

TO: Mayor Pogue
Board of Aldermen

FROM: Denise Keller, Finance Officer

DATE: November 19, 2014

RE: Financial policy updates

Below and attached please note the proposed revisions to the financial policies that are included in the City of Ballwin's Official Policy Manual.

- Replace Operating Reserves policy and Operating Reserve Fund Balance policy with Fund Balance policy which was approved by the Board January 23, 2012.
- In the Budgeting Policy, change the following sentence: “~~Unreserved~~ **Unassigned** fund balance in each fund may be appropriated as part of the adopted budget.”
- In the Budgeting Policy, change the title of the section: “Capital Improvement Plan **and Debt** Budget Policy”
- In the Capital Asset Policy, make the following changes:
 - Under Thresholds/Useful Lives delete the sentences “Any purchase or project meeting this threshold is budgeted separately within the annual Capital Improvement Plan budget. City assets with an individual cost of less than the established \$7,500 threshold are recorded in the inventory software by the Finance Department.”
 - Under the *Useful Lives* policy add fixed assets and change useful lives to agree to accounting records. Add dispatch console, illuminated directional/label signs, sports walls, golf course tees, golf course lighting, audio visual equipment, computer hardware – servers, copier, sound stage, telephone system, software. Change life on Pointe Natatorium from 25 to 50 years, change life on Aquatic Center building from 30 to 25 years and change mowers from 10 to 5-10 years.



TABLE OF CONTENTS REVISED 11/24/14

POLICY MANUAL

TABLE OF CONTENTS

	<u>PAGE</u>
HOSTED CITY FUNCTIONS – SECTION 1	
Employee Appreciation Event	1-1
Dinners / Retirement Parties	1-1
Alcoholic Beverages	1-1
DRAINAGE & CREEK CLEANING – SECTION 2	
Drainage & Creek Cleaning	2-1
Storm Drainage & Storm Sewer Maintenance	2-2
FACILITY USAGE – SECTION 3	
Government Center and Board Room Usage	3-1
Recreational Facilities	3-1
Recreational Facilities - Complimentary Use	3-2
FINANCE – SECTION 4	
Fund Balance	4-1
Budgeting: Operating Budget	4-2
Capital [Improvement Plan] and Debt Budget	4-2A
Budget Amendment / Re-Appropriation	4-2A
Capital Assets	4-3
Investments	4-4
Investment Policy Glossary	4-4E
Fraud	4-5
Surplus Property Disposal	4-6
Motor Fuel Usage	4-7
ROADWAYS & SIDEWALKS – SECTION 5	
Sod Contract Recommendations	5-1
Private Utility Service Laterals	5-1
Stop Sign Installation	5-2
Street Lights	5-3
Pedestrian Circulation & Sidewalk Policy	5-4
Children At Play Signs	5-5
Deaf Child At Play Signs	5-6
Double Fine Zones	5-7
Speed Limit Modification	5-8
Deceased Animal Disposal	5-9

TRAVEL – SECTION 6

Auto Usage 6-1
Board of Aldermen Official Travel 6-1

WINTER STORM OPERATIONS – SECTION 7

Winter Storm Operations 7-1

PAGE

MISCELLANEOUS – SECTION 8

Board and Commissions Vacancies/Appointments 8-1
Charitable Donations 8-2
Storm Damage Brush Pick Up 8-2
Hazardous Materials 8-3
Resident ID Privileges 8-3
Leaf Collection 8-3
Real Estate Acquisition 8-4
Emergency Operating Plan 8-5
 Promulgation Statement 8-5A
 Glossary of Terms & Acronyms 8-5B

FINANCE – SECTION 4

DELETE
CITY OF BALLWIN
OFFICIAL POLICY

OPERATING RESERVES
Approved by Resolution: March 24, 1997
Revised: April 23, 2007
October 24, 2011

Reserved fund balance is defined as *the portion of a governmental fund's net assets that is not available for appropriation*. This reserve is essential to the long-term financial planning of a city. It is generally recommended that local governments, regardless of size, should maintain a minimum of two months of operating revenues or operating expenditures (whichever is less volatile) in the general fund.

