CITY OF ST. FRANCIS

FINANCIAL POLICIES

Approved by City Council
November 18, 2024

PURPOSE

The City of St. Francis (City) has a responsibility to provide quality services to its residents and considers it important to do so in a fiscally responsible fashion designed to keep services and taxes as consistent as possible over time. This Financial Policies document is designed to serve as the framework upon which consistent operations may be built and sustained, which guides responsible use of municipal resources and contributes to the City's overall financial health.

This document serves three main purposes:

1. It draws together the City's major financial policies into a single document.
2. The plan establishes principles to guide both staff and City Council members to make consistent and informed financial decisions.
3. The plan provides guidelines for ensuring and maintaining an appropriate level of funds, unreserved and reserved, to sustain the financial integrity of the City.

The objectives of this document are:

- To provide both short term and long-term future financial stability by ensuring adequate funding for the provision of services needed by the community;
- To protect the City Council's policy-making ability by ensuring that important policy decisions are not controlled by financial problems or emergencies;
- Prevent financial difficulties in the future;
- To provide sound principles to guide the decisions of the City Council and Administration;
- To employ revenue policies which prevent undue or unbalanced reliance on certain revenues, distribute the cost of municipal services fairly, and provide funding to operate desired programs;
- To provide essential public facilities and prevent deterioration of the City's public facilities and infrastructure;
- To protect and enhance the City's credit rating and prevent default on any municipal debt;
- To create a document that City staff and City Council Members can reference during financial planning, budget preparation and other financial management issues.

REVENUE POLICY

PURPOSE

The City of St. Francis is committed to maintaining a revenue system that meets the City's immediate and long-term service delivery needs, protects the City's creditworthiness, and follows best practices for administration and collection. Understanding the revenue stream is essential to prudent planning. These policies seek stability to avoid potential service disruptions caused by revenue shortfalls. Estimates are arrived at by studying relevant revenue history along with economic trends and indices when available.

Revenue Diversification

Program demands require that an adequate revenue stream be maintained. The City will continuously seek to diversify its revenue sources in order to improve the ability to handle fluctuations or dependency on individual sources. New and expanded unrestricted revenue streams should be first applied to support existing programs prior to funding new or expanded programs. The various sources of revenue shall be monitored to determine that rates continue to be adequate, so each source is maximized. The City will pursue federal, state, and private grants but will strictly limit financial support of these programs to avoid commitments that continue beyond funding availability.

Fees and Charges

The City will charge fees for services where such an approach is permissible, and where there is only a limited or specific group of beneficiaries of the City service. Sufficient user charges and fees shall be pursued and levied to support the full cost (operating, direct, indirect and capital) of operations. The City will consider market rates and charges levied by other public and private organizations for similar services in establishing tax tees and charges. The City will periodically review fees and charges in order to keep pace with the cost of providing the service or that percentage of the total cost deemed appropriate by the City. Services shall be scaled to the level of support available from these fees and charges. When sufficient user charges and fees cannot be pursued and levied to support the full cost of operations (such as public record request), the City shall be aware of the costs not allocated to the user charges and fees. In conjunction with the annual budget process, departments will review the cost of providing services against the fee charged. Proposed increases will be brought before the City Council for approval. The City will set fees and user charges for each Enterprise Fund, such as Water and Sewer, at a level that fully supports the total direct and indirect costs of the activity. Indirect costs include the cost of annual depreciation of capital assets.

Use of One-time Revenues

Non-recurring revenue or one-time revenues are sources of revenue the City cannot anticipate receiving on a continuing basis. It is important to seek out and receive this non-recurring revenue because these revenues have value different than ongoing revenues. The City will pursue one-time revenues but will strictly limit expenses to avoid commitments that continue on an ongoing basis. The City shall not budget one-time revenues unless the revenue has been received or a commitment notice has been received. Use of one-time revenues will be reserved for the highest priorities of the current budget to include any revenue shortfalls impacting current budget, reducing and managing debt, use in considering one-time capital purchases and fund balance reserves.

Use of Unpredictable Revenues
The City uses a conservation approach in making ongoing revenue assumptions by utilizing growth patterns and knowledge of the developing areas. Unpredictable revenue assumptions need to also consider the various factors that make the source unpredictable. Unpredictable revenue shall be monitored to determine how the various factors are affecting the collection both currently and in the future. Unpredictable revenue shall be described in the budget document, and the factors that make the source unpredictable discussed. The City shall budget unpredictable revenue lower than the revenue assumption or anticipated collection. The City has not restricted the use of unpredictable revenues.

Stabilization
The City needs to maintain a prudent level of financial resources to protect the public against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures. The long-range planning policy established a reserve general fund balance for unexpected operational changes, legislative impacts or other economic issues.

OPERATING BUDGET POLICY

PURPOSE:

The objective of the operating budget policy is to ensure that sufficient information is available to decision makers to provide adequate levels of funding for essential City services at reasonable costs.

Budgeting is an essential element of the financial planning, control and evaluation process of municipal government. The "operating budget" is the City's annual financial operating plan. The annual budget includes all operating departments of the general fund, other governmental funds and proprietary funds.

The budget will provide for adequate maintenance of city facilities and equipment and for their orderly replacement.

During odd years, the city's financial management plan will be updated to help guide the budgeting process for the next five years. This plan will be updated in the spring.

The following funds are included within the City's annual budget:

GOVERNMENTAL FUNDS:

1) General Fund, which accounts for all financial resources except those required to be accounted for in another fund, and include basic governmental services, such as Police, Fire, Parks and Recreation, Streets and Highways, Building Inspections, and Administrative services.

2) Special Revenue Funds, which account for revenues that are legally restricted or committed to a specific purpose other than debt service and capital projects. The City currently budgets for the EDA Fund and the Police Forfeiture Fund.

3) Debt Service Funds, which are used to account for the payment of principal and interest on the City's general obligation bond issues. The payments are funded by the City's debt tax levy and special assessment repayments.

4) Capital Projects Funds, which are used to account for the acquisition of vehicles and equipment, and the construction of major capital projects other than those financed by proprietary fund activities. The City currently budgets for the Park Fund, Capital Improvements Fund, Street Fund, Building Fund and Gambling Fund.

PROPRIETARY FUNDS:

Proprietary funds will be self-supporting and user rates or fees will be reviewed annually and adjusted if necessary to ensure adequate funding of operating and capital expenditures.

1) Enterprise Funds, which include the City's "business-type" activities. The City budgets for the Liquor, Water, Wastewater, and Storm Water.

BASIS OF ACCOUNTING AND OF BUDGETING:

The City accounts and budgets for all Governmental Funds using the modified accrual basis of accounting. This basis means that revenue is realized in the accounting period in which it becomes available and measurable, while the expenditures are recognized in the accounting period in which they are incurred. For revenue to be recorded within a given calendar year, it generally must be received within sixty (60) days after the year-end. Exceptions to the modified accrual basis include:

- Grants, which are considered revenue when awarded, not received; and
- Principal and interest on long-term debt, which are recognized when paid.

