projects. Future capital projects must be identified and quantified in a written finance plan for the fund which shall be included in the City's annual Capital Improvement Program.

The City will maintain a reserve balance at a level which that takes into consideration the following:

1. Cash Flow
    a. Three months of projected operating expenditures
    b. Debt service obligations
2. Contingency
    a. Potentially volatile revenue sources
    b. Unforeseen natural or man-made disasters and emergencies
3. Savings
    a. Planned one-time expenditures and grant matching opportunities
    b. Impact of large capital projects identified in a long-term plan
4. Other Factors
    a. Impact on City's bond rating;
    b. Requirements by external funding source

D. ECONOMIC DEVELOPMENT AUTHORITY FUND

The City will strive to maintain a fund balance within the EDA Fund, a Special Revenue Fund, in order to meet both anticipated and unanticipated future economic development needs.
The City will maintain a reserve balance at a level which that takes into consideration the following:

1. professional services;
2. significant funding which may be required for acquisition of land for development opportunities;
3. potential relocation costs or legal costs attributable to economic development actions;
4. anticipated or unanticipated environmental concerns or impacts.

E. OTHER SPECIAL REVENUE FUNDS

The City will maintain reserves in the Special Revenue Funds at levels sufficient to provide working capital for current expenditure needs plus an amount that is estimated to be needed to meet legal restrictions, requirements by external funding sources and/or pay for future capital projects. Future capital projects must be identified and quantified in a written finance plan for the Fund, which shall be included in the City's annual Capital Improvement Program.

F. DEBT SERVICE FUNDS

The City will maintain reserves in the Debt Service Funds at levels sufficient to provide working capital for current expenditure needs plus an amount that is estimated to be needed to meet legal restrictions and requirements by external funding sources.

G. CAPITAL PROJECT FUNDS

The City will maintain reserves in the Capital Project Funds at levels sufficient to provide working capital for current expenditure needs plus an amount that is estimated to be needed to meet legal restrictions, requirements by external funding sources and/or pay for future capital projects. Future capital projects must be identified and quantified in a written finance plan for the Fund, which shall be included in the City's annual Capital Improvement Program.

H. MONITORING AND REPORTING

The City Manager and Finance Director shall annually prepare a report documenting the status of the fund balances with this policy and present it to the City Council in conjunction with the development of the annual budget and/or other long-term financial planning documents. Should the report disclose that there are unassigned funds available, a recommendation for use of said funds shall be presented to the City Council.

The City will annually review the adequacy of the reserve balances.

The City will periodically review updates to Rating Agency methodologies and medians to make sure that the reserve policy is consistent to ensure maintaining its existing rating or that it positions itself for an upgrade.

II. REVENUES

It is essential to responsibly manage the City's revenue sources to provide maximum service value to the community. The most important revenue policy guidelines established by the City Council are for the two major sources of city revenue: property taxes and fees/charges

A. PROPERTY TAXES

When possible, property tax increases should accommodate incremental adjustments rather than more radical but less frequent adjustments. Further, when discussing property taxes, the City should simultaneously explore other revenue and expenditure alternatives that will maximize the City's future financial flexibility and ability to provide services. This may include considering options such as debt management, fees and charges, cost allocation, use of reserves, and expenditure cuts.

Other factors that should be considered with property taxes are:

- Maintenance of City services;
- Long-term maintenance and protection of City's infrastructure;
- Legal mandates imposed by outside agencies;
- Maintenance of reserve funds consistent with the Reserve policy;
- The potential need for an Economic Development Authority tax levy and its relationship with the general tax levy;
- Maintaining a level of property taxes on a per household basis which takes into account the cost of inflation.