To assure fiscal responsibility, the City of Ballwin's General Fund reserve policy is to:

- 1) Maintain a liquid reserve minimum of 25% (90 days) of operating expenditures. This reserve will primarily be held in investments outside of the City's general fund cash account.
- 2) The Board of Aldermen shall review this policy each year in conjunction with the adoption of the annual appropriations ordinance.
- 3) Any change of this policy shall require formal Board of Aldermen approval.

DELETE
CITY OF BALLWIN
OFFICIAL POLICY

OPERATING RESERVE FUND BALANCE
Approved: October 24, 2011

The purposes of this policy are to provide a guideline for ensuring that there will be sufficient liquid resources available in the event the City should suffer a catastrophic event or a significant volatility in operating revenues or operating expenditures, and to establish a minimum level at which unreserved fund balance is to be maintained.

Fund Balance is the term used to describe the difference between the assets and liabilities reported in a governmental fund. This differs from the term Net Assets because governmental funds report only financial assets and current liabilities (those normally expected to be liquidated with current financial resources). Fund Balance is more of a measure of liquidity than net worth.

A portion of the fund balance may be considered *restricted* or *reserved* if there are outside legal restrictions placed on it for contractual, grant, or debt obligations. The City could impose additional own restrictions in the form of contingency funds.

The total fund balance in the general fund in excess of any restrictions is considered *Unrestricted Fund Balance* or *Unreserved Fund Balance*. As a general rule, unrestricted fund balance should represent *no less than two months of operating revenues or operating expenditures (whichever is less volatile)*. The City of Ballwin is dependent on sales tax as its primary revenue source, so operating expenditures are the less volatile predictor.

Based on this premise, it will be the City's policy that the Unreserved Fund Balance shall be no less than 25% of total operating expenditures at the end of each annual fiscal period (December 31).

This policy establishes guidelines to be used during the preparation and execution of the annual budget to ensure that sufficient reserves are maintained for unanticipated expenditures or revenue shortfalls. This policy is based on a long-term perspective with a commitment to maintaining a strong fiscal position that will allow the City to be prepared for emergency situations and negative economic conditions.

Background

Statement No. 54 of the Governmental Accounting Standards Board (GASB 54) establishes accounting and financial reporting standards for all entities that report governmental funds. GASB 54 establishes criteria for classifying fund balances and clarifies definitions for governmental fund types.

GASB 54 establishes five (5) fund balance categories: Nonspendable, Restrictable, Committed, Assigned and Unassigned.

- 1) **Nonspendable Fund Balance**: Consists of funds that cannot be spent due to their form (i.e. inventories and prepaids) or funds that legally or contractually must be maintained intact.
- 2) **Restricted Fund Balance**: Consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.
- 3) **Committed Fund Balance**: Consists of funds that are set aside for a specific purpose by the City's Board of Aldermen. Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.
- 4) **Assigned Fund Balance**: Consists of funds that are set aside with the intent to be used for a specific purpose. Intent is expressed by a governing body, a body (budget or finance committee) or an official that has been given the authority to assign funds. Assigned funds may be residual amounts in governmental funds other than the general fund. Assigned funds cannot cause a deficit in unassigned fund balance.
- 5) **Unassigned Fund Balance**: Consists of excess funds that have not been classified in the previous four (4) categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

Actions Leading to Restricted, Committed and Assigned Fund Balances

The Board of Aldermen has the authority to set aside funds for a specific purpose. Commitments are authorized by the ordinance approving the City's proposed annual budget before the current fiscal year ending December 31.

Adoption of a budget where fund balance is used as a source to balance the budget will require the Finance Officer to record the needed amount as Assigned Fund Balance.

Order of Spending

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements prohibit this.

When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second and unassigned funds last.

Minimum Unrestricted Fund Balance

The City recognizes that the maintenance of a fund balance is essential to provide for unforeseen expenses or emergencies and to provide working capital in the beginning of a fiscal year until sufficient revenues are available to fund operations. The maintenance of an appropriate level of fund balance is necessary to make designated purchases and cover operational expenditures, as well as to demonstrate the financial stability necessary to preserve or enhance its bond rating.

