

CITY OF WATERTOWN

FINANCIAL POLICY AND GUIDELINES



Amended June 28th, 2016

CITY OF WATERTOWN FINANCIAL POLICY AND GUIDELINES

INTRODUCTION AND OBJECTIVES

The financial policies of the City of Watertown are established by the City Council. These policies are designed to provide guidance and instructions to all staff whether they be directly involved in financial processes, internal control oversight, or any financial transaction. The Council sets forth the authorities, responsibilities, and accountability requirements of those participating in the operations of Watertown City government at all levels of the organization.

AUDITING AND FINANCIAL REPORTING

The City of Watertown will establish and maintain a high standard of accounting practices. Accounting standards will conform to Generally Accepted Accounting Principles (GAAP) as outlined by the Governmental Accounting Standards Board (GASB). Accounting standards will reflect Best Practices recommended by the Government Finance Officers Association (GFOA) and recommended statements of position provided by the Minnesota Office of the State Auditor.

After each fiscal year, a certified public accounting firm will conduct an audit of the City records. The report will include a financial opinion and a management and compliance report on internal controls. Annually, a comprehensive annual financial report will be prepared for the City. This report shall be made available to elected officials, city management, bond-rating agencies, and the general public.

ACCOUNTING PROCEDURES & INTERNAL CONTROL

The City will maintain a strong internal audit function. Written accounting procedures for each city division or department's financial processing area will be maintained and adhered to so that every attempt is made to be in audit and financial reporting compliance. All department manager's have access to internal control regulations set forward by the City. Periodic updates and new recommended practices set forward by the GFOA are communicated and addressed with all City staff. Any weakness in internal control and accounting procedures are addressed immediately with department managers and the City Administrator so a timeline to remedy improvement can be established.

Internal Auditing & Reporting

Along with the compliance of procedures and internal control in all areas of accounting, finance staff will adhere to monthly, quarterly and annual auditing of cash, investments, and accounts receivable/payable functions. On a quarterly and semi-annual basis, finance staff will audit the above listed functions along with all other areas related to financial statements. Quarterly internal audit reports are then presented to the City Administrator for review and approval.

Accounting Write-offs

Written authorization to adjust a city employees account, such as utility billing, payroll, or benefits must be requested by the department manager or Clerk/Treasurer and approved by the City Administrator.

PERFORMANCE MEASUREMENTS & PERFORMANCE MANAGEMENT

Section reserved for future performance management and measurement program.

BUDGET & FINANCIAL PLAN

Budget Objective

The formal operating and capital budgeting process provides the primary mechanism by which key decisions are made regarding the levels and types of services to be provided, given the anticipated level of available resources. The objective of the general fund operating budget is to pay for all current expenditures with current revenues. The City will endeavor to avoid budgetary procedures that balance current expenditures at the expense of meeting future years' expenses, such as postponing expenditures, accruing future years' revenues, or rolling over short term debt.

Long-term Financial Plan

A 20-year Financial Management Plan (FMP) with an integrated 10- year Capital Improvement Plan (CIP) is utilized to assist the City Council and department managers in strategizing and aligning financial capacity with long-term objectives. The long-term financial plan serves as a foundation for conversations regarding purchases and project planning.

The plan will include an analysis of the current and future year's financial environment, revenue and expenditure forecasts, debt positions and affordability analysis. The financial plan will be updated as needed in order to provide direction to the budget process.

Service Levels and Funding

The City will endeavor to maintain its present service level for priority and essential services subject to available revenues. The objective is to maximize the benefit of available resources. The results or outcomes that matter most to citizens should be defined by the City Council. New services or programs will be considered for funding within available resources.

Department managers will be given the opportunity to request personnel, goods, and capital items needed to carry out the department responsibilities. Department requests must include supporting documentation and justification of needs for operating requests. Requests should integrate priorities and objectives into the budget. The budget will provide for adequate maintenance of public facilities and equipment and for their orderly replacement.

Enterprise Funds

Enterprise operations are to be self-supporting, including capital improvements and depreciation. Enterprise operations are to be reviewed annually for self-sufficiency and proper cash-flow needs.

Periodic Reporting

The City will maintain an internal control system to help adhere to the budget. Regular reports comparing actual revenues and expenditures to budgeted amounts will be provided to department managers on a monthly basis. The City Council will review quarterly budget-to-actual reports that include capital project updates and investment portfolio reports.

Budget Amendments

All budget amendments, such as from a) one department to another department budget; b) from one fund to another fund; and c) shifting of funds for the purchase of capital outlay, must be approved by the City Council.

Budget Amendments for Department Operating Line Items

Department managers may, upon approval by the City Administrator, request inter-departmental line item budget amendments for operating purposes only. Budget amendments for personnel and capital outlay line items are not allowed without City Council approval. Department managers must submit an electronic budget amendment form to the City Administrator and upon approval will receive notification from the City Administrator.

FUND BALANCE AND RESERVES

Fund balance is an approximate measure of liquidity. This section defines dollar thresholds and descriptions for fund balances, reserves, and retained earnings of all funds of the City of Watertown. It is the intent of the City to provide a stable financial environment for which its citizens can depend on a consistent and quality level of service. It is the intent of this fund balance/reserve policy to provide this stable financial environment for the services the city provides and for planned future expenditures.

As defined by GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City will reserve funds according to the following:

Nonspendable Fund Balance

Inherently non-spendable portions of net resources that cannot be spent because of their form or portions of net resources that cannot be spent because they must be maintained intact. The City's most common form of unspendable fund balance is in the form of prepaid expenditures.

Restricted Fund Balance

Externally enforceable limitations, on the use of funds, that are imposed by creditors, grantors, contributors, or laws and regulations of other governments or limitations imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance

Self-imposed limitations, on the use of funds, that are set in place prior to the end of a period. Limitations imposed at highest level of decision making that requires formal action at the same level to remove.

Assigned Fund Balance

Limitation resulting from intended use that is established by highest level of decision making or intended use established by the City Council for a purpose or intended use established by a public official for a purpose.

Unassigned Fund Balance

Residual net resources that make up the fund balance in the general fund in excess of non-spendable, restricted, committed, and assigned fund balance (i.e., surplus) or excess of non-spendable, restricted, and committed fund balance over total fund balance (i.e., deficit)

General Fund - Fund Balance

A healthy unassigned fund balance is needed to provide cash flow to pay expenditures when due. The City receives a majority of its tax collections and state aids twice a year. A healthy unassigned fund balance allows for cash flow while the City waits to receive its aids and taxes. The unassigned fund balance is also a security against unforeseen changes or needs, i.e. natural disasters, loss of state aids, etc. The general fund unassigned fund balance should be approximately 50% of actual expenses of the general fund, less annual transfers. The unassigned fund balance of the general fund should never fall below 30% of operating expenditures. Should the unassigned fund balance fall below the 30% threshold, the City will

strive toward regaining the minimum threshold during the next budget process and forecast the timing of the unassigned fund balance improvement within the long-term financial plan.

Assigned Fund Balances

Assigned fund balances will consist of funds designated by the City Council for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balances represent the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. The resources for these may be acquired through the budgeting process or funds that are deposited with the city for specific purposes. The designations for Capital Improvements Fund balances will consist of funds designated by City Council for future capital improvement projects and equipment purchases. The Capital Improvements Fund will reflect long range capital items and are represented on the long range capital improvement plan approved during the budget adoption process. It is the intent of the City of Watertown to set aside funds, when operations allow, for large capital projects to help minimize the debt service needs for these projects. Current commitments for Capital Improvement Fund reserves are equipment, sidewalks, streets, buildings/facilities, and community enhancements.

Committed Fund Balances

Committed fund balances will consist of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the City Council. The committed amounts cannot be used for any other purpose unless the City Council removes or changes that specified use by resolution. Examples of committed fund balances currently with the city are the economic development funds available in the General fund. The City Council reviews operations committed fund balance for operations on a quarterly basis with fund budget-to-actual reporting. The City Council separately approves on an annual basis by resolution those funds expended for economic development purposes from the General fund.