B. SERVICE FEES AND CHARGES

The City will want to consider service fees and charges wherever appropriate for the twin purposes of keeping the property tax rate at a minimum and to fairly allocate the full cost of services to the users of those services. As an example of appropriate cost allocation, service fees and charges broaden the base to include tax exempt properties, which still have municipal costs associated with the property. Specifically, the City may:

- Establish utility rates sufficient to fund both the operating costs and the long-term depreciation and replacement of the utility systems.
- As part of the City's enterprise effort, evaluate City services and aggressively pursue actions to accomplish the following:
  - Find community and other governmental unit partners to share in service delivery;
  - Make services financially self-supporting and, when possible, generate reserves needed for future investment;
  - Privatize services whenever appropriate.
- Annually review City services and identify those for which charging user fees are appropriate. These services will be identified as enterprise services and a policy for establishing fees will be set for each. Included as part of this process may be a market analysis that compares our fees to comparable market cities recognizing that there must be a rational nexus between the user fee and the city's cost for delivery of the service. The council may elect to charge less than actual cost if such action is considered justifiable to achieve one or more city council objectives.
- Identify some enterprise services as entrepreneurial in nature. The intent of entrepreneurial services will be to maximize revenues to the extent the market allows.
- Waive or offer reduced fees to youth, seniors, community service groups, and other special population groups identified by the Council as requiring preferential consideration based on policy goals.
- For certain services performed in the General Fund, such as parks and recreation services, the fees charged may not cover all costs. This type of fee structure is at the discretion of City Council and would be appropriate based on a defined need or other specified purpose.
- The charges for services for enterprise activities that meet a greater community need or are in the start-up phase may be supported through non-operating revenue or transfers from the General Fund.

The City Council will annually review and approve the Official Fee Schedule. Selected criteria are used to determine the specific rate to charge for a fee for service. The rate criteria can be one of five approaches or a combination thereof:

1. Market Comparison - Attempt to set fees in the upper quartile of the market. *(Examples: administrative fees, certain liquor licenses, etc.)*
2. Maximum set by External Source - Fees set by legislation, International Building Code, etc. *(Examples: Off-sale liquor license, State surcharges on permits, etc.)*
3. Entrepreneurial Approach - Fees will be at the top of the market. *(Example: ice center)*
4. Recover the Cost of Service - Program will be self-supporting. *(Examples: investigative fees, facility rentals, recreation programs, etc.)*
5. Utility Fees - A rate study will be updated or reviewed each year as part of the Capital Improvement Program. *(Examples: water fee, sewer fee, etc.)*

Staff will be responsible for identifying new fees for City Council consideration and the corresponding fee criteria to be used as part of the annual review process.

C. NON-RECURRING REVENUE

Several revenue sources, such as intergovernmental transfers, one-time grants, payment-in-lieu of taxes and other sources are outside of direct City control and must be relied upon conservatively. These revenue sources will be pursued vigorously by the City, while their unpredictable nature will be accounted for in the budget process. A minimal reliance will be placed on non-recurring revenue for on-going operating costs.

D. RECURRING INTERGOVERNMENTAL REVENUES

Special revenue sources, such as contributions from the Shakopee Mdewakanton Sioux Community, Municipal State Aid, Fiscal Disparities and other sources are outside of direct City control and must be relied upon conservatively. These revenue sources have been recurring for many years and should be accounted for in the budget process. City relies on these recurring revenues and should therefore keep close vigilance regarding the political environment surrounding these revenues.

III. EXPENDITURES

The City Council is establishing an expenditure policy which contemplates improved productivity and maximizes productivity and efficiency to maintain a satisfactory level of service for citizens. Current expenditures are guided by an approved operating budget each year. Capital outlay/long term expenditures are approved through the Capital Improvement Program.

A. OPERATING BUDGET

The Operating Budget is the annual financial plan for funding the costs of City services and programs. The General Operating Budget includes the General, Special Revenue, Capital and Debt Service Funds. Enterprise operations are budgeted in separate Enterprise Funds.