The City's Proprietary Funds are accounted and budgeted using the full-accrual basis of accounting. Under this method, revenues are realized when they are earned and measurable, while expenses are recognized when they are incurred regardless of timing or related cash flows. The basis for preparing the budget is the same as the basis for accounting except for principal payments on long-term debt and capital outlay expense, which are treated as budgeted expenses.

BALANCED BUDGET:

The City recognizes that its citizens deserve a commitment from the City to live within its means and that a balanced operating budget is the cornerstone of fiscal responsibility. A balance must be struck between revenues and expenditures so the public can realize the benefits of a strong and stable government. Annual operating expenditures (personnel costs, operating expenses, capital expenses and transfers) will be fiscally balanced with revenues or income estimates that can be reasonably and normally projected to be received during the fiscal year.

On an annual basis the City will present a balanced General Fund operating budget to the City Council. Total resources available, including fund balances plus projected revenue, shall be equal to or greater than the projected expenditures for the coming year. In the event a budget deviates from being presented as balanced, full disclosure and City Council approval will be required including the factors affecting the budget such as economic factors or emergency capital expenditures.

- Any increase in expenses that requires budget revision shall be offset by a budget transfer, increased revenue or use of fund balance.

- Any significant decrease in revenue that results in a budget imbalance shall be offset by a budget revision to reduce expenditures. Any minor decrease in revenues that results in a budget imbalance shall be assumed to be offset by departments that won't spend their entire expenditure budget.

- Temporary shortages, or operating deficits, can and will occur due to extraordinary events and circumstances. These operating deficits will not be tolerated as an extended trend.

- Any year-end operating surpluses will revert to unappropriated balances for use in maintaining reserve levels set by policy or transferring for use in capital projects or "one-time only" projects.

- Special Revenue Funds are supported by special levies and fees, grants or intergovernmental revenues. Expenditures in these funds are strictly limited to the mandates of the funding source.

BUDGETARY CONTROLS:

The Finance Director will ensure that a budgetary control system is in place to adhere to the adopted budget and will provide monthly reports comparing actual revenues and expenditures to the budgeted amounts to council. The legal level of budgetary control is at the department level within a fund.

1) Departments shall not exceed their overall budget without City Administrator approval.

2) Surplus departmental revenue may not be used to justify overspending an expenditure without approval from the City Administrator. An expenditure may exceed the budget when the overage is caused by unbudgeted revenue from grants, insurance proceeds, donations or other one-time monies.

3) No officer or employee of the City shall place any order or make any purchase except for a purpose and to the amount authorized in the budget resolution, or as authorized by the City Administrator.

CAPITAL IMPROVEMENT PLAN:

The City shall establish a multi-year Capital Improvement Plan that allows the City to maintain its equipment and infrastructure at an adequate level. This plan will be updated annually. The City will 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. As resources are available, the most current year of the CIP will be incorporated into the current year operating budget as the Capital Improvement Budget. The City will provide ongoing preventative maintenance and upkeep on all its assets at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs. The Capital Improvement Plan will help reduce the debt and the need to bond for these costs.

PUBLIC HEARING:

The City's budgeting process allows for public input at various city council workshops as well as the annual Truth in Taxation public hearing typically held in early December of each year.

FUND BALANCE POLICY

Policy Overview:

Fund Balance is defined as the difference between assets and liabilities reported in a governmental fund. It is essentially the accumulation of all prior years' net surpluses and/or deficits of revenues over expenditures.

The City of St. Francis (City) understands it has a responsibility to maintain prudent financial practices to ensure stable operations for the benefit of city residents and businesses. Fund balance reserves are an important component in ensuring the overall financial health of a community by giving the City cushion to meet contingency or cash flow timing needs.

The office of the State Auditor recommends that at year-end, local governments maintain an unrestricted fund balance in the general fund and special revenue funds of approximately 35 to 50% of fund operating revenues, or no less than five months of operating expenditures. While the bond rating agencies do not have recommended fund balance levels, the agencies look favorably on larger fund balances, which protect against contingencies and cash flow needs.

The purpose of this policy is to establish specific guidelines the City will use to classify fund balances into categories based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in these funds can be spent.

Classification of Fund Balance:

Annual financial statements shall be prepared in accordance with generally accepted accounting principles establishing fund balance at the end of each year into the following categories:

1) **Non-spendable**-This category includes amounts that are not in a spendable form (i.e. prepaid expenses or supply inventories). Resources that must be maintained intact pursuant to legal or contractual requirements are also considered non-spendable.
   a. **Restricted**-Amounts subject to externally enforceable legal restrictions (creditors, grantors, contributors and by law through constitutional provisions or enabling regulations).
2) **Unrestricted**-The total of committed fund balance, assigned fund balance and unassigned fund balance as described below:
   a. Committed
      i. Fund balance that can only be used for the specific purposes determined by the City Council. The committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action it employed to commit those amounts.
      ii. The 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.

iii. To remove the constraint on specified use of committed resources, the City Council shall pass a resolution.

b. Assigned

i. 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.

ii. The City Council has delegated the authority to assign and remove assignments of fund balance amounts for specific purposes to the City Administrator.

3) Unassigned

a. Unassigned fund balance represents the residual classification for the General fund. This includes amounts that have not been assigned to other funds and 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.

Governmental Funds:

The City's governmental funds include the following fund types:

1) General Fund

The City will commit 40% of the next year's General fund budgeted expenditures for working capital. This provides adequate cash flow to fund operations since major revenues, including property taxes and other government aid, are received on a biannual basis.

The City will commit 10% of the next year's General fund budgeted expenditures to plan for contingencies and tax levy stabilization.

Use of Reserves

Use of the contingency or tax levy stabilization reserve requires city council approval and will be limited to non-recurring or temporary events. Use may include, but not be limited to:

- Provide resources to make up for temporary decreases in revenues
- Provide temporary resources in the event of an economic downturn while expenditure reductions are being implemented
- Provide resources to meet emergency expenditures in the event of extreme weather, natural disasters or other public emergencies
- Provide temporary funding until proceeds are received from insurance, FEMA or other potential reimbursement source, if applicable
- Stabilize or soften the impact of tax levy increases

Replenishment of Reserves

A plan to replenish reserves will be formulated during the annual budget process and five- year strategic planning. Potential sources for replenishment include budgetary surpluses, retired bond funds, uncommitted one-time monies, other city funds, and tax levy increases.

Excess Reserves

The unassigned fund balance represents reserves in excess of the 50% commitment for working capital, contingencies and levy stabilization. These funds are available for use at the city council's discretion. City council and staff will review excess reserves on an annual basis to discuss potential uses for the funds. Emphasis will be placed on one-time uses that achieve future operating cost reductions. Consideration will also be given to limiting the use of reserves to levels that do not adversely affect the City's credit rating.

Periodic Review of Reserve Targets

The reserve target amounts will be reviewed by city council and staff on an annual basis during the budget process.