Restricted Fund Balances

The designations for all the City's debt funds consist of funds that are restricted for the sole purpose of debt repayment according to generally accepted accounting principles (GAAP). In addition, fund balance amounts in the Park Capital fund and TIF funds, have externally imposed constraints established. Because of this, the fund balances for these accounts will be reported as restricted.

Enterprise Funds/Retained Earnings

It is the goal of the enterprise funds to cover the cost of operations, including depreciation, so as to maintain a financially healthy enterprise. Retained earnings are a product of revenues over expenditures over time and consist of the net result of assets minus liabilities. The target fund balance of retained earnings is 30% of actual expenses of the enterprise fund. Retained earnings will be used for the support of these enterprises and support of the general fund should the City Council feel the need due to unforeseen, unique, or unusual circumstances. (I.e. state budget cuts)

EXPENDITURES

Expenditure Objectives

The objectives of the expenditure guidelines are:

- To support the local firms and merchants within the community whenever possible subject to meeting other expenditure guideline objectives.
- To ensure City funds are only used for public purposes.
- To obtain supplies, equipment, and services as economically as possible.
- To purchase materials which are best suited to the specific needs of departments.
- To improve the speed of delivery to departments by predetermining, through contracts or other appropriate means the sources of supply before the actual needs.
- To promote fair and open competition among bidders.
- To ensure compliance with all applicable policies, statutes, and regulations of the City, the State, and the Federal Government.

Local Purchasing Objectives & Criteria

Purchasing from local business and merchants is a high priority to support the economic vitality of the Watertown business community. Whenever economically possible, local vendors will be included in obtaining bids, quotes, or estimates to obtain supplies, equipment, and services. A local vendor may be selected on the following criteria:

- Low Cost
- Availability of goods and services required by City departments
- Reduction of shipping or delivery costs and delivery time
- Quality of Service and/or Products

All employees of the City shall comply with all City, State, and Federal statutory requirements regarding purchase of materials or services. The following practices are also specifically forbidden so as not to create a conflict of interest:

- Using information available to an employee solely because of their position for personal profit, gain, or advantage.
- Directly or indirectly furnishing estimating services, or any other services or information not available to all prospective bidders, to any person bidding on, or who may reasonably be expected to bid on, a contract.
- Using their position or status in the City to directly or indirectly solicit business of any kind for private use or to obtain supplies and equipment at special discounts or with special concessions from any vendor who sells or solicits sales to the City.

Public Purpose Expenditures

All expenditures made by City employees using City funds must be for a public purpose. An expenditure is made for a public purpose if it meets all of the following criteria:

- It will benefit the community as a body;
- It is directly related to functions of government; and
- It does not have as its primary objective the benefit of a private interest.

Guidelines Regarding Certain Employee Expenditures

To ensure City funds are only used for public purposes in regard to certain employee expenditures, City employees must observe the following guidelines:

Expenses Related to Work Assignments

The City may pay reasonable expenses directly related to the performance of an official City activity including expenses for travel, lodging, meals, and appropriate incidental expenses that are directly related to the performance of an employee's official job duties for the City.

Employee Safety Programs

The City may pay reasonable expenses directly related to the operation of an employee safety program when the program is required by law or the benefit of the program is clearly demonstrated and a written outline of the program is approved by the City Council.

Employee Training and Development Programs

The City may pay reasonable registration, tuition, and travel expenses for a conference, seminar, workshop or similar employee training (internal or external) or development opportunity when it is directly related to the performance of the employee's official job duties for the City.

Employee Wellness and Recognition Programs

The City may pay reasonable expenses related to employee wellness and recognition programs, including non-monetary service awards to recognize employee performance and length of service. Any such program shall be outlined in writing and approved by the City Council. A program primarily of a social nature, however, does not qualify. Further, the City shall not pay for spouses or third parties to attend any wellness or recognition event.

Meals and Refreshments

The City may pay reasonable meal and refreshment expenses when the meals or refreshments are provided:

- As part of a structured agenda of a conference, workshop, seminar or meeting when the employee is authorized by the City to attend and the topic relates to the official business of the City.
- As part of a City sponsored meeting, conference, or workshop when the employee is required by the City to attend and the majority of the participants are not City employees.
- As part of a City-sponsored event where registration fees are charged and the majority of the participants are not City employees.
- During an official meeting of the City Council or any official meetings of City Council committees, task forces, work group, or advisory committees, provided the provision of meals or refreshments is necessary to sustain the flow of the meeting and to assist the participation of the attendees.
- As part of a formal meeting that consists primarily of City employees when the meals or refreshments are an integral part of the formal meeting or training and are necessary to sustain the flow of the meeting, to retain the captive audience, and to assist the participation of those employees and attendees, but only if the meeting is a City or department-wide staff meeting for all City or department employees, as applicable.

Expenses Not Covered

The following expenses are not public purpose expenditures:

- Refreshments or meals for routine staff meetings.
- Private organization memberships unless specifically allowed by a Minnesota law. For each such expenditure paid by the City, the specific statutory authority allowing the expenditure must be determined.
- Alcoholic beverages.
- Employee parties (including holiday parties).
- Employee entertainment.

Reimbursement Procedures

In addition to the requirements contained in this section regarding public purpose expenditures, any expense for which reimbursement is sought shall also be subject to the employee reimbursement policies set forth in this Financial Policy and Guidelines document, and any applicable personnel policies.

Purchasing – Standards and Methods

In general, each department shall make purchases for the requirements of the City. Purchases will not be separated into smaller purchasing components in order to eliminate a threshold authorization requirement. To facilitate a sound and cost effective purchasing operation, City departments shall follow one of the following procurement methods:

Purchases less than \$500

Purchases under \$500 will be allowed by staff in the course of normal business with approval by the department manager. Petty cash is not allowed. Purchaser must submit a sales receipt to the department manager for proper account coding. The department manager must determine funds availability within the approved department division budget. Staff will attempt to purchase all goods and services at the lowest possible cost. The department manager may give approval for certain employees to make recurring purchases without approval.

Purchases \$500 to \$5,000

Purchases \$500 to \$5,000 are allowed to be made by department managers. Determination for the purchase should include funds availability as defined in the approved department budget. Department managers will attempt to purchase all goods and services at the lowest possible cost and will obtain more than one quote for such purchases when possible. The following exceptions are made:

- Utility bills, including electrical, fuel oil, natural gas and telephone
- Fringe benefit and other payroll related costs
- Postage
- Mandatory public safety training
- Investments
- Liability insurance, including workers' compensation
- Water meters
- Refuse tipping fees
- Automotive gasoline and diesel fuel
- Mandated licenses, permits, and fees to the State of Minnesota and U.S. Government
- Professional services under contract approved by City Council
- Debt Service principal and interest

Purchases over \$5,000 but less than \$100,000

Purchases identified in the operating budget over \$5,000 but less than \$100,000 must be initiated by the department manager and approved by the City Administrator in advance of the purchase or contract. Department managers may, in the Administrator's discretion, secure at least two (2) quotations if practical and reasonable or may recommend purchase on the open market. The department manager must determine funds availability within department budget.

If a purchase or contract cost is expected to exceed \$10,000 but not to exceed \$100,000, department managers may, in the City Administrator's discretion, use the sealed bid process or make the contract by direct negotiation. If direct negotiation is used, managers must get at least two (2) quotations and keep them on file for at least one year. Approval of the City Council is required in advance of the purchase. Public improvement contracts will follow other requirements as outlined in MN Statutes.

Purchases identified in the capital budget, either in the current year or future years, that exceeds \$10,000 but less than \$100,000 must be initiated by the City Administrator and approved by the City Council in advance of the solicitation of quotes, bids, or estimates. The City Administrator will present to the City Council the item or service to be purchased, the necessity of such item, identify funds to be used, and determine the scope and or performance of the item. The City Council may direct, in their discretion that the City use the sealed bid process, make the contract by direction negotiation, or may use the public bidding process. Approval of the City Council is required in advance of the purchase. Public improvement contracts will follow other requirements as outlined in MN Statutes.