1. Before the beginning of each fiscal year an operating budget shall be approved by City Council. The City Manager will present a preliminary budget to City Council in a timely manner; traditionally this has been done in August. Revisions and adjustments will be made and the original budget approved in December.
2. The City Manager will submit a balanced budget in which appropriations shall not exceed the total of the estimated revenues and available fund balance. Reserves may be used to cover expenditures based on the Reserve Expenditure Criteria listed above.
3. The City will provide for all current expenditures with current revenues. The City will avoid budgetary procedures that balance current expenditures at the expense of meeting future years' budgets.
4. The City Manager will coordinate the development of the capital improvement program with the development of the operating budget. Each year's operating budget will provide for adequate maintenance and replacement of capital assets. Operating costs associated with new capital improvements will be projected and included in future operating budget forecasts.
5. The budget will provide for adequate maintenance of the capital plant and equipment, and for their orderly replacement.
6. During each fiscal year the budget may be amended to reflect major changes in expenditures that were not predictable during the budgeting process. Amendments could raise or lower expenditures. Reasons for a change could be additional grants received, new programs implemented or other unforeseen events.
7. The operating budget will describe the major goals to be achieved and the services and programs to be delivered for the level of funding provided.

8. The impact on the operating budget from any new programs of activities being proposed should be minimized by providing funding with newly created revenues whenever possible.
9. In addition to operating expenses, enterprise funds shall be budgeted to provide for replacement costs of capital assets, if appropriate, when establishing rates and charges for services.
10. The City will evaluate City services and aggressively pursue actions to find community-based and other governmental unit partners to share in service delivery or to share in the investment of capital equipment.
11. The budget will be published in a manner which articulates the cost of delivering services and providing amenities, aligns the expenditures to better measure productivity and improve transparency.
12. The City Manager will insure that a budgetary control system is in place to adhere to the adopted budget.
13. The Finance Department will provide regular monthly reports to the City Manager and department managers that compare actual revenues and expenditures to budgeted amounts.
14. The Finance Department will provide quarterly financial reports to the City Council that compares actual revenues and expenditures to budgeted amounts.

B. CAPITAL IMPROVEMENT PROGRAM (CIP)

The demand for services and the cost of building and maintaining the City's infrastructure continues to increase. No city can afford to accomplish every project or meet every service demand. Therefore, a methodology must be employed that provides a realistic projection of community needs, the meeting of those needs, and a framework to support City Council prioritization of those needs. That is the broad purpose of the CIP.

The CIP includes the scheduling of public improvements for the community over a five-year period and takes into account the community's financial capabilities as well as its goals and priorities. A "capital improvement" is defined as any major nonrecurring expenditure (over $5,000) for physical facilities of government. Typical expenditures are the cost of land acquisition or interest in land, construction of roads, utilities, parks, vehicles and equipment and facilities. The CIP is guided by the 2030 Vision and Strategic Plan.

1. The City Manager will coordinate the development of the Capital Improvement Program with the development of the operating budget. Operating costs associated with new capital improvements will be projected and included in future operating budgets.
2. Each year the City Council will approve a Capital Improvement Program for the next five fiscal years. The CIP will include the following plans:
    - Transportation Plan
    - Equipment Replacement Plan
    - Park Equipment Replacement Plan
    - Technology Plan;
    - Facilities Management Plan;
    - Water Operating Plan;
    - Sewer Operating Plan;
    - Water Quality Plan

3. The CIP is meant to serve as a guide for upcoming capital expenditures. More accurate estimates and projects may be incorporated into the annual budget as they become available.
4. CIP Development Process
   - Compile and prioritize projects. Staff will consolidate and prioritize recommended projects into the proposed Capital Improvement Plan. Staff will coordinate the timing of projects with State and County staff to minimize costs and traffic disruptions.
   - Devise proposed funding sources for proposed projects. Recommended funding sources will be clearly stated for each project.
   - Project and analyze total debt service related to the total debt of the City.
   - A debt study will be provided summarizing the combined impact of all the existing and proposed debt.
5. On an annual basis, the City Council will evaluate the proposed CIP and decide on the following:
   - Project Prioritization
   - Funding Source Acceptability
   - Acceptable Financial Impact on Tax Levy, Total Debt, and Utility Rate Levels
6. Use various communication tools such as the Wavelength and City website to increase community awareness regarding upcoming capital improvement projects.