2) Special Revenue Funds

Special Revenue funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. Governmental accounting standards require that substantial inflows of revenues into a special revenue fund be either restricted or committed in order to be considered a special revenue fund.

3) Debt Service Funds

Debt Service fund balances are considered restricted. They are resources that are being accumulated for payments of principal and interest maturing in the current and future years.

The remaining fund balance will typically be transferred into the Community Improvement fund when all debt requirements have been met for a specific debt fund. A transfer into another debt fund may be warranted to avoid any unplanned, adverse impacts to the debt tax levy.

4) Capital Projects Funds

Capital Project fund balances are considered either committed or assigned. They are resources that are used to account for the acquisition or construction of capital facilities, infrastructure and equipment, other than those financed by Enterprise funds.

The majority of these funds should be assigned for the Capital Improvement Plan (CIP) or reserved for a specific project.

Specific Capital Project funds may temporarily have a negative fund balance due to the timing of federal, state or other funding.

Future capital projects shall be identified and quantified, to the extent possible, within the City's five-year CIP, which shall be included in the City's annual budget document.

The City has several capital projects funds, including:

Capital Projects fund, Community Improvement fund, Equipment Replacement fund, Airport Construction fund, and the annual Capital Improvement Construction funds.

The Capital Projects fund accounts mainly for capital improvements related to General fund facilities and miscellaneous infrastructure maintenance.

The Community Improvement fund accounts for city enhancement and public arts projects as approved by the City Council. The main funding sources are retired bond funds, grants and donations.

The Equipment Replacement fund accounts for the acquisition and disposition of General fund vehicles and equipment. The main funding sources are transfers from the General fund and proceeds from the sale of vehicles/equipment.

The Capital Improvement Construction funds account for the annual roadway and infrastructure improvement projects. The main funding sources are federal and state aid, grants, enterprise fund contributions, other city funds, and bond proceeds. Excess fund balance when the projects are complete generally are transferred into the debt service fund but may also be used to fund deficits in other capital improvement construction funds.

Enterprise Funds:

1) It is the goal of each enterprise fund to cover the costs of operations, including depreciation and a transfer to the General fund, to maintain a financially healthy enterprise. The City will maintain cash reserves in the Enterprise funds at a minimum level equal to 50% of the following year’s annual operating expenses plus one year of debt service payments and transfers to the General fund (Target Cash Balance).

*The Liquor fund shall be exempt from this provision since the majority of profits are transferred to the General fund.

2) The Water, Wastewater and Storm Water funds may contribute capital improvement dollars to the annual Capital Improvement Construction fund as a reimbursement for infrastructure placed in service in conjunction with roadway and other improvement projects. Contributions shall not exceed the total cost of the specific infrastructure being capitalized within the enterprise fund.

3) Projects utilizing reserves shall be planned in advance and included within the 5-year Capital Plan, to the extent possible. The amount of reserve funds utilized will be limited to an amount that maintains a cash balance above the Target level and does not result in user rate increases solely due to the use of those reserves.

4) Utility rates will be reviewed annually regarding projected expenses and capital improvements. The City Council will annually establish rates in accordance to operating cost recovery and the projected capital improvements.

Order of Fund Balance Spend-Down:

1) When both restricted and unrestricted resources are available for use, it is the City’s policy to first use restricted resources, and then unrestricted, as they are needed.

2) 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.

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

Monitoring and Reporting:

The City Council shall review fund balance and cash-flow needs during the budget process in accordance with this policy. Annually, after the audited financial report has been completed, the City Council shall review fund balance results with the City Administrator, Finance Director and the City's independent auditor.

CAPITAL IMPROVEMENT PLAN POLICY

VISIONS AND GOALS

The City plans for capital improvements by preparing a five-year Capital Improvement Plan (CIP). The CIP serves as a valuable planning tool for the preservation and expansion of the City's capital assets, including facilities, infrastructure, amenities and equipment. It provides details of proposed improvements by department and year, along with the estimated cost and funding sources for the improvements. It is based upon several long-range planning documents that are updated regularly as identified City staff and council members.

The CIP identifies projects that will support existing and projected needs in the following areas: transportation, public safety, parks & recreation, general government and enterprise fund operations. The CIP establishes a development program to maximize outside revenue sources and effectively plan for the growth and maintenance of the City's infrastructure.

POLICIES

Criteria identified for inclusion of capital items in the CIP plan are as follows:

1. Capital Item must have a minimum cost of $10,000
2. Project must define the year proposed
3. Funding source should be identified
4. Must have a useful life of three years or greater

The plan encompasses projects using the following priority levels:

Priority 1: (Urgent) Projects currently underway or those that are considered essential to the departments of City operations, and should not be delayed beyond the year requested. Failure to fund these projects will seriously jeopardize City's ability to provide service to the residents and/or expose the City to a potential liability and negative legal exposure.

Priority 2: (Very Important) Projects that are needed by a department or the City to improve or maintain their operations, and to delay would cause deterioration or further deterioration of their current operation and/or level of service to the residents of the City. These should not be delayed beyond the year requested.

Priority 3: (Important) Projects that are needed by a department or the City to improve or maintain their operations, and should be done as soon as funds can reasonably be made available.

Priority 4: (Less Important) Projects, which are desirable, but needing further study.

Priority 5: (Future Consideration) Projects which sometime in the future will need to be funded to maintain operations, safety or infrastructure desired within the community.

CIP PROCESS

1. Finance distributes CIP forms and the prior year's data to departments for updating.
2. Departments add, remove and reprioritize CIP data from the prior year's report.
3. Finance updates the CIP database with recommendations made by the department directors.
4. Initial draft is reviewed with City Administrator and Department directors; corrections or adjustments are made.
5. Preliminary CIP plan is submitted to City council by July 1^{st}.
6. Final CIP plan is reviewed and adopted by City council by August 15^{th}.

PROCESS CALENDAR

April - Departments work on updating the CIP. Any new capital items should be requested at this time.

May - Departments return updated CIP items. An initial CIP draft is reviewed with Department directors and corrections or adjustments are made. Current year CIP items are incorporated into the early stages of the budgeting process during this time frame.

July 1^{st} - Per Section 7.16 of the St. Francis City Charter, a Capital Improvement Plan shall be submitted to the council no later than July 1^{st} of each year.

By August 15^{th},Public hearing and Final adoption of the Plan by City Council.

CAPITAL PROJECT APPROVAL

The CIP is a planning document comprised of potential capital improvement projects known at a certain point in time. Projects are not approved simply by being included in the CIP as funding sources or City priorities may change. All capital projects are subject to the City's purchasing policy, requiring quotes/bids and approvals commensurate to the total cost.

CAPITAL ASSET POLICY

Purpose

It is the policy of the City of St. Francis 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). This Capital Assets Policy establishes criteria for reporting capital assets within the City's financial statements in order to provide users with consistent and comparable information for the current and all future fiscal periods.

Section 1: Define Capital Assets and Capitalization Thresholds

Capital assets are reported in the applicable governmental or business-type activities columns in the City's government-wide financial statements.