Purchases over \$100,000

Cities with populations of 2,500 or more must use the sealed bid process for contracts estimated to exceed \$100,000. The department manager or designee shall prepare contract and bid specifications in conjunction with the project. The City Council shall approve the specifications and authorization to place and advertise for bids. Following the bid opening and bid analysis, the City Council may approve or deny the purchase or contract. Public improvement contracts will follow other requirements as outlined in MN Statutes.

Bulk Purchasing

There are a variety of goods and services that when purchased in bulk is a cost savings to all departmental budgets. City staff will seek to purchase bulk items at the lowest possible cost and will determine a list of items on an annual basis.

Life-Cycle Costs

Initial bid prices or quotations shall generally govern in determining the source from which to acquire particular goods or services. However, as the initial purchase price or construction cost measures only one part of the total overall expenditure, life-cycle costs may be considered in many bidding situations. This may be factored in one of two ways:

- Specifications may demand a product with characteristics that will assure utility and economy. This may include additional specifications so as to exclude bids from suppliers of goods that are not economical or suitable for the intended use.
- "Total cost" bidding may be utilized, which takes into account mechanical durability. In this case, bidders generally guarantee limitations on the City's cost of ownership for operation of the product.

When all other factors of the acquisition process are equal, preference shall be given to businesses located within the City of Watertown.

Special Purchases in Emergency Situations

Emergency purchases are those made by department managers where an immediate purchase is necessary to correct a situation, which would adversely affect the life, health, or safety of the citizens.

To the greatest extent possible, the preceding procedures should be followed. However, in case of an emergency, a department manager may purchase directly any supplies, materials or services necessary to alleviate the emergency. Every effort shall be made to contact the City Administrator whether the emergency occurs during or after normal working hours. On the next business day, such emergency shall be documented with the City Administrator.

In the event where emergency purchasing is related to natural disaster events, the Clerk/Treasurer shall review and approve of all account coding for all emergency purchases and maintain a separate chart of

accounts according to FEMA requirements and GFOA recommended practices for emergency management recordkeeping.

Purchasing – Procedures

Accountability

Department managers will be accountable for the purchasing done within their departmental budgets. Financial reports will be distributed to department managers on a periodic basis and are available in electronic detail in the budgeting software. Assistance will be available to help department managers analyze their budgets to insure proper spending.

Purchases that exceed a departmental annual budget are not allowed. Failure to follow purchasing procedures could result in disciplinary action, loss of purchasing privileges, and a personal liability for purchases.

Department managers may only code expenditures to division budgets and/or funds under their management oversight unless written approval from another department manager is obtained.

A purchase request memo shall be submitted to the City Administrator for all operating purchases in excess of \$5,000, prior to incurring the expense. Employees are encouraged to obtain more than one quote accordingly.

Claims/Acquisition Process

The City executes purchases depending on the dollar amount and nature of the purchase. Staff making purchases according to standards and methods will adhere to the following process:

- Sales receipts must include the signature of the purchaser, description of purchase, and reference to department or division.
- Sales receipts must be turned in to the Accounts Payable Department. When turning in more than one (1) receipt from a single vendor, receipts must be organized in date order.
- All invoices shall be mailed or delivered to City of Watertown, Attention: Accounts Payable, 309 Lewis Avenue South, PO Box 279 Watertown, MN 55388.
- Claim registers or vouchers of departmental purchases are reviewed and electronically approved by the department manager to ensure accuracy of coding and to be in line with departmental budget.
- The City Administrator prior to City Council reviews the claim register.
- City Council reviews all purchases by City staff including informational, purchasing card, and outstanding claims at each Council meeting.
- The City Council signs the approved claim register.

Check Signing

The required signature on all checks is two of the following: Mayor, City Administrator, and Clerk/Treasurer.

Joint Purchasing

In certain instances, in the discretion of the City Administrator, purchase requirements of more than one department may be grouped together for more cost effective purchasing. In these instances, the authority granted to departments to manage their purchases as outlined above will be overridden by the decision of the City Administrator and joint purchasing instructions of the City Administrator will be followed.

Credit Cards

The use of credit cards (purchasing cards) by staff for City business is an authorized payment method, and not a method of creating debt, therefore all credit card balances shall be paid off on a monthly basis without delinquency fees or finance charges. Failure to avoid finance fees will require the discontinued use of the respective credit account. This guideline is intended that an employee neither gain nor lose financially from the use of credit cards. All employees shall be responsible for complying with these directives.

Authorized Employees

The City carries several credit cards with one named vendor previously approved by the City Council. The City Administrator will authorize the opening, use and distribution of all purchasing credit cards. All cards authorized to employees must be activated with a member of finance staff along with a signed affidavit noting card policy, procedures for use, and card holder responsibility. The finance department will maintain a listing of accounts, limits, and personnel authorized to purchase with the respective credit cards. Credit cards will be kept in a secure location by employees when not in use.

Review of card activity and limits is completed by the City Administrator on a quarterly basis. Limits are lowered or increased if needed based on past purchasing history. Any changes in limits must be requested by a department manager and authorized by the City Administrator.

Cases of fraud and misuse are reported to the City Administrator for further investigation and handling. Fraud or misuse may be reported by the card vendor or by City staff and dealt with accordingly.

Authorized Purchases

Since use of the purchasing credit card is restricted to purchases for the City, no personal use is permitted and all purchases must be for a public purpose. State Statute provides that if officers and employees make purchases for the City that are not authorized by the City Council, they become personally liable for the amount of the purchase. In the event that an employee fails to provide adequate documentation (i.e. sales receipt or carbon copy), a missing receipt affidavit must be signed by both the employee and department manager with a complete explanation of the expense, appropriate account coding, and the reason for the missing receipt. Failure to complete affidavit will result in disciplinary action up to and including termination of employment and the amount of purchase will be deducted from the employee's next pay check. Employees are allowed to provide an affidavit twice per calendar year. If future cases occur where a physical receipt is not provided, action may be taken by the City Administrator; this including removal of the employee's ability to use the City's purchasing card program.

State Statute provides that claims presented for payment must be in writing and itemized. Department managers will be responsible for ensuring receipts and invoices meet this requirement and provide them to the finance department for prompt payment of the credit card statement.

Credit card purchases should be the primary method for making City purchases. If a vendor does not accept credit cards as a form of payment, the vendor is asked to receive payment for goods and services via electronic funds transfer (EFT). No open house accounts are allowed at any vendor. Credit card purchases may be used for authorized travel, education, meals, refreshments, operating supplies, small equipment purchases, contracted services and fuel for the operation of City vehicles.

REVENUES

Revenue Objectives

The City will maintain a diversified and stable revenue system to shelter it from short-term fluctuations. To protect and better develop future tax base, the revenue guidelines will emphasize preserving the City's ability to grow and expand.

Charges and fees should be reviewed and updated annually based on factors such as impact of inflation, other cost increases, adequacy of coverage of costs, and current competitive rates. On an annual basis, the entire Fee Schedule will be modified and adopted in conjunction with the annual budgeting process.

The following are revenue objectives based on type of revenue:

Fees and Charges That Align with Cost Recovery

Fees are based on an objective of recovering a stated percentage of a given program's expenses.

Revenues Related to Development

Fees are based on policy related to growth activity.

Charges Must Align with Local Market Forces

Fees are based on maintaining a logical relationship with local market forces.

Revenues with a Relationship to the Value of Money

Fees are subject to ongoing inflationary or other indexes.

Fines and Violations

Fees are used as a means of enforcing compliance with city rules and regulations.

Self-Supporting Enterprise Fees

Fees and charges usually associated with a governmental "business" enterprise. Fees are based on a formal rate model for factoring in relevant operational, capital, and debt service cost components.