IV. DEBT

The purpose of the City Council establishing a debt policy is to identify the appropriate purposes of debt and define limits for outstanding debt above what is required in Minnesota Statutes. There are many factors to consider when deciding to use debt as a funding source. The use of borrowing and debt is an important and flexible revenue source available to the City. Debt can be used to finance capital improvements when needed, in advance of when it would be otherwise possible. It can reduce long-term costs due to inflation, prevent lost opportunities and equalize the costs of improvements to present and future citizens.

Debt management is an integral part of the financial management of the City. Adequate resources must be provided for the repayment of debt, and the level of debt incurred by the City must be effectively controlled to amounts that are manageable and within levels that will maintain or enhance the City's credit rating. A goal of debt management is to stabilize the overall debt burden and future tax levy requirements to ensure that issued debt can be repaid and prevent default on any municipal debt. A debt level which is too high places a financial burden on taxpayers and can create problems for the community's economy as a whole.

Wise and prudent use of debt provides fiscal and service advantages. Overuse of debt places a burden on the fiscal resources of the City and its taxpayers. The following guidelines provide a framework and limit on debt utilization:

1. The City will restrict long-term borrowing to planned capital improvements and a limited use of short-term debt for capital outlay.
2. The City will incorporate all debt services costs and transfers into the operating budget.
3. The City will weigh the benefits and costs of long-term borrowing for planned capital improvements. Projections for debt balances and the debt levy will be included in the Capital Improvement Program.
4. The City will not use long-term debt to finance current operations.
5. The City will consider the use of cash on hand and debt to finance capital expenditures.

6. The City will pay back debt within a period not to exceed the expected useful life of the capital improvement, with at least 50% of the principal retired within 2/3 of the term of the bond issue.
7. Total general obligation debt shall not exceed 3% of the total market valuation of taxable property in the City. *(statutory debt limit; generally speaking, the only obligation subject to the debt limit are general obligation debt that is paid solely from ad valorem taxes)*
8. The City will maintain good communications with bond rating agencies and the general public regarding its financial condition. The City will follow a policy of full disclosure in every financial report and bond prospectus.
9. The City (by itself or with a financial advisor) will track and identify opportunities for restructuring or refinancing debt.
10. When feasible, the City will use refunding mechanisms to reduce interest cost and evaluate the use of debt reserves to lower overall annual debt service where possible.
11. The City will strive to maintain a bond rating of Aa2 or higher.

A debt study will be prepared in conjunction with the Capital Improvement Program to provide information about the City's debt structure.

V. FINANCIAL PLANNING & REPORTING

The key to effective financial management is to provide accurate, current, and meaningful information about the City's operations to guide decision making and enhance and protect the City's financial position.

1. The City's accounting system will maintain records consistent with generally accepted accounting standards and principles for local government accounting as set forth by the Government Accounting Standards Board (GASB) and in conformance with the State Auditor's requirements per State Statutes.
2. The City staff will need to make certain assumptions and estimates to properly prepare financial statements. These estimates are based on knowledge and experience about past and current events and assumptions about future events. Depreciation on capital assets is a particularly sensitive area where actual results could vary greatly from expectations. The assumptions and estimates that will be used for depreciation are contained in the Capital Asset Policy.
3. The City will establish and maintain a high standard of accounting practices. The Finance Department will annually review its internal control structure over financial reporting.
4. The City will follow a policy of full disclosure written in clear and understandable language in all reports on its financial condition.
5. Monthly and annual financial reports on budget performance will be provided to the City Manager and department managers.
6. Quarterly financial reports on budget performance and period over period analysis will be provided to the City Council.
7. An independent public accounting firm will perform an annual audit and issue an opinion on the City's financial statements. A request for proposals for independent public accounting firms will be issued periodically.
8. Annually the City Council and staff will meet with the Auditors to review the audit report.
9. A report summarizing the City's financial position will be provided annually to the Council at the close of the calendar and fiscal year books.