The unassigned fund balance in the General Fund will be maintained at a level sufficient to provide the resources required to meet operating cost needs, to allow for unforeseen emergencies, and to permit orderly adjustment to changes resulting from fluctuations in revenues. The City's policy is to maintain a minimum unassigned fund balance no less than 25% of total operating expenditures at the end of each annual fiscal period (December 31).

The annual proposed budget will include a projection of the year-end unassigned fund balance for the current year as well as the projected budget year.

If, for any reason, the unassigned general fund balance should fall below the minimum balance, the City will develop a plan to replenish the unassigned fund balance to the established minimum level within two (2) years.

Operating Budget Policy

It is the City of Ballwin's policy to present an annual budget that incorporates expenditure items necessary to insure that its citizens receive the best service possible with available revenues.

Policy Purpose. It is the aim of the City to follow sound financial practices and to maintain a strong credit rating by dictating that budgets be balanced, regularly monitored, and responsive to changes in economic conditions or service demands.

Policy Statement. Annual budgets will be adopted for all funds of the City including operating funds, special allocation (TIF/TDD) funds, and capital funds as do currently exist or may be established by the Board of Aldermen in the future.

Policy Guidelines. The City's fiscal year shall be January 1 to December 31 and the annual budgets are to be prepared on the modified accrual basis of accounting.

Under the modified accrual basis, most revenues are budgeted based upon the accounting period to which they relate and not according to the accounting period in which they are received. For example, sales tax revenues are budgeted to include monies to be received during January and February of the following year because the January and February receipts from the State of Missouri cover sales taxes collected by retailers during the previous November and December. Some revenues, such as recreation passes and court fines are posted according to when they are received. This precludes full accrual accounting.

Expenditures are budgeted based on the period purchases are made and not when paid. For example, payments made to vendors during each January are primarily for goods and services incurred in December, therefore these payments are posted to December. Encumbrances are used as a budgetary tool during the course of the year, but are closed at year-end and the funds returned to fund balance. Any outstanding unpaid purchase orders at year-end require Board of Alderman authorization for re-appropriation in the next year's budget.

Annual operating budgets will be adopted based on the requirements of Missouri Revised Statutes Section 67.010. Such requirements include:

- 1) All operating budgets are adopted on a balanced basis whereby expenditures cannot exceed revenues plus beginning fund balance.
- 2) A budget message must be included in the budget.
- 3) Revenues must include actual results for the preceding year as well as estimates for the current year.
- 4) Expenditures must include actual results for the preceding year as well as estimates for the current year.
- 5) The budget must include a debt service schedule listing the amount of principal and interest for all outstanding debt of the City.
- 6) A general budget summary must be included for each budgeted fund that details the actual fund balance of each fund for the preceding two years as well as estimates for the current year and proposed years.

Unreserved **Unassigned** fund balance in each fund may be appropriated as part of the adopted budget.

The City of Ballwin declares that:

- financial systems will be maintained to monitor expenditures, revenues and program performance on an ongoing basis.
- no department will realize expenses beyond those budgeted – unless authorized by the Board of Aldermen through a budget re-appropriation or budget amendment.
- all department program expenses will be monitored to insure that program’s fiscal feasibility.
- outsourcing of programs/services will be evaluated to best serve the citizens of Ballwin.
- all available revenue sources will be reviewed and evaluated to offset expenses and maintain city service standards.

Capital Improvement Plan and Debt Budget Policy

The Mayor and Board of Aldermen, along with the Planning and Zoning Commission, are responsible for the comprehensive planning of growth, development and conservation in the city. A *comprehensive plan*, adopted and revised about every ten years, includes the composite vision of the city and the guidelines to bring this vision to fruition.

The City of Ballwin will evaluate capital expenditure needs on an annual basis and develop a budget based upon these needs and anticipated capital revenues. Many capital projects are the result of citizen survey requests.

- The City declares that available funds will first be dedicated to pay outstanding bond debt.
- The City declares that no new bond debt will be considered before the payoff of a current issue unless a new revenue source is found for that purpose.
- The City declares that capital projects financed through the issuance of bonds will be financed for a period not to exceed the expected useful life of the project.