Escrow Accounts

Escrows funds as defined in city ordinances will be deposited for land use projects until the project is complete and developer or property owner will need to pay for consulting and city staffing services associated with the project/development. The City will pass through the following, but not limited to: engineering, legal, printing, publishing, and staff costs associated with the project/development and maintain the escrow balance until completion.

Receipting

Cash receipting procedures will be adhered to for revenue items at all City facilities. Only authorized personnel are allowed to take cash receipts from customers. Reconciliation of revenue, to close out daily receipts, taken in through point-of-sale systems at each city facility is required by the department manager or their designee. Finance staff provides internal control procedures and oversees all changes to revenue items in the point of sale system, final end of day processing, posting to the general ledger, and overall revenue management.

A receipt will be created for all sources of revenue through the point of sale system with exceptions for the following:

- Electronic deposits from the State of Minnesota, counties, or other governmental agencies
- Interest revenue
- Other automatic deposits where a statement is received, reconciled, and approved

- Reimbursement items from employees or vendors that are considered miscellaneous in nature with approval of the City Administrator

Forms of Payment Accepted

The following are acceptable forms of payment:

Credit or Debit Card

When accepting a credit or debit card as a form of payment adherence to receipting procedures established by the major credit card network shall be followed and are communicated to employees during training processes.

1. Credit or Debit Card must be held until approval number is received in case of fraud or card misuse.
2. A signed receipt must be obtained by the customer when they are paying at the counter with a credit or debit card and kept for retention purposes. If a customer pays by credit or debit card over the phone, the card number must never be written on a piece of paper. The number must be entered directly into the point of sale and the receipt shall list the signature as "Phone" and kept with the daily receipt batch for retention purposes.

Checks

Checks are accepted for all City services if credit or debit card is not available. Checks must be endorsed for deposit upon receipt. Proper photo identification and check processing guidelines are available at all facilities and have been approved by the City's banking entity.

Cash

Cash handling practices are under strict internal control guidelines and must balance to the end of week sales reporting based on those transactions established cash sales for the week. Any discrepancy in cash handling must be addressed by the department manager with their staff with a resolution to the finance department by the end of the next business day. Any mishandling of cash transactions is reported to the Clerk/Treasurer or City Administrator immediately.

Returned Payment – Non-sufficient Funds

Returned check payments for nonsufficient funds shall be processed once through the City's financial institution before reversed from a customer's account. If the check is returned after the first attempt at collection, the funds will be reversed from the customer's account and fees according to the adopted Fee Schedule shall be applied to the customer's account. No check payments are allowed from the customer after one returned check payments. The City will collect funds using all methods afforded by MN State Statues.

Deposits and Batch Processing

Deposits will be made weekly so as to ensure the highest level of interest earnings. Revenue source and project codes will be reviewed to ensure accurate project tracking before a weekly batch is posted.

Finance staff oversees the final import of all cash receipts to the financial system. Any correction to a daily deposit and reason for shortages/overages must be in written detail with the cash receipt import to be filed for retention purposes. These discrepancies must be signed off on by the department manager or the City Administrator. In accordance with internal control standards in regards to segregation of duties,

another finance staff member ensures the receipt batch total equals the deposit register and then reconciles the deposit to the bank statements. All monthly cash reconciliations are reviewed and approved by the Clerk/Administrator.

Billing for City Revenue

Any department wishing to bill another entity for services provided by the City or paid for by the City to be passed thru must submit an invoice request form. Supporting documentation is required to be included with the invoice for customer reference. The invoice request form must include the person requesting the invoice along with a department manager's approval to be processed. The department manager must also provide coding for the revenue in accordance with their budgeted revenues.

Invoices will be processed by the Finance Department within three business days of receiving the request for invoice form. Revenues are recognized in the general ledger as of the invoice date.

Invoices are aged at 30 day intervals. Statements of invoices outstanding are sent to customers with outstanding balances at the end of each calendar month. Reconciliation of outstanding accounts receivable items is reviewed at the end of each month by the Clerk/Treasurer. Action is taken with customers that have outstanding balances as seen fit by the Clerk/Treasurer and the City Administrator.

Recognition of Bad Debt

The computation of an allowance of doubtful accounts should be performed at least annually based upon the aging of receivables and recent history of write-offs at fiscal year end, with any material changes reported to the City Council. First, City staff will attempt, through the proper channels, to collect the funds deemed doubtful and ultimately recommend certification to property taxes. Documentation for each attempt at collection must be noted in the customer account. If funds are not able to be collected, the City Administrator would make a recommendation for write offs to a bad debt expenditure up to \$500. For balances above this threshold, City Administrator and/or City Council approval must accompany the write off to the bad debt expenditure.

Special Event Cash Handling

For special events held outside of a City facility, a cash box will be provided by the Finance Department. The starting amount of bills and change is noted on a cash box reconciliation sheet and must be signed off on by two City employees before the box can be given out to the department with the special event.

When the event is complete, the staff member in charge of the event and cash handling must reconcile their sales items to what monies were actually taken in. This reconciliation must be done on the cash box reconciliation sheet. This sheet is then recorded the next business day with the regular City cash receipts. Any discrepancies must be explained by City staff and signed off on by their department manager. Any discrepancies will be reported to the Clerk/Treasurer for further review.

Refunds and Cancellations

Should the City of Watertown cancel a program, activity, or close a facility refunds or credits on account will be applied. For park and recreation programming, the recreation account will be credited. For other refunds, the credit or debit account used to pay for goods or services shall be credited

Grants and Donations

All grants and donations awarded to the City shall be presented to the City Council for approval. The department manager will prepare a summary of the funding agency source and recommended use of proceeds for City Council review.

Substantial Gifts

The City of Watertown seeks to recognize donors who, through a distinguished effort or substantial financial gift, wish to support a City facility or structure. For example, structures may include pavilions, warming houses, shelters, plazas, etc.; real estate to be used for parks, trails or open space, interpretive areas, or active recreation; or other large-scale projects as discussed with the Advisory Boards and City Council. The following procedure will be used for recognizing donations for amenities or projects, in addition to defining the period of time in which the donation or gift will be received by the City.

For the purposes of this policy, "Substantial Financial Gift" is defined as at least 50% of the estimated cost of:

- 1) New construction, remodeling, or renovation;
- 2) Developing a new real property, i.e. park buildings, structures, real estate, etc.; or
- 3) Replacement of an existing, unnamed facility or landmark that requires substantial renovation at the time of the gift.

The City of Watertown will review donations of a routine nature (e.g. trees, park benches and other furniture) on a case-by-case basis. The department manager receiving the donation will review the donation with the City Administrator prior to City Council acceptance.

Recognition may be in honor of individuals, groups of individuals, or corporations.

1) Donors or donor representatives must sign a donor agreement that delineates terms of the contributions. A donor may remain anonymous. Method of donor recognition must be agreed upon and formally approved by the City Council prior to signing the donor agreement. The Donor Agreement will include the following language:

(a) In the event of demolition of a structure, its recognition or any part of it shall be subject to new recommendations.

(b) When requesting recognition of a structure or facility, architectural style should be consistent with the City's visual standards, and adhere to City ordinances.

(c) The designated staff person is responsible for overseeing compliance with these policy requirements, including completion of consultations and approvals, securing signatures on donation agreements by donor, donor representative, and the City of Watertown.

(d) Groundbreaking, dedication, or other ceremonies relating to gifts, shall be reviewed and approved by the City Council.

(e) The City Council may rescind a donor's recognition for just cause.

2) The nature of the donation will assist in determining the type of recognition.

3) A plaque, or other negotiated signage, may be placed on a building, room, or facility to recognize a donor. The design, wording, size, and location of the plaque will require the approval of the City Council.

4) A donor recognition or memorial plate may be affixed to routine furniture items. The City shall specify the size and location of the donor plate and the donor will pay for the plate and the engraving. The City shall approve the wording of the donor plate and affix the plate to the furniture.

5) Plaques or markers will not be placed for routine tree donations.

6) Donations of a routine nature will be approved by the City Council and will be recognized with a certificate or appreciation.