A capital asset is real or personal property used in operations which has an individual value equal to or greater than the capitalization threshold set forth by the City, for that specific asset classification, and has an estimated useful life greater than one year. For financial reporting purposes only, the City will classify and establish capitalization thresholds for each asset class as follows:

Land	$10,000
Buildings and building improvements	$50,000
Improvements other than buildings (land improvements)	$25,000
Machinery and equipment	$10,000
Infrastructure and other improvements	$100,000
Other assets	$10,000
Construction in progress	***

***Accumulate all costs and capitalize if over the capitalization threshold for the applicable asset class.

Section 2: Reporting Capital Assets

Capital assets are reported at their historical cost. The historical cost of a capital asset should include the cost of the asset itself and the following:

- Ancillary charges necessary to place the asset into its intended location (e.g., freight charges)
- Ancillary charges necessary to place the asset into its intended condition for use (e.g., installation and site preparation charges)

A cost should only be capitalized if it is (1) directly identifiable with a specific asset and (2) only if it is incurred after the acquisition of the related asset has come to be considered probable (i.e., "likely to occur"). For example, a study to determine the best location for a building or a feasibly study would not be capitalized while legal costs to acquire property would be capitalized.

The historical cost of a capital asset should include the cost of any subsequent additions or improvements but exclude the cost of repairs and maintenance. An addition or improvement, unlike a repair, either enhances a capital asset's functionality (effectiveness or efficiency), or it extends a capital asset's expected useful life. For example, mill and overlays or periodically resurfacing a new road would be treated as a repair (the cost would not be capitalized), while reconstructing a road or adding a new lane constitutes an addition (a cost that would be capitalized). In the event the historical cost of a capital asset is not practically 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.

Assets that the City purchases at a nominal amount or are given by another party are to be recorded as donations rather than using the actual nominal cost to the City. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any. 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. For assets that do not have easily obtainable fair market values, the City should use the amount it would cost them to purchase or contract the asset in question. 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.

Section 3: Major Asset Classes

Governments commonly report seven or more major classes of capital assets:

1. Land

Land is generally characterized by an indefinite useful life; therefore, it is not depreciated. The cost of land should not only include its acquisition price, but also the cost of initially preparing the land for its intended use (excavation, fill, grading). Land frequently is closely associated with some other assets (e.g., land under a building or road). No matter how close this relationship may be, land should always be treated separately. Examples of items to be capitalized as land and land improvements include:

- Purchase price or fair value at time of gift
- Commissions
- Professional fees, including title searches, architect, legal, engineering, appraisal, surveying, environmental assessments, etc.
- Land excavation, fill, grading, and drainage
- Demolition of existing buildings and improvements (less salvage value)
- Removal, relocation, or reconstruction of property owned by others such as power, telephone, and railroad lines
- Interest on mortgages accrued at the date of purchase
- Accrued and unpaid taxes at the 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

2. Buildings and Building Improvements

Buildings. All permanent structures that are attached to land, have a roof, are partially or completely enclosed by walls, and are not intended to be transportable or moveable are included in this asset class. The City can elect to report major components of buildings as separate capital assets in their own right, when these components have a significantly shorter estimated useful life than the structure to which they relate (e.g., HVAC). Examples of items to be capitalized as buildings include:

Purchased Buildings

- Original purchase price
- Expenses for remodeling, reconditioning, or altering a purchased building to make it ready for its intended purpose
- Environmental compliance, i.e., asbestos abatement
- Professional fees, includes architectural, engineering, management fees for design and supervision, and legal fees
- 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, grading, or filling of land for a specific building
- Expenses incurred for the preparation of plans, specifications, and blueprints
- Building permits
- Costs of temporary buildings used during construction
- Additions to buildings, i.e., expansions, extensions, or enlargements

Building Improvements. Building improvements include capitalized costs that materially extend the useful life of a building, increase the value of a building, or both. Building improvements should not include maintenance and repairs done in the normal course of business. If practical, the costs of an improvement are normally added to the cost of the related structure, rather than treating it as a separate asset.

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 door-frames, upgrading windows or doors, built-in closet and cabinets
- Interior renovation of casings, baseboards, light fixtures, and ceiling trim
- Installation or upgrade of plumbing and electrical wiring
- Installation or upgrade of telecommunication systems

Examples 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

3. Improvements Other Than Buildings (Land Improvements)

This asset class is used for permanent (i.e., non-moveable) improvements, other than buildings, that add value to land but do not have an indefinite useful life (i.e. fences, parking lots, retaining walls). Moveable items should be classified as machinery and equipment.

4. Machinery and Equipment

This asset class includes vehicles, furnishings, and similar moveable items used for operations for which the benefit extends beyond one year from the date of receipt. Examples of expenditures to be capitalized as machinery and equipment 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
- Parts and labor associated with the construction of equipment, machinery, or vehicles

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.

5. Infrastructure

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets (i.e. roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems). As a general rule, the cost of buildings associated with infrastructure should be reported separately as buildings rather than as part of the cost of the infrastructure. The exception to this rule is buildings that are purely ancillary to a network or subsystem of infrastructure (e.g., road maintenance structures such as shops and garages associated with a highway system and water pumping stations associated with water systems).

Examples of infrastructure assets include:

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

6. Other assets

This asset class is used for assets that do not fit into one of the other major asset classes. It also 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 is 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.

7. Construction in progress

This asset class is used for costs incurred to construct or develop an asset before it is substantially ready to be placed into service (at which time it is reclassified into the appropriate major asset class).

Section IV: Depreciating 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 live 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
- 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.

Section 4: Capital Assets Estimated Useful Life

The City's capital assets are depreciated over the following estimated useful lives derived from the Internal Revenue Service Alternative Depreciation System (ADS):

Land	Indefinite life, not depreciated

Buildings and Building Improvements

Buildings	40 years
Temporary and portable buildings	25 years
Roof	20 years
HVAC (heating, ventilation, air conditioning)	20 years
Electrical	20 years
Plumbing	20 years
Sprinkler system	20 years
Elevators	20 years
Floor covering other than carpet	15 years
Interior construction	15 years
Security and fire alarm system	10 years
Cabling	10 years
Interior renovation	10 years
Carpeting	7 years
Other buildings and building improvements not listed above	7-40 years

Improvements Other Than Buildings (Land Improvements)

Fencing and gates	20 years
Landscaping	20 years
Outdoor sprinkler and irrigation systems	20 years
Golf courses	20 years
Swimming pools, tennis and basketball courts, skate parks	20 years
Fountains	20 years
Retaining walls	20 years
Outdoor lighting	20 years
Recreation areas and athletic fields, including bleachers	15 years
Paths and trails	15 years
Septic systems	15 years
Other improvements not listed above	15-20 years

Machinery and Equipment

Outdoor equipment (playgrounds, scoreboards)	15 years
Firefighting trucks	15 years
Athletic equipment	10 years
Telecommunications equipment	10 years

Fire department equipment	10 years
Furniture and fixtures (excluding structural components)	10 years
Grounds equipment (mowers, tractors, bobcats)	10 years
Kitchen equipment (appliances)	10 years
Lab equipment	10 years
Law enforcement equipment	10 years
Custodial equipment	10 years
Business machines and office equipment	7 years
Audio visual equipment	6 years
Heavy general purpose truck (weight > 13,000lbs)	6 years
Cars, light general purpose trucks (weight < 13,000lbs)	5 years
Machinery, tools, and other equipment not listed above	5 years

Infrastructure and Other Improvements

Water, sanitary sewer, storm sewer systems	50 years
Roads, streets, curb, and gutter	20 years
Sidewalks	20 years
Bridges	20 years
Parking lots, driveways, and parking barriers	15 years
Other infrastructure and improvements not listed above	15-50 years

INVESTMENTS POLICY

I. PURPOSE AND NEED FOR POLICY

It is the policy of the City 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 elected and 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.