A final proposed budget is submitted to the Planning and Zoning Commission for their review at a meeting prior to adoption by the Board at a public hearing.

BUDGET AMENDMENTS/RE-APPROPRIATION

The budgets are closely monitored by the Finance Officer. A mid-year review will be conducted. Unanticipated overages or additional expenditures that would cause a department to exceed its budget will not be approved until a re-appropriation of funds from another program or department, or a budget amendment, has been approved by the Board of Aldermen by ordinance.

Capital assets are major tangible or intangible assets that have a cost equal to or greater than an established capitalization threshold, are used in operations, and have an initial useful life that extends beyond a single reporting period. These assets include land, improvements to land, easements, buildings, building improvements, vehicles, equipment, furniture, computer software, infrastructure, and works of art and historical treasures.

Purpose

The purpose of this policy is to establish a framework for the management and control of City of Ballwin capital assets.

Policy

The Governmental Accounting Standards Board's (GASB) Statement No. 34 requires Class II cities (those with annual budgets between \$10 million and \$100 million) to report their capital assets on the city's Balance Sheet as of 1/1/03. The City of Ballwin, in compliance with *Generally Accepted Accounting Principles* (GAAP), reports capital assets at historical cost when possible. In the absence of historical cost information, the City estimates this cost using the Consumer Price Index (CPI) and backtrending.

The historical cost of infrastructure and buildings includes ancillary charges (such as title searches, architect fees, legal fees, engineering fees, appraisals, surveying fees, and environmental assessments, demolition of existing structures-less salvage, utility relocation or removal, land fill or grading) necessary to place an asset in its intended location, capitalized interest if the asset is financed, and subsequent additions or improvements to the asset. Donated assets are recorded at their fair market value as of the date donated.

The City of Ballwin Finance Department uses fixed asset software to record and track its capital assets. Assets are recorded by the Finance Department as they are purchased throughout the year, and deletions are recorded as items are sold or discarded. This change in assets is reflected at the end of each year on the government-wide balance sheet.

It is the responsibility of each City department to notify the Finance Department of any change in ownership of an asset.

An independent street asset evaluation is performed [every three years] on all city streets. The Public Works Department maintains records on infrastructure improvements costs via an Excel spreadsheet.

[Initially, the replacement value for each type of street was computed using 2002 costs per linear foot. The same methodology was applied to existing sidewalks and concrete box culverts. Knowing the year each street, sidewalk or culvert was constructed, the 2002 replacement value was then entered into the Consumer Price Index (CPI) formula, resulting in the original construction cost for that particular infrastructure.]

[The City has elected to use the *depreciation method* of reporting infrastructure capital assets as this method is more practical during years of budget constraints in regards to infrastructure improvements.]

Thresholds/Useful Lives

The City of Ballwin has an established minimum threshold of \$7,500 for capital assets. ~~Any purchase or project meeting this threshold is budgeted separately within the annual Capital Improvement Plan Budget. City assets with an individual cost of less than the established \$7,500 threshold are recorded in the inventory software by the Finance Department.~~ The primary objectives of financial reporting generally pertain to valuation, allocation, presentation, and disclosure, whereas the primary objectives of property control generally pertain to efficiency, effectiveness, and safeguarding of assets. Controls designed to prevent or promptly detect a loss of a small value asset, while important operationally, are not necessarily relevant for financial reporting purposes.

Capital Asset Definitions and Categories

Land and Land Improvements

Land is the surface or crust of the earth, which can be used to support structures, and may be used to grow crops, grass, shrubs and trees. Land Improvements consist of betterments, site preparation, and site improvements that ready land for its intended use. The costs associated with land improvements will not be depreciated per GAAP.

Buildings and Building improvements

A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be transportable or movable. A building is generally used to house persons, property and fixtures attached to and forming a permanent part of such a structure.

Building improvements are capital events that materially extend the useful life of a building or increase the value of a building, or both beyond one year. Building improvements do not include maintenance and repairs done in the normal course of business. Buildings are depreciated over their estimated useful lives.

Infrastructure and Infrastructure Improvements

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. Examples of infrastructure assets include streets, sidewalks, bridges, tunnels, drainage systems, water and sewer systems, dams, and street lighting systems.