7) The donor shall pay for the delivery and installation of the amenity and/or donor recognition plaque or plate.

8) The option of funding the amenity for life of said amenity may be negotiable and would require assurance of sufficient funding. There is no exclusive right to sole recognition in cases of expansion or other structural modifications.

Recognition carries no power of direction to the City on matters of schedule, design, furnishing, or priority of use.

Process and Procedures for Submission of Proposal

Any proposal for recognition shall be made through a formal submission process to the Advisory Board (if appropriate) which will then make a recommendation on the proposal to the City Council.

Proposals must have the written approval of the person or corporate representative for whom the recognition is to be given. If the person is deceased, the approval of the family or designated representative should be obtained. If the person is deceased and there is not family or a designated representative, recognition can proceed through the submission process.

Procedures governing approval of recognition proposals, of a non-routine nature, are set forth below and may also be supplemented by such operational guidelines as the City of Watertown may adopt from time to time. Exceptions from policy requirements must be authorized by the City Council in advance of the donation.

1) A schematic design and details will be submitted to the City of Watertown and shall include the following elements:

(a) A scaled architectural drawing or plan drawn to scale to be completed by a landscape architect or civil engineer, registered in the State of Minnesota, and would include:

- site plan;
- architectural details;
- landscape plan;
- tree preservation; and
- sign or memorial detail.

Please note: The schematic design phase of the submission process will be overseen by the appropriate departments of the City of Watertown according to established procedure. The proposed recognition should be designated at the time of submission of the schematic design, as found in Step One, a5. Recognition may not be allowed after the amenity is operational except by Council review and approval.

2) After submission of the schematic design, the individual, group, or corporation will formally present their request to an Advisory Board (if appropriate) and then make a recommendation to City Council.

3) Upon approval by City Council, the Donor Agreement will be signed and kept on record with the City of Watertown.

Method of Payment and Responsibilities of Donation

Donations associated with recognition proposals may be made by the donor with financial assurity or cash escrow for the full amount of the donation and shall be submitted to the City prior to the commencement of construction of amenity or project.

Individual donors may gift a portion of their contribution through an irrevocable trust or a contractual bequest mechanism.

Should the donor renege on any payment once the project has commenced and the donor agreement has been signed, the City shall be allowed to keep any portion of the donation already paid, and recognition shall not apply.

Should the City fail to use the funds for the stated purpose in the Donor Agreement, the funds shall be returned to the donor.

Donations of Land

The City Council shall require an estimated value of the land being donated in order to establish a starting value within the City's capital asset records.

Naming

The City will commemorate long-term service to the community or to a distinguished person, and such recognition is contingent upon Council review and approval.

The City will consider naming opportunities for outstanding contributions, such as parcel of land or new donation outside the geographic confines of the existing park system.

The City prefers not to name facilities within its park system that are made possible with donations. However, some exceptions may occur.

Naming a building in honor of a person who has given extraordinary distinguished service to the City will not normally be considered until after his/her substantive formal relationship with the City has ended.

The name used should normally be the family name, or in the case of a corporate entity, the shortest possible name. Unless the City Council determines otherwise, a name may only be used once.

Stewardship

Stewardship requires that City of Watertown honor the expectations of donors and abide by gift agreements, including recognition provisions. Recognition is generally expected to last the lifetime of the building, facility, unit, program, or other endeavor. There may nonetheless be extraordinary

circumstances that justify cessation of the use of a recognition, or “renewed recognition,” such as change in use, substantial renovation, or demolition of an existing building, facility, or part thereof, major programmatic changes, failure of a donor to meet the financial commitment of the donor agreement, or other situations unforeseeable at the time of the original recognition. In all cases, the City Council must approve the renewed recognition.

Gifts to City Officials

With some exceptions, every gift to any city official is prohibited, [Minn. Stat. § 471.895](#). An interested person may not give a gift or request another to give a gift to a local official. A local official may not accept a gift from an interested person. [Minn. Stat. § 471.895, subd. 1 \(c\)](#). An “interested person” is a person or a representative of a person or association with a direct financial interest in a decision the local official is authorized to make.

The law prohibits gifts to local officials, not to cities. A gift can be given by an interested person to the City. Whether the City can pass the gift on to local officials is discussed below. A gift means money, real or personal property, a service, a loan, a forbearance or forgiveness of indebtedness, or a promise of future employment, that is given and received without the giver receiving consideration of equal or greater value in return.

An interested person who cannot give a gift to a local official includes anyone who is or may provide goods or services to the City--such as engineers, attorneys, fiscal advisors, contractors, and sales representatives. Virtually every resident of the City and anyone doing business in the City could at some time have a direct financial interest in a decision a local official is authorized to make and thus would qualify as an interested person. The following are possible examples where a property or business owner’s financial interest could be effected.

- Levying of property taxes
- Spreading of special assessments
- Valuation of property for tax purposes
- Issuing of a license
- Zoning of property or granting of a land use permit

Any person doing business or residing in the City is potentially an interested person. Since virtually every elected or appointed city official or employee is covered by the prohibition of gifts law, the question of whether anything is exempted from the gift law is important. There are a few limited types of gifts that are not prohibited. The following types of gifts are permitted:

- Political contributions.
- Services to assist an official in the performance of official duties.
- Services of insignificant monetary value.
- A plaque or similar memento recognizing individual services in a field or specialty or to a charitable cause.
- A trinket or memento of insignificant value.
- Informational material of unexceptional value.

There is also an exception for food or beverage given at a reception, meal, or meeting away from the recipient’s place of work by an organization before whom the recipient makes a speech or answers questions as part of a program. This exception probably permits only principal speakers at meetings to receive gifts of food or beverage. There are no blanket social exceptions to the law prohibiting gifts to local officials. But, gifts given because of the recipient’s membership in a group, a majority of whose members

are not local officials is permitted if an equivalent gift is given to the members of the group who are not local officials. And, gifts given by an interested person who is a member of the family of the recipient are permitted, unless the gift is given on behalf of someone who is not a member of that family. The law prohibits gifts to city officials, not to cities. Thus, an interested person can give a gift to the City. If the giver has no control over who will receive the gift, and the gift was not targeted to a specific person, perhaps a city official could benefit from that gift. However, if the person who benefits has any control over the decision to have that gift benefit that person, the gift would be prohibited. For example, if an interested person gave five tickets to a football game to the City, the City Council could not decide to use the tickets themselves.

This law applies to all employees, members of the city council, appointed boards, commissions, and committees.

CAPITAL IMPROVEMENT PLAN (CIP)

CIP Objective

A Capital Improvement Plan (CIP) will be developed for a period of five (5) to twenty (20) years. A long-range capital planning committee, appointed by the City Council, will address capital improvement projects, capital equipment needs, and the affect on the City's resources. The CIP will be reviewed and updated annually. Years two through twenty are for planning purposes only.

For further details regarding plan goals, objectives, procedures, rankings, etc, refer to the Capital Improvement Plan Guidelines with the current CIP.

Capital Improvement Plan Budget

The Long-Range Capital Improvement Planning Committee will coordinate development of the CIP budget with the development of the annual general fund operating budget. As resources are available, the most current year of the CIP will be recommended for incorporation into the current year operating budget as capital outlay line items within the budget. Each capital improvement project will be reviewed by the long-range capital improvement planning committee for its impact on the operating budget in terms of revenue generation, additional personnel required, and additional operating expenses.

The City will maintain its physical assets in a manner adequate to protect the City's capital investment and to minimize future maintenance and replacement costs. The City will provide for maintenance and replacement from current revenues where possible.

Minimum Project Cost

To be considered in the CIP, a project must have an estimated total cost of at least \$5,000. Certain assets below that cost may be included for informational and planning purposes in the Council's discretion. Projects may not be combined to meet the minimum standard unless they are dependent upon each other. Items that are operating expense (such as maintenance agreements, computer software upgrades, etc.) will not be considered within the CIP.