10. The following objectives/metrics will be incorporated into the annual financial report as well as the budget process:
    - Bond Rating – Maintain or improve current Aa2 bond rating;
    - General Fund Reserve Balance - Maintain a General Fund unrestricted fund balance (which includes Committed, Assigned and Unassigned classifications) within a range of 40 – 50% of projected expenditures for the subsequent year;
    - Property Taxes – Maintain or improve property tax rank when compared to a broader list of metro area cities;
    - Property Taxes / Household – Maintain a level of property taxes on a per household basis which takes into account the cost of inflation and community growth.
    - General Fund Expenditures / Household – Maintain a level of General Fund operational expenditures on a per household basis which takes into account the cost of inflation and community growth.

GLOSSARY OF TERMS

ACCRUAL ACCOUNTING – The basis of accounting which recognizes revenues as they are earned and expenses as soon as a liability is incurred, regardless of related cash inflows and outflows.

AD VALOREM TAX – A tax which is based on value, such as property taxes.

APPROPRIATION – City Council authorization permitting the City to incur obligations and expend resources during the fiscal year.

AUDIT - An annual third party review of financial operations and procedures required by State Statutes.

BALANCED BUDGET - A budget in which the sources of funds (revenues) is equal to the uses of funds (expenditures).

BASIS OF ACCOUNTING - The technical term that describes the criteria governing the timing of the recognition of transactions and events.

BONDS - A written promise to pay a sum of money at specified dates, including interest at a designated time. Bonds are typically long term debt.

> **General Obligation Bonds (GO Bonds)** – Bonds that are backed by the full faith and credit of the City.
> **Lease Revenue Bonds** – Bonds that are funded by annual lease payments.
> **Revenue Bonds** – Bonds that are funded by certain revenues such as utility revenues.

BOND PROCEEDS – The cash received from the sale of bonds.

BONDED DEBT – The portion of City debt represented by outstanding debt.

BUDGET - A financial operations plan of proposed expenditures for a given period of time and the proposed revenues to finance them. Proposed expenditures must equal proposed revenues.

CAPITAL ASSETS - Long-term tangible assets which are "fixed" in nature, such as building, land, and equipment.

CAPITAL IMPROVEMENT PROGRAM (CIP) - A plan for capital expenditures to be incurred each year for a fixed period of years and the estimated resources to finance the projected expenditures.

CAPITAL OUTLAY - Expenditures resulting from the acquisition of fixed assets.

CAPITAL PROJECTS FUND - A fund established to account for financial resources to be used for the acquisition or construction of major capital facilities.

CARRY FORWARD – An unspent item that was in the previous year's budget which the City Council has approved to be spent in the current year.

CITY COUNCIL – The elected officials of the City of Prior Lake consisting of a mayor and four council members. All City of Prior Lake elected officials serve the community at-large.

CURRENT EXPENSES – The portion of the budget relating to general operations (supplies, maintenance, utilities, etc.) excluding employee salaries and benefits.

CURRENT SERVICE LEVEL – The services that are being provided by the City at the current quantity and quality.

DEBT - An obligation resulting from the borrowing of money or the purchase of goods or services.

DEBT SERVICE – Payment of principal and interest on debt obligations which result from the issuance of bonds.

DEBT SERVICE FUND - A fund established to account for the payment of principal and interest on debt of the City.

DELINQUENT TAXES – Taxes which were not paid in the year in which they were due.