Improvements made to infrastructure assets that extend the useful lives or increase the value of the assets, or both, beyond one year will also be capitalized.

Leasehold Improvements

A leasehold improvement is an improvement made, by the City, to a leased building or infrastructure asset during the term of the lease. Leasehold improvements do not include maintenance and repairs done in the normal course of business. Moveable equipment or office furniture that is not attached to the leased property is not considered a leasehold improvement.

The cost of a leasehold improvement will be depreciated over the shorter of (1) the remaining lease term, or (2) the estimated useful life of the improvement.

Construction Work in Progress

Construction work in progress reflects the economic construction activity status of buildings and other structures, infrastructure, additions, alterations, reconstruction, and installation, which are substantially incomplete.

The cost of construction work in progress will not be depreciated. Construction work in progress assets will be capitalized to their appropriate capital asset categories upon the earlier occurrence of execution of substantial completion contract documents, occupancy, or when the assets are placed into service.

Furniture, Equipment and Machinery

Furniture, general equipment and machinery include fixed or moveable tangible assets meeting the minimum threshold to be used for operations, the benefits of which extend beyond one year from date of receipt and rendered into service. These assets will be depreciated over their useful lives.

Titled Vehicles

These normally licensed capital assets include staff autos, police autos, pickup trucks and 1-2 ton trucks. They are depreciated over their useful lives.

Works of Art and Historical Treasures

Works of art and historical treasures will be capitalized at their historical cost at acquisition or fair market (appraised) value at the date of donation (if donated) unless the items are held for public exhibition or public service, and/or are kept preserved. These assets should be depreciated over their useful lives unless they are deemed inexhaustible. An inexhaustible capital asset is one whose economic benefit or service potential is used up so slowly that its estimated useful life is extraordinarily long.

The City's *Useful Lives* policy is as follows:

Land	N/A
Historical Treasures	N/A
Land Improvements	
Golf course bridges (wood, iron, concrete)	N/A
Golf course cart path (asphalt)	N/A
Golf course irrigation system	N/A
Golf course tees	N/A
Lighting	N/A
Parking lot (asphalt)	N/A
Pond	N/A
Tennis court	N/A
Walking path (asphalt)	N/A
Buildings	
Major governmental offices	50 years
Golf Clubhouse	50 years
Golf Maintenance Building	40 years
Pavilions/Comfort Stations (restrooms)	15 years
Pointe Recreation Center and Natatorium	50 years

Building Systems (Upgrades)	
HVAC	20 years
Electrical	20 years
Fire system	25 years
Roof cover	15 years
Windows	25 years
Aquatic Center	
Building	25 years
Pools	25 years
Pool/plumbing equipment (replacement)	15 years
Features (replacements)	5 years
Concession equipment (replacements)	10 years
Parks	
Fountains (replacements)	20 years
Playground equipment	5 years
Furniture/Fixtures	
Dispatch console	20 years
Illuminated directional/label signs	5 years
Sports Walls	10 years
Machinery/Equipment	
Audio visual equipment	7-10 years
Backhoe	20 years
Computer hardware - servers	4 years
Computers – in car	7 years
Copier	5 years
Fuel Tank	30 years
Generators	15 years
Golf beverage carts	10 years
Grinder	12 years
Leaf vacuums	10 years
Message boards	15 years
Mowers	5-10 years
Planer	8 years
Push truck	12 years
Roller (vibratory)	7 years
Root cutter	10 years
Rotary turf lift	15 years
Skidsteer	10 years
Sound stage	20 years
Streetsweeper	15 years
Telephone system	10 years
Vehicle lift	15 years
Intangible Assets	
CAD/Computer Systems	5-7 years
Software	5-25 years

Titled Vehicles	
Staff autos	10 years
Police autos	3 years
Pickup trucks	10 years
1-2 ton trucks	10 years
 Infrastructure	
Concrete streets	30 years
Asphalt overlay on concrete streets	20 years
Asphalt streets	25 years
Sidewalks (concrete)	30 years
Box culverts (concrete)	30 years
Road Signage	10 years

NOTE: This policy will be reviewed annually and amendments made per Board approval.