Department managers will identify the estimated costs and potential funding sources for each capital project prior to inclusion in the CIP. The operating costs to maintain capital projects shall be considered prior to the decision to undertake the capital projects.

Annual Review

The Capital Improvement Planning Committee will present the CIP annually to the City Council for approval. Any substantive change to the CIP after approval must be approved by the City Council.

FIXED ASSETS AND CAPITALIZATION THRESHOLD

Capital Assets Definition

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

Infrastructure assets are long-lived capital assets that normally can be preserved for a significant greater number of years than most capital assets and are normally stationary in nature. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems, and dams. Infrastructure assets do not include buildings, drives, parking lots or any other examples given above that are incidental to property or access to the property.

All information in regards to City asset acquisition, retention, and disposal is maintained and reported to the Finance Department.

Establishing Classes of Assets

The City establishes the following major categories of capital assets, with further details defined in Exhibit A attached hereto and made a part of this policy.

- Land
- Land Improvements (Improvements other than buildings)
- Buildings and Building Improvements
- Construction in Progress
- Vehicles
- Machinery and Equipment
- Infrastructure
- Intangible Assets

Depreciation Definition

Depreciation is the process of allocating the cost of tangible property over a period of time rather than deducting the cost as an expense in the year of acquisition.

It is the City's policy to use the straight-line depreciation method. The basis of the asset is written off evenly over the useful life of the asset. The same amount of depreciation is taken each year. In general, the amount of annual depreciation is determined by dividing an asset's depreciable cost by its estimated life. The total amount depreciated can never exceed the asset's historic cost less salvage value. At the end of the asset's estimated life, the salvage value will remain.

To avoid the complications of depreciating each asset from the specific date on which it is placed in service, the City will utilize a partial-year convention. Under this convention, property placed in service at any time during a given year, depreciation will be calculated from the day of service for the first year. If the property is disposed of before the end of the estimated useful life, no depreciation is allowed for the year of disposition.

To calculate depreciation on a capital asset, the following five factors must be known:

- Date the asset was placed in service,
- Cost or acquisition value,

- Salvage value,
- Estimated useful life, and
- Depreciation method.

Obtaining an Asset's Cost of Acquisition Value

Capital assets are reported at historical cost and should include the cost of freight, site preparation, architect and engineering fees, etc. If something other than cash is used to pay for the asset, then the fair-market value of the non-cash payment or consideration determines the asset's cost or acquisition value. When the value of the consideration paid can't be determined, the asset's fair-market value determines its cost. With few exceptions, an asset's cost should also include necessary costs incurred to place the asset in service. Costs include the invoice price plus incidental costs (insurance during transit, freight, capitalized interest as described earlier, duties, title search, registration fees, and installation costs). Exceptions to this rule include interest expenses associated with deferred payments and real estate taxes paid, if any, in the acquisition of property.

Inventory Record

The City shall inventory all capital assets. An inventory of all capital assets is maintained in a database maintained by finance staff. Each inventory record maintained by Finance staff should include: description, year of acquisition, method of acquisition (e.g. purchase, donation, etc.) funding source, cost or estimated cost, salvage value, and estimated useful life. The inventory record will also identify the departments that use the asset. The Finance Department will quarterly review asset inventory with information provided by department managers and update records accordingly. On an annual basis, Finance, Public Services, and Fire staff members review all physical inventories for accuracy. The City Administrator shall review all physical inventories taken.

Recording Land

Land is to be capitalized but not depreciated. It is recorded at historical cost and remains at that cost until disposal. If there is a gain or loss on the sale of land, it is reported as a special item in the statement of activities. Asset tracking is maintained by the fixed asset database.

Recording Land Improvements

Land improvements include items such as excavation, non-infrastructure utility installation, driveways; sidewalks, parking lots, flagpoles, retaining walls, fencing, signs, outdoor lighting, and other non-building improvements intended to make the land ready for its intended purpose. Land improvements can be further categorized as non-exhaustible and exhaustible.

Non-Exhaustible

Expenditures for improvements that do not require maintenance or replacement expenditures to bring land into condition to commence erection of structure, expenditures for improvements not identified with structures, and expenditures for land improvements that do not deteriorate with use or passage of time are additions to the cost of land and are not exhaustible and therefore not depreciable.

Exhaustible

Other improvements that are part of a site, such as parking lots, landscaping and fencing, are usually exhaustible and are depreciable. Depreciation of site improvements is necessary if the improvement is exhaustible.

Recording Buildings

Buildings should be recorded at either their acquisition cost or construction cost. The cost of new construction should be carefully evaluated because projects usually consist of major components such as land, land improvements, building construction (including professional fees and permits), furniture,

fixtures and equipment. In addition, buildings include components such as roof, air conditioner system, etc that should be recorded separately when significant because these building components have different useful lives. The value of each component needs to be determined and placed within its own category.

Recording Building Improvements

Building improvements that extend the useful life should be capitalized. Examples of building improvements include roofing projects, remodeling or replacing major building components.

Recording Construction in Progress

Construction in progress should be capitalized and not depreciated. It should be reported with land and other non-depreciating assets at the government-wide level. Unspent debt proceeds from capital assets related debt are reported in the net assets section of the statement of net assets as “restricted for capital projects”.

Recording Machinery and Equipment

Assets such as furniture, machinery and equipment (that meet threshold levels) should be capitalized and inventoried. Some assets, individually, may fall below the capitalization threshold but may be purchased in large quantities by the City e.g. computers, books. City staff should aggregate such assets and consider the materiality and significance of them and if material or significant capitalize such items either individually or in the aggregate.

Recording Vehicles

Vehicles should be identified, inventoried, and depreciated.

Recording Easements

An easement is an interest in land owned by another that entitles its holder to a specific limited use of the land. Therefore, easements are not required to be reported unless the City paid for the easement. (See Regarding Intangible Assets below).

Recording Intangible Assets

Intangible assets are to be capitalized and recorded based on actual cost. Easements (permenant and temporary), internally created computer software, water rights, patents, and trademarks will not be depreciated due to their indefinite useful life.

Recording Works of Art and Historical Treasurers

Works of art and historical treasurers should be recorded at historical costs. Depreciation is not required for collections or works of art that are inexhaustible.

Establishing and Setting the Threshold Levels for Recording Capital Assets

The following elements of useful life, salvage value, and asset costs are established for capitalization of assets:

Estimated Useful Life

The first criterion is useful life. An asset must have an estimated useful life greater than one (1) year to be considered for capitalization and depreciation. Assets that are consumed, used-up, habitually lost or worn-out in one year or less will not be capitalized.

Salvage Value

The second criterion for determining depreciation expense is calculating the assets salvage value. Assets categorized as vehicles, machinery and equipment will take into consideration a salvage value. A value of 5% of the total original cost of the asset will be recorded as salvage value. If an asset falls into any

another asset category, a salvage value will not be recorded and taken into consideration when calculating depreciation expense.

Asset Cost

The third criterion for determining depreciable capital assets is cost. The capitalization threshold shall be established as follows for per individual asset item beginning with assets classified on or after January 1st, 2015.

(See Exhibit A for additional threshold and asset class information.)

	<u>Capitalize and Depreciate</u>
Land	Capitalize only
Construction in Progress	Capitalize only
Intangible Assets	Capitalize only
Land Improvements (Other than buildings)	\$5,000
Building and Building Improvements	\$5,000
Infrastructure	\$5,000
Machinery and Equipment	\$5,000
Vehicles	\$5,000

Asset Acquisition – Procedures & Internal Controls

All asset acquisitions and disposals must be reported to the Finance Department after council approval. As asset items and projects are completed, put into service, and/or taken out of service, department managers must report to the Finance Department the bid (disposal) along with City Council action/resolution. Documentation such as invoices for purchase (acquisition) and notice of sale must be forwarded before the database will be updated.