EMPLOYEE BENEFITS – The costs incurred by the employer for employer payroll taxes, pension contributions, employee insurance, workers compensation, etc.

EMPLOYEE SERVICES – The portion of the budget pertaining to employee salaries and related fringe benefits.

ENTERPRISE FUND - A fund established to account for the financing of services to the general public where all or most of the costs involved are recovered primarily through user fees. (City enterprise funds are water, sewer, water quality and transit).

EXPENDITURES - Disbursements for operating costs, debt service, capital outlay.

FISCAL DISPARITIES – A Minnesota law enacted in 1971 requiring all communities in the seven-county metropolitan area to contribution 50 percent of the growth in their commercial/industrial tax base (fro 1971) to a regional tax sharing pool which is then redistributed. Redistribution is based on population and the value of all property relative to the metro average. Prior Lake receives more in the redistribution than it contributes to the pool.

FISCAL YEAR - The twelve month period to which the annual budget applies and at the end of which the City determines its financial position. The City's fiscal year is January 1st to December 31st.

FULL-TIME EQUIVALENT (FTE) – Represents the equivalent of one employee working full-time.

FUND - An accounting entity with a self-balancing set of accounts in which assets, liabilities, and equity are recorded for a specific activity or objective.

FUND BALANCE - The difference between fund assets and fund liabilities. The fund balance can be used as a revenue source by decreasing an existing positive balance.

GENERAL FUND - This fund is used to account for all general operations of the City which are necessary to provide basic governmental services.

GENERAL OPERATING BUDGET - The part of the operating budget which includes the general, special revenue, capital and debt service funds. (Excludes the enterprise funds)

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) - Uniform minimum standards and guidelines for financial accounting and reporting. The primary authoritative body on the application of GAAP to state and local governments is the Governmental Accounting Standards Board (GASB).

GOVERNMENTAL ACCOUNTINGSTANDARDS BOARD (GASB) - A seven-member board which is responsible for setting governmental accounting standards.

GOVERNMENTAL FUNDS - A classification of funds that is typically used to account for tax-supported (governmental) activities. Included in this classification are the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds.

GRANT - A contribution of cash or other asset from a government or other organization for a specified purpose, activity, or facility.

INFRASTRUCTURE - Immovable assets such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems that are of value only to the City.

INTERGOVERNMENTAL REVENUE - Revenues from other governments in the form of grants, entitlements, shared revenues, or payments in lieu of taxes.

LEVY - The total amount of taxes or special assessments imposed by the City.

MARKET VALUE / TAXABLE MARKET VALUE – The value determined by the County Assessor for real estate or property used for levying taxes.

METROPOLITAN COUNTIL ENVIRONMENTAL SERVICES (MCES) – The MCES is a division of the Metropolitan Council, a regional planning agency that serves the Twin Cities seven-county metropolitan area. The MCES provides the City with wastewater treatment services.

OPERATING BUDGET - The annual financial plan for funding the costs of providing services and programs.

PROGRAM - An activity or operation created to achieve a specific purpose or objective.

RESERVES - Funds set aside for unanticipated expenditures or unforeseen emergencies, as well as to have adequate working capital for current operating needs to avoid short-term borrowing.

REVENUE - Funds collected as income to offset operational expenses including property taxes, charges for service, licenses & permits, etc.

SPECIAL ASSESSMENT - A levy made against a property to defray all or part of the cost of a capital improvement or service deemed to benefit that property.

SPECIAL REVENUE FUND - A fund established used to account for revenue which is restricted for expenditures of a designated purpose.

TAX INCREMENT FINANCING (TIF) - A financing method in which bonds are secured by the anticipated incremental increase in tax revenue resulting from the redevelopment of an area.

TAX LEVY - The amount of property taxes levied to finance operations that are not funded by other sources.

TAXES - Compulsory charges levied by a government to finance services performed for the common benefit.