II. SCOPE

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

Pooling of Funds

Except for cash in certain restricted and special funds, the City 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.

III. OBJECTIVE

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

A. 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 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 Council will approve all financial institutions, brokers, and investment advisers with which the City will do business.

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 will minimize Interest Rate Risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

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.

B. 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. Investment portfolios will be structured so that securities mature concurrent with cash needs to meet anticipated demands. Liquid funds will allow the City to meet possible cash emergencies without being penalized on investments.

C. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary cycles, considering investment risk and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Securities shall generally be held until maturity with the following exceptions.

· A security with declining credit quality may be sold prior to maturity to minimize loss of principal.

· Liquidity needs of the City require a security or securities are sold prior to maturity.

· A security swap would improve the safety and yield of the overall portfolio.

IV. DELEGATION OF AUTHORITY

Responsibility for the investment program is hereby delegated from the City Council to the Finance Director. Authority to conduct actual investment transactions may be delegated to the Finance Director, 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.

The City may utilize SEC-registered investment advisory/management firms (External Investment Managers) to invest segments of the investment portfolio. The External Investment Manager will operate within the constraints of this investment policy and an executed Investment Advisory Agreement. The External Investment Manager shall have discretion over the assigned segment of the investment portfolio. All External Investment Managers shall purchase and sell securities in accordance with Minnesota Statute 118A, this investment policy statement, 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.

Authorized Financial Dealers and Institutions:

If the City 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 investment portfolio may purchase and sell investment securities in accordance with this investment 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.

If the City chooses not to engage an investment advisor, the City will maintain a list of financial institutions authorized to provide investment services to the City. Prior to any investment transactions with the City, all broker/dealers who desire to become qualified bidders for investment transactions must supply the treasurer with audited financial statements, proof of FINRA registration, proof of Minnesota registration, a certificate of insurance for excess SIPC coverage, and completion of the broker notification and certification form required by Minnesota Statutes 118A.

V. 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.

VI. INTERNAL CONTROLS

Internal controls are designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. Internal controls shall address:

· Separation of transaction authority from accounting and record keeping.

· Clear delegation of authority to subordinate staff members.

· Confirmation of transactions for investments and wire transfers.

· Development of a wire transfer agreement with the lead bank and third-party custodian.

· Investment and interest earnings will be recorded in the City’s accounting records based on generally accepted government accounting procedures.

· A periodic summary of all investment transactions will be prepared by the City Administrator for review by the City Finance Committee or Council.

· Each year, as part of the annual audit by an external auditing firm, there will be an independent review. This review will provide internal control by assuring compliance with this policy.

The City Administrator 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.

VII. AUTHORIZED INVESTMENTS AND COLLATERALIZATION

All City investments and deposits shall be those allowable by Minnesota Statutes Chapter 118A and amendments thereto. In accordance with MN 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 collateral that a financial institution may pledge for public deposits.

These types of collateral include:

· United States Government Treasury issues;

· Issues of United States Government Agencies and Instrumentalities;

· Obligations of state and local governments;

· Time Deposits fully insured by the Federal Deposit Insurance Company (FDIC) or any federal agency; and

· Irrevocable standby letters of credit issued by federal home loan banks.

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.

VIII. SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third-party custodian designated by the City Administrator.

IX. DIVERSIFICATION

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

X. 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. For further details, please refer to the City’s policies and ordinances.

XI. BROKER REPRESENTATIONS

Municipalities must obtain from their brokers or advisors certain representations regarding future investments. Pursuant to Minnesota Statutes 118A, the City shall provide each broker or advisor with the City’s investment policy, and the securities broker or advisor 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. Agents of financial institutions shall agree to undertake reasonable efforts to preclude imprudent transactions involving the City's funds.

XII. PERFORMANCE STANDARDS AND BENCHMARK

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. The basis used by the City Administrator to determine whether market yields is being achieved shall be to a comparable benchmark.

e.g., 90-day US Treasury Bill, 6-month US Treasury Bill, Average Fed Funds Rate.

XIII. REPORTING

The Finance Director shall present a periodic report on the investment program and investment activity to the City Council. The management summary shall be prepared in a manner that will allow the Governing Body to determine if investment activities during the reporting period conform to this Investment Policy.

DEBT MANAGEMENT POLICY

The Finance Department of the City of St. Francis has developed this Debt Management Policy to provide guidelines for the issuance of bonds and other forms of indebtedness to finance necessary land acquisitions, capital construction, equipment and other capital assets for the City. While the issuance of debt is an appropriate method of financing the acquisitions of capital projects and major equipment, such issuance must be carefully monitored to preserve the City's credit strength and to provide the necessary flexibility to fund future capital needs.

The goal of the City's Debt Management Policy is to ensure a stabilized overall debt burden and future tax levy requirement, in addition to ensuring that issued debt can be repaid without weakening the City's financial condition. Adequate resources must be provided for the repayment of debt and the level of debt incurred by the City must be effectively managed to maintain or enhance the City's credit rating.

Financing capital projects with debt in certain circumstances may be the most cost-effective means available to the City. City staff will analyze each potential capital improvement and make a recommendation to City Council to either use cash reserves or issue debt. The City's 5-year Capital Improvement Plan will be a valuable planning tool for the financing of future improvements.

Purpose

The purpose of this policy is to establish parameters and provide guidance governing the issuance, management, continuing evaluation of and reporting on debt obligations issued by the City of St. Francis ("City").

Background

The use of borrowing and debt is an important and flexible revenue source available to the City. Debt is a mechanism which allows capital improvements to proceed when needed, in advance of when it would otherwise be possible. It can reduce long-term costs due to inflation, prevent lost opportunities, and equalize the costs of improvements to present and future constituencies.

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 City's economy as a whole.

Policy Statement

Under the governance and guidance of Federal and State laws, and the City's ordinances and resolutions, the City may periodically enter into debt obligations to finance the construction or acquisition of infrastructure and other assets, or to refinance existing debt. It is the City's objective to assure that such debt obligations are issued and administered to obtain the best long-term financial advantage to the City and its residents, while making every effort to maintain and improve the City's bond ratings and reputation in the investment community.