When all invoices and charges for service are totaled for a project, the asset is activated by the Finance Department and maintained with quarterly inventory audits and annual overall asset review. Depreciation expense is calculated at fiscal year end. Depreciation is calculated by the database and takes into account items as listed above including acquisition cost, useful life, and salvage value. Depreciation expense is then recognized as expenditure in the final period of the fiscal year. The calculation of depreciation is processed by finance staff and approved by the City Administrator.

INVESTMENTS

Policy and Scope

It is the policy of the City of Watertown to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds.

The investment policy applies to all financial assets of the City of Watertown. These funds are accounted for in the City of Watertown's Comprehensive Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Debt Service Funds
- Trust and Agency Funds

Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the “prudent person” and/or “prudent investor” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with this policy and with MN Statute 118A and exercising due diligence, shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Objective

The primary objectives, in priority order, of the City of Watertown investment activities shall be:

- **Safety:** Safety of principal is the foremost objective of the investment program. Investments of the City of Watertown shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the City of Watertown will diversify its investments by investing funds among a variety of securities offering independent returns and financial institutions.
- **Liquidity:** The City of Watertown investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated.
- **Return:** The City of Watertown investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City’s investment risk constraints and the cash flow characteristics of the portfolio.

Delegation of Authority

Management responsibility for the investment program is hereby delegated to the Clerk/Treasurer and City Administrator who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate personnel, and their procedures in the absence of the Clerk/Treasurer and City Administrator.

Investment Procedures

The City Administrator shall establish written policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to safekeeping, repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Administrator.

Ethics and Conflicts of Interest

Public officials and city employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Council any material financial interest in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City of Watertown.

Authorized Financial Dealers and Institutions

The Clerk/Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Minnesota. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule). No public deposit shall be made except in a qualified public depository as established by Minnesota laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Clerk/Treasurer, upon request, with annual audited financial statements, proof of National Association of Security Dealers (NASD) certification, and proof of State of Minnesota registration. Annual completion of Notification to Broker and Certification by Broker (pursuant to MN Statutes 118A.04) will be done.

Authorized and Suitable Investments

From the governing body perspective, special care must be taken to ensure that the list of instruments includes only those allowed by law and those that local investment managers are trained and competent to handle. MN Statutes, Section 118A, lists all permissible investments for municipalities. The following is a list of investments which the City of Watertown will be authorized to invest in:

1. Government Securities: Instruments such as bonds, notes, bills, mortgages and other securities which are direct obligations of the federal government or its agencies, with the principal fully guaranteed by the U.S. Government or its agencies.
2. Certificate of Deposit: A negotiable or nonnegotiable instrument issued by commercial banks and insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC), or, if exceeding \$250,000 FDIC coverage, is fully insured or collateralized.
3. Prime Commercial Paper: An investment used by corporations to finance receivables. A short-term (matures in 270 days or less) unsecured promissory note is issued for a maturity specified by the purchaser. Corporations market their paper through dealers who in turn market the paper to investors.
4. Any security which is a general obligation of the State of Minnesota or any of its municipalities.
5. Statewide investment pools which invest in authorized instruments according to MN Statutes 118A.
6. Money market mutual funds which invest in authorized instruments according to MN Statutes 118A.
7. Interest-bearing deposits in authorized depositories must be fully insured or collateralized.

Safekeeping and Custody

When a broker dealer holds investments purchased by the City of Watertown in safekeeping, the broker-dealer must provide asset protection of \$500,000 through the Securities Investor Protector Corporation (SIPC) and at least another \$49.5 million supplemental insurance protection.

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 and to match investment maturities with debt obligations; however, no more than 20% of the total investments should extend beyond 5 years. Unless prior Council approval is received, no investment with a maturity exceeding 10 years will be purchased.

The City will attempt to diversify its investment portfolio according to broker-dealer or financial institutions. No more than 50% of the entire investment portfolio shall be held with one broker.

Reporting

Periodic required investment reports to policymakers and elected officials provide necessary written communication regarding investment performance, risk analysis, adherence to policy provisions, as well as other information. The City Administrator shall provide the City Council periodic investment reports, which provide a clear picture of the status of the current investment portfolio. The management report should include a summary of securities held at the end of the reporting period by authorized investment category, percentage of portfolio represented by each investment category, percentage of portfolio represented by each financial institution, and overall portfolio values.

DEBT SERVICE

Practices

Debt will be incurred only for those purposes as provided by State Statutes. The City may utilize the M.S. Chapter 429 process for allowable purposes, including new development projects; however, unless specifically approved by the City Council, the term of the assessments on such new development parcels shall not exceed ten (10) years.

The City of Watertown will never issue debt in excess of three percent (3%) of its total market value.

Type of Instruments

When the City Council determines that an eligible project will be funded through the issuance of debt, the following types of debt structures shall be considered:

General Obligation Debt Bonds (G.O.) – Property Tax supported. General obligation bonds are direct obligations of the City and pledge the full faith and credit of the City. G.O. Debt Bonds are used to finance only capital facilities and equipment that are essential to the continued maintenance or development of the City.

- Any project considered for funding must be included in the Capital Improvement Plan of the City.
- The revenue stream for re-payment of the debt is primarily general property tax, but in some circumstances may include contract revenue.

General Obligation Improvement Bonds (G.O.) – General Obligation bonds are direct obligations of the City and pledge the full faith and credit of the City. G.O. Improvement bonds are used to finance street and utility improvements that are essential to the continued upkeep, maintenance, and/or development of the City.

- Any project considered for funding must be included in the Capital Improvement Plan of the City.
- The bonds are supported primarily by special assessment revenues and property tax levies.

General Obligation Revenue Bonds - Bonds which are supported wholly by revenues not based on real estate property values and can include enterprise revenues and other user fees.

Special Obligation Revenue Bonds (Conduit Debt) - Conduit debt obligations are certain limited obligation revenue bonds or similar debt instruments issued for the express purpose of providing capital financing for a specific third party. Although these bonds bear the name of the City, the City has no obligation for such debt.

- These bonds should be issued when the proposed development is expected to be financially feasible and contributes to the general welfare or development of the City.
- The City will charge a fee of up to 1% of the bond offering.

Equipment Certificates - These bonds are direct obligations of the City and pledge the full faith and credit of the City. Equipment Certificates shall be used to purchase equipment that is part of the Capital Improvement Plan.

- The City shall try and manage equipment certificates so that new certificates are only issued when a certificate expires. However, there may be times when this is not feasible.
- The revenue stream for re-payment of the debt is primarily general property tax, but in some circumstances may include contract revenue.

Lease Transactions - The City shall have the option of financing equipment and facilities by executing a lease agreement with a third party. In considering leasing the following shall be considered:

- Before execution of a lease agreement, the City Administrator and Bond Counsel shall compare the cost of issuing long-term debt versus lease. A lease shall be utilized when this comparison results in favorable savings to issuing long term debt.
- Adequate general or enterprise revenues should be available to service the payments.

Bond Rating

Strong financial management is a key credit rating factor. In order for the City of Watertown to respond quickly to economic and financial demands, the City will seek to maintain or continually improve the bond rating so as to seek the lowest possible interest rate available. The City will also maintain a “strong” Financial Management Practice (FMA) score to provide transparent and consistent information about the financial management practices.

The Capital Investment Fund (CIF) will budget for all governmental capital improvement activities and a separate Debt Service Fund will exist for the repayment of debt and collection of all special assessments and other sources identified within the projects.

Letters of Credit Requirement

Should 429 financing be utilized for private development projects, the developer or property owner shall provide an irrevocable letter of credit, issued by a banking institution approved by the City Administrator. The amount of the letter of credit shall be equal to one hundred percent (100%) of the total special assessments for the project and may be reduced on an annual basis after verification that special assessments have been paid in each year of the repayment schedule.

In the case of an irrevocable letter of credit required for the completion of public improvements within the development project, the amount shall be equal to one hundred and twenty percent (120%) of the estimated cost of the improvements. The developer or property owner shall provide an irrevocable letter of credit, issued by a banking institution approved by the City Administrator.