Policy

A. The City will not issue debt obligations or use debt proceeds to finance current operations, except in the case of an extreme financial emergency which is beyond the City's control or reasonable ability to forecast.

B. The City will confine long-term borrowing to capital improvements, equipment or projects that have a life of more than 4 years and cannot be financed from current revenues or in such cases wherein it is more equitable to finance a project or purchase of equipment.

C. The City will keep the maximum maturity length of all debt obligations to the earlier of: (i) the estimated useful life of the capital improvements, equipment or projects being financed; or, (ii) 25 years; or, (iii) in the event they are being issued to refinance outstanding debt obligations, the final maturity of the debt obligations being financed, unless a longer term is recommended by the City's financial advisor.

D. The City will pay back debt so that 50% of the principal is retired within 2/3 of the term of the bond issue.

E. The City will limit debt to the statutory limit of 3% of the market value of taxable property in the City as prescribed by Minnesota Statute 475.53.

F. The City will use refunding mechanisms to reduce interest cost when it has been determined that a minimum present value savings of 3% of refunded principal can be realized.

G. The City will maintain good communications with bond rating agencies about its financial condition and will follow a policy of full disclosure in every financial report and bond prospectus.

H. The City will strive to maintain the best possible credit rating which shall be a major factor in all financial decisions.

POST-ISSUANCE TAX COMPLIANCE PROCEDURES FOR TAX-EXEMPT BONDS POLICY

The City Council (the "Council") of the City of St. Francis, Minnesota (the "City") has chosen, by policy, to take steps to help ensure that all obligations will be in compliance with all applicable federal regulations. This policy may be amended, as necessary, in the future.

IRS Background

The Internal Revenue Service (IRS) is responsible for enforcing compliance with the Internal Revenue Code (the "Code") and regulations promulgated thereunder ("Treasury Regulations") governing certain obligations (for example: tax-exempt obligations, Build America Bonds, Recovery Zone Development Bonds and various "Tax Credit" Bonds). The IRS encourages issuers and beneficiaries of these obligations to adopt and implement a post-issuance debt compliance policy and procedures to safeguard against post-issuance violations.

SEC Background

The Securities and Exchange Commission (SEC) is responsible for enforcing compliance with the SEC Rule 15c2-12 (the "Rule"). Governments or governmental entities issuing obligations generally have a requirement to meet specific continuing disclosure standards set forth in continuing disclosure agreements ("CDA"). Unless the issuer, obligated person, or a specific obligation is exempt from compliance with CDAs, these agreements are entered into at the time of obligation issuance to enable underwriter(s) to comply with the Rule. The Rule sets forth certain obligations of (i) underwriters to receive, review and disseminate official statements prepared by issuers of most primary offerings of municipal securities, (ii) underwriters to obtain CDAs from issuers and other obligated persons to provide material event disclosure and annual financial information on a continuing basis, and (iii) broker-dealers to have access to such continuing disclosure in order to make recommendations of municipal securities transactions in the secondary market. The SEC encourages issuers and beneficiaries adopt and implement a post-issuance debt compliance policy and procedures to safeguard against Rule violations.

When obligations are issued, the CDA commits the issuer or obligated person to provide certain annual financial information and material event notices to the public. Issuers and other obligated persons may also choose to provide periodic, voluntary financial information and filings to investors in addition to fulfilling the specific responsibilities delineated in their CDA. It is important to note that issuers and other obligated persons should not give any one investor certain information that is not readily available to all market participants by disseminating information to the marketplace, at large. Issuers and other obligated persons should be aware that any disclosure activities determined to be "communicating to the market" can be subject to regulatory scrutiny.

Post-Issuance Debt Compliance Policy Objective

The City desires to monitor these obligations to ensure compliance with the IRS Code, Treasury Regulations and the SEC Rule. To help ensure compliance, the City has developed the following policy (the "Post-Issuance Debt Compliance Policy"). The Post-Issuance Debt Compliance Policy shall apply to the obligations mentioned above, including bonds, notes, loans, lease purchase contracts, lines of credit, commercial paper or any other form of debt that is subject to compliance.

Post-Issuance Debt Compliance Policy

The Finance Director of the City is designated as the City's agent who is responsible for post-issuance compliance of these obligations.

The Finance Director shall assemble all relevant documentation, records and activities required to ensure post-issuance debt compliance as further detailed in corresponding procedures (the "Post-Issuance Debt Compliance Procedures"). At a minimum, the Post-Issuance Debt Compliance Procedures for each qualifying obligation will address the following:

1. General Post-Issuance Compliance
2. General Recordkeeping
3. Arbitrage Yield Restriction and Rebate Recordkeeping
4. Expenditure and Asset Documentation to be Assembled and Retained
5. Miscellaneous Documentation to be Assembled and Retained
6. Additional Undertakings and Activities that Support Sections 1 through 5 above
7. Continuing Disclosure Obligations
8. Compliance with Future Requirements

The Finance Director shall apply the Post-Issuance Debt Compliance Procedures to each qualifying obligation and maintain a record of the results. Further, the Finance Director will ensure that the Post-Issuance Debt Compliance Policy and Procedures are updated on a regular and as needed basis.

The Finance Director or any other individuals responsible for assisting the Finance Director in maintaining records needed to ensure post-issuance debt compliance, are authorized to expend funds as needed to attend training or secure use of other educational resources for ensuring compliance such as consulting, publications, and compliance assistance.

Most of the provisions of this Post-Issuance Debt Compliance Policy are not applicable to taxable governmental obligations unless there is a reasonable possibility that the City may refund their taxable governmental obligation, in whole or in part, with the proceeds of a tax-exempt governmental obligation. If this refunding possibility exists, then the Finance Director shall treat the taxable governmental obligation as if such issue were an issue of tax-exempt governmental obligations and comply with the requirements of this Post-Issuance Debt Compliance Policy.

Private Activity Bonds

The City may issue tax-exempt obligations that are "private activity" bonds because either (1) the bonds finance a facility that is owned by the City but used by one or more qualified 501(c)(3) organizations, or (2) the bonds are so-called "conduit bonds", where the proceeds are loaned to a qualified 501(c)(3) organization or another private entity that finances activities eligible for tax-exempt financing under federal law (such as certain manufacturing projects and certain affordable housing projects). Prior to the issuance of either of these types of bonds, the Finance Director shall take steps necessary to ensure that such obligations will remain in compliance with the requirements of this Post-Issuance Debt Compliance Policy.

In a case where compliance activities are reasonably within the control of a private party (i.e., a 501(c)(3) organization or conduit borrower), the Finance Director may determine that all or some portion of compliance responsibilities described in this Post-Issuance Debt Compliance Policy shall be assigned to the relevant party. In the case of conduit bonds, the conduit borrower will be assigned all compliance responsibilities other than those required to be undertaken by the City under federal law. In a case where the Finance Director is concerned about the compliance ability of a private party, the Finance Director may require that a trustee or other independent third party be retained to assist with record keeping for the obligation and/or that the trustee or such third party be responsible for all or some portion of the compliance responsibilities.

The Finance Director is additionally authorized to seek the advice, as necessary, of bond counsel and/or its financial advisor to ensure the City is in compliance with this Post-Issuance Debt Compliance Policy.

PURCHASING POLICY

Policy Overview

It is the intent of the City of St. Francis to purchase, in the most efficient and effective manner possible, those goods and services necessary to conduct City operations. To accomplish this, a formal set of purchasing procedures has been adopted. This policy recognizes and retains that the ultimate purchasing authority is that of the City Administrator. This policy delegates purchasing authority as outlined below.

Public Purpose

The City Council recognizes that public funds may only be spent if the expenditure meets a public purpose and the expenditure relates to the governmental purpose for which the City of St. Francis was created.

The meaning of “public purpose” is constantly evolving. The Minnesota Supreme Court has followed a broad approach and has generally concluded that “public purpose” means all activity that meets all of the following standards:

- The activity will benefit the community as a body.
- The activity directly relates to the function of government.
- The activity does not have, as its primary objective, the benefit of a private interest.

Purchasing Agent

The City Administrator shall be the chief purchasing agent of the City. The City Administrator is responsible for the citywide purchasing function and shall have the authority to delegate powers to the City Department Directors and Supervisors for purchasing items within their respective budgets.

Purchasing

Purchasing and budgetary control is the responsibility of the department Director. Departments shall strive to obtain the best possible prices and value and are encouraged to buy locally whenever possible or practical.

In no case shall an employee make a purchase for personal use utilizing his/her city purchasing authority. Violation of this policy may result in an employee’s purchasing authority being revoked.

1) Purchasing Limits:

$ 0	$10,000	Department Head
$ 10,001	$ 24,999	Finance Director/City Administrator approval required
$ 25,000	$174,999	Council
$175,000+		Competitive Bidding required

2) Written Quotes:

a. Purchases estimated to cost less than $10,000 may be made without seeking more than one quote, however more than one quote is encouraged.

b. Purchases estimated to cost more than $10,000 but less than $175,000 must have at least two written quotes. Verbal quotes should not be accepted. The City will maintain documentation for a period of at least one year of its efforts to obtain at least two written quotes as required by state statute 471.345.

c. The City will require competitive bidding on the sale, purchase or rental of supplies, materials or equipment and on contracts for the construction, alteration, repair or maintenance of real or personal property estimated to exceed $175,000.

3) Competitive Bidding

Competitive bidding is required for certain contracts estimated to exceed $175,000. The competitive bidding process may not be avoided by splitting a contract into several smaller contracts, each of which is under the competitive bidding threshold.

4) State Pricing & Cooperative Purchasing

Contracts or purchases estimated to exceed $25,000 must consider the availability, price and quantity of supplies, materials, or equipment available through the State's Cooperative Purchasing Venture (CPV) before buying through another source.

The City may also purchase through a national municipal association's purchasing alliance or cooperative. The alliance or cooperative must have been created by a joint powers agreement and must purchase items from more than one source based on a competitive bidding process or competitive quotations.

5) Purchases not requiring quotes

- Annual Service Contracts – The City shall evaluate the performance of service contracts at least every three years and determine if the City will renew the agreement or seek written proposals from service providers.
- Professional Services - Contracts with a total cost of $5,000 to $50,000 to provide professional services shall be approved by the City Administrator. Contracts with a total cost over $50,000 shall be approved by City Council.
- Inventory Purchases - Purchases for inventory assets of certain operations shall not require a purchase order as doing so would delay purchases and potentially hinder operations. This shall apply to the Liquor store, Water and Sewer chemical purchases. The department directors shall be responsible for ensuring that the City is receiving favorable pricing.
- Emergency Purchases - Purchases required by emergencies which impair the City's ability to deliver services shall be outside the scope of this policy.

Change Orders

Project change orders require either City Administrator or City Council approval. The City Administrator is authorized to approve change orders less than $25,000. Change orders of $50,000 or more shall be approved by the City Council.

Disbursement Methods

The following disbursement methods are available for departmental approved purchases:

1) City Check – This is the standard disbursement process described in the next section.

2) Departmental Procurement Card – Covered under separate policy; "Procurement Card Policy".

3) EFT/ACH *see EFT Policy

Disbursement Process

Departments will approve their invoices within the Accounts Payable system by 12:00pm on Monday, of each City Council meeting. In the case of a Monday holiday, the deadline shall be 12:00pm on Tuesday. Invoices approved after the deadline may be delayed to the next council check run. Checks will be distributed on the day after each City Council meeting.

1) Invoices – Content and Approvals

a) Payments will only be made from original mailed or emailed invoices.

i) Payments will not be made from faxes, photocopies, vendor statements or quotes/estimates.

b) The City of St. Francis shall be named on the invoice as the purchaser.

i) Invoices naming another entity as the purchaser will not be processed for payment. The vendor should be contacted to correct the invoice.

c) The invoice date shall accurately reflect the actual date of service or purchase.

d) The invoice is sent directly from the vendor to the City's Accounts Payable Specialist at City Center (finance@stfrancismn.org).

e) A vendor invoice should provide a reasonable description of the purchase or service.

f) Departments will provide the proper budgetary expense code for each invoice.

g) Departments are responsible for ensuring that the merchandise is received or the services are performed prior to approving an invoice for payment.

i) The City generally does not provide down payments for merchandise or services. Progress payments may be made to vendors based upon a reasonable percentage of completion for the service or project.

ii) Departments shall work directly with the vendor to correct any issues regarding incorrect or defective merchandise or service.

Prompt Payment of City Bills

Minnesota Statute 471.425 requires cities to pay each vendor obligation according to the terms of the contract. If no contract terms apply, payment must be made within the standard payment period of 35 days from the date of receipt.

1) Date of receipt is defined as the later of:

a. The completed delivery of the goods or services, or the satisfactory installation, assembly or specified portion thereof; or

b. The receipt of the invoice for the delivery of goods or services.

2) Invoice Errors

a. The City must notify a vendor within 10 days of the date of receipt if the invoice is incorrect. The 35-day standard period begins when a corrected invoice is received.

3) Payment of Interest

a. The City must calculate and pay interest if an invoice is not paid according to the terms of the contract, or if no contract terms apply, within the standard period of 35 days.

i. Interest rate shall be 1.5% per month or part of month.

ii. The minimum monthly interest penalty that the City shall calculate and pay a vendor for the unpaid balance of any one overdue bill of $100 or more is $10.

iii. For an unpaid balance of less than $100, the City shall calculate and pay the actual interest penalty due to the vendor.

4) Prompt payment to Subcontractors

a. Each contract of the City must require the prime contractor to pay any subcontractor within 10 days of the prime contractor's receipt of payment from the City for undisputed services provided by the subcontractor.

b. The City's contract must require the prime contractor to pay interest of 1.5% per month or any part of a month to the subcontractor on any undisputed amount not paid on time to the subcontractor.

i. The minimum monthly interest penalty payment for an unpaid balance of $100 or more is $10.

ii. For an unpaid balance of less than $100, the prime contractor shall calculate and pay the actual interest penalty due to the subcontractor.

Permitted Expenditures for Meals and Refreshments

Use of City funds for reasonable meals and/or refreshments for elected officials and employees shall be permitted in the following circumstances, upon City Administrator's approval:

- City–sponsored events of a community–wide interest where staff are required to be present (e.g., Town Hall Meeting);
- City Council, boards and commissions meetings held during the meal hour (e.g., City Council Conference Meetings, City Council Retreats);
- Professional association meetings, conferences, and training when meals are included as part of the registration or program fee, or in accordance with the travel and training section of this Manual;
- Annual employee recognition and appreciation events (e.g., service awards);
- Annual recognition events for volunteer and non-employees (e.g., volunteer appreciation lunch);
- City–sponsored training or work–related meetings where employees are required to participate and be available during the meal hour;
- Multi–departmental meetings scheduled during the meal hour;
- Work activities requiring continuous service when it is unreasonable to break for meals (e.g., election days, water main breaks, emergency snow removal, time–sensitive public safety responses); and
- Healthy snacks and incentives of modest value provided during safety, health and/or wellness programs for City employees.

ELECTRONIC PAYMENTS POLICY

General

Electronic payments are financial transactions that are often initiated through the use of 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.

Stored value cards - generally used for payroll to unbanked employees or for rebate/incentive programs. The card is tied to a bank account and is loaded via an ACH transaction. There are costs associated with activation and use of the card.

Policy

The City will ensure that 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 Finance department. The Finance Director 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.

PURCHASING CARD POLICY

POLICY:

The purpose of this policy is to provide detailed information regarding the use of purchasing cards (p- card) authorized by the St. Francis City Council and assigned by the Finance Director to most fulltime staff to purchase goods and services for the City.

STATUE AUTHORITY:

Minnesota Statute 471.382 Credit Cards. “A city council may authorize the use of a credit card by any city officer or employee otherwise authorized to make a purchase on behalf of the city. If a city officer or employee makes or directs a purchase by credit card that is not approved by the city council, the officer or employee is personally liable for the purchase. A purchase by credit card must otherwise comply with all statutes, rules, or city policy applicable to city purchases.”

POLICY ADMINISTRATION:

The Finance Director shall determine the appropriate employees to be issued City p-cards. The Finance Director, with the oversight of the City Administrator, is hereby designated the responsibility of p-card issuance, accounting, monitoring of use, retrieval, payment of all charges, maintenance of a list of authorized users and cards assigned to them and general compliance with the City’s Purchasing Card Policy.

MAXIMUM LIMITS:

The monthly maximum card limit per director will be established by the City Administrator and Finance Director based on the anticipated need.

DOCUMENTATION:

Itemized invoices or receipts are required to support all p-card purchases since the monthly billing statements lack sufficient detail to comply with Minnesota Statutes. For purchases in which a receipt is not normally available, a copy of the completed application or order form should be used as a receipt (for example, conference registration forms).

CARDHOLDER RESPONSIBILITIES:

1) The employee is responsible for the authorized use of the City issued p-card and for any purchases made on it.
2) Ensure that the p-card is used in compliance with the City’s Purchasing Policy.
a) Purchases must be budgeted.
b) Use of the p-card for personal purchases is strictly prohibited. If the p-card is inadvertently used for a personal purchase, contact the Finance Director/City Administrator immediately. Not reporting inadvertent personal purchases will result in immediate revocation of the p-card and the cardholder may be subject to disciplinary and/or legal actions. The cardholder will be personally responsible for reimbursing the City for any inadvertent personal purchases.
3) The p-card may only be used for the purchase of goods or services for official City

business.

a) The p-card may not be used for cash advances or any other type of purchase not permitted under the City's Purchasing Policy.

b) Fuel for personal vehicles used for official city business is reimbursed to the employee based on the IRS mileage reimbursement through the Employee Expense Reimbursement process covered under separate policy.

c) Cardholders shall verify with the Finance Department and notify vendors if the transaction is exempt from Minnesota sales tax. All transactions should be exempt from all local sales tax.

d) Online orders using a City p-card should be completed on a city computer as personal computers or devices may not be properly protected against online fraud.

4) Authorized cardholders are responsible for the secure custody of the p-card and protection against theft, misuse and fraud.

a) Notify the Finance Director immediately if the p-card is lost or stolen and when fraudulent activity is suspected.

b) When fraudulent activity is suspected, immediately contact the p-card company at the phone number listed on the back of the card. The procurement card must not be used again until the situation is resolved. A new procurement card will be issued if the activity was in fact fraudulent.

c) To prevent fraudulent activity, the cardholder shall not make transactions over unsecured websites. Giving out p-card information over the telephone is not recommended and should only be done in rare instances where the order cannot be completed in any other manner.

5) Monthly review, approval and reporting of transactions:

   a) At the end of each month, department directors shall have 10 days to review and approve the prior month purchases via the monthly activity file provided by the Finance department.

      i) Each transaction shall be evidenced by a detailed receipt or order confirmation.

      ii) Directors shall code each purchase to the correct departmental expense account and provide an adequate description of the expense.

      iii) Directors remit the completed monthly statements and receipts to the Finance department along with all detailed receipts supporting the purchases. Finance shall receive this information by the 10th day of the month, or next business day if the 10th falls on a weekend.

   b) The Finance department will review all transactions and provide the final approval to the p-card provider to deduct from the City's bank account the total payment amount to cover all authorized purchases.

6) Returns or Disputed Transactions:

   a) It is the cardholder's initial responsibility to work directly with the merchant to receive proper credit on returned merchandise or disputed transactions.

   b) Finance Department will be available to assist cardholders with returns or disputed transactions if initial contact by the cardholder is unsuccessful.

7) The cardholder must immediately surrender the procurement card to the Finance Director upon retirement or termination of employment. All receipts for current purchases shall be coded and submitted to the Finance Director when the credit card is surrendered.

8) Any exceptions to this policy must be approved in advance by the City Administrator.

SUSPENSION OR REVOCATION OF CARDS:

If any of the following occur, immediate suspension and/or revocation of the p-card privileges may result, including discipline, as determined by the City Administrator:

1) Use of the p-card for personal purchases or cash advances.
2) Unauthorized use of p-card.
3) Failure to notify the p-card company and Finance Director of a lost or stolen card, and fraudulent activity.
4) Repeated failure to submit in a timely manner the monthly billing statement with proper receipts/support for payment.
5) Repeated failure in which the attached receipts do not match the item description or dollar amounts listed on the monthly billing statement with no explanation.

FUEL CARDS FOR CITY VEHICLES

The city will have a fuel card in the city vehicles for putting gas in that vehicle. The odometer and employee number must be entered into the pump when using. These cards are issued by WEX mobile. These cards are to be used for fuel only in the city vehicle.