Special Assessments

The financing for the reconstruction and overlay plan is through the sale of 429 Improvement Bonds. State Statute requires a minimum assessed percentage of 20% for projects financed with 429 Improvement Bonds.

Assessment Policy Summary:

- The portion of the project costs assessed to the abutting property owner shall be based on a linear front footage basis of the parcel or unit basis.
- The City pays 20% of the total project cost of a standard local street section and 100% of the cost of extra width and extra depth above the city standard local street section.
- Storm sewer costs are to be included in the total project cost of a city standard local street, assessed 80% (and City pays 20%), in accordance with the Street Assessment Policy.
- All or some of the following improvements may be incorporated in a reconstruction project. Costs for these improvements will be included in the overall project cost, with a contribution from the City: storm water ponding, street lights, relocation of overhead power lines, street signs, sidewalks and trails, and boulevard trees.
- Corner lots and parcels with multiple frontages shall be assessed 50% of the front footage on each side.
- A minimum assessment shall be levied to parcels identified within the project area having neither direct primary nor non-primary access to affected streets. The assessment shall be equal to 75% of the typical front footage identified within the project area. Parcels abutting county roads are exempt from this provision.
- Assessments will not be levied for seal coat and overlay operations.
- Assessments may be pre-paid to the City by benefiting properties
- Assessments will be billed to the benefiting property owner by the City; typically over a ten (10) year period, at an interest rate of one percent (1%) over the bond interest rate. Over terms of the assessment receivable may be available to the benefiting property owners.
- In the case where a benefiting property owner is delinquent in their assessment payment, assessments may be certified to real estate taxes over a ten (10) year period, at an interest rate one percent (1%) over the bond interest rate.
- Partial pre-payments for assessments exceeding \$100,000.00 may be accepted by the City.

<u>Improvement</u>	<u>Type of Construction</u>	<u>Method</u>
Curb & Gutter	New Development	100% of the cost assessed to abutting property owner on linear front footage OR unit basis.
	Reconstruction (Complete)	The portion of the project costs assessed to the abutting property owner shall be based on a linear front footage basis of the parcel.
	Reconstruction (Spot Repair)	100% of cost to be included in overall cost of project prior to assessment apportionment in accordance with policy.
Local Street	New Development	100% of the cost assessed to abutting property owner on linear front footage OR per unit basis.
	Reconstruction	80% of the cost to be assessed to abutting property owner on linear front footage OR per unit basis. 20% of the cost to be paid by City.

	Maintenance (Seal Coat & Overlay)	100% Paid By City Funds.
Collector Street as defined by the City's Transportation Plan	New Development	100% of the cost of the construction cost of a city standard local street assessed to abutting property owner based on linear front footage OR per unit basis.
	Reconstruction	The portion of the project costs assessed to the abutting property owner shall be based on a linear front footage OR per unit basis. City pays 20% of the cost of the construction of city standard local street and 100% of the cost of construction above a city standard local street.
	Maintenance (Seal Coat & Overlay)	100% Paid By City Funds.

Intersection	New Development	100% of the cost to be included as part of street project and apportioned according to appropriate street construction category.
	Reconstruction	100% of cost to be included in overall cost of project prior to assessment apportionment in accordance with policy.
Multiple Fronted Parcels - Corner Lot - Double Fronted Lot - Large Parcels - Etc.	Reconstruction	Front footage to be used in assessment methods described herein shall be calculated as follows: - 50% of the front footage on all sides of the parcel.
Parcels with no driveway access to primary and non-primary streets.	Reconstruction	A minimum assessment shall be levied to parcels identified within the project area having no direct driveway access to neither primary nor non-primary streets, i.e. alley access. The assessment shall be equal to 75% of the typical front footage identified within the project area. Parcels abutting county roads are exempt from this provision.
Alley	New Development	100% of the cost assessed to abutting property owner on linear front footage OR per unit basis.
	Reconstruction	80% of the cost to be assessed to abutting property owner on linear front footage OR per unit basis. 20% of the cost to be paid by the City.
Sanitary Sewer Trunk/Lateral	New Development	100% of the cost assessed to benefited area on unit basis.
	Reconstruction	

	Maintenance	100% of the cost assessed to benefited area on unit basis. 100% of the cost to be paid by City.
Sanitary Sewer Service	New Development	100% of cost assessed to property owner.
	Reconstruction (Including main)	100% of the cost assessed to benefited area on a unit basis.
	Reconstruction (Stand alone service replacement)	100% of cost assessed to property owner.
Sanitary Sewer Over sizing	New Development	100% paid by City. (Materials cost above 8-inch pipe plus 20% for handling and installation)
	Reconstruction	100% paid by City. (Materials cost above 8-inch pipe plus 20% for handling and installation)
Lift Station	New Development	100% of the cost assessed to benefited area on a per unit basis.

Water Trunk/Lateral	New Development	100% of the cost assessed to benefited area on unit basis.
	Reconstruction	100% of the cost assessed to benefited area on unit basis.
	Maintenance	100% of the cost to be paid by City.
Water Service	New Development	100% of cost assessed to property owner.
	Reconstruction (Including main)	100% of the cost assessed to benefited area on a unit basis.
	Reconstruction (Stand alone service replacement)	100% of cost assessed to property owner.
Water Over sizing	New Development	100% paid by City. (Materials cost above 8-inch pipe plus 20% for handling and installation)
	Reconstruction	100% paid by City. (Materials cost above 8-inch pipe plus 20% for handling and installation)
Storm Sewer Trunk/Lateral	New Development	100% of the cost assessed to benefited area on unit basis.
	Reconstruction	50% of the cost to be assessed to abutting property owner on linear front footage OR per unit basis. 50% of the cost to be paid by City.
	Maintenance	100% of the cost to be paid by City.
Storm Water Ponding	New Development	100% assessed to development.
	Reconstruction	

	Maintenance	Cost to be included in overall cost of project prior to assessment apportionment in accordance with policy. City makes contribution to the project. 100% of the cost to be paid by City.
Overhead Power Lines	Relocation	Cost to be included in overall cost of project prior to assessment apportionment in accordance with policy. City makes contribution to the project.

Street Lights	New Development	100% of material and installation cost on a unit basis paid by developer.
	Reconstruction	Cost to be included in overall cost of project prior to assessment apportionment in accordance with policy. City makes contribution to the project.
	Maintenance	100% of the cost to be paid by City.
Street Signs	New Development	100% of material and installation cost on a unit basis paid by developer.
	Reconstruction	Cost to be included in overall cost of project prior to assessment apportionment in accordance with policy. City makes contribution to the project.
	Maintenance	100% of the cost to be paid by City.
Sidewalks & Trails	New Development	100% of cost assessed on a unit basis to development.
	Reconstruction	Cost to be included in overall cost of project prior to assessment apportionment in accordance with policy. City makes contribution to the project.
	Maintenance	100% of the cost to be paid by City.
Boulevard Trees	New Development	100% of cost paid by the Developer.
	Reconstruction	Cost to be included in overall cost of project prior to assessment apportionment in accordance with policy. City makes contribution to the project.
	Maintenance	100% of the cost to be paid by City.

Deferred Special Assessments

Hardship Assessment Deferral for Senior Citizens, People with Disabilities, or Members of the National Guard or other Reserves Ordered to Active Military Service.

Pursuant to the authority for deferring special assessments as provided in MN Statute Section 435.193 through 435.195, the City Council may, in its discretion, defer the payment of special assessments for any homestead property owned by a person 65 years of age or older, one retired by virtue of a permanent and total disability, or a member of the National Guard or other reserves ordered to active military service for whom it would be a hardship to make the payments.

Eligibility

Any person 65 years of age or older, permanently and totally disabled (as determined by the Social Security Administrator), or a member of the National Guard or other reserve ordered to active military service may request deferment of special assessments levied against real property for public improvements if the following conditions are met.

1. Ownership. The applicant must be the fee simple owner of the property or must be a contract vendee for fee simple ownership. An applicant must provide either a recorded deed or contract for deed with the application to establish a qualified ownership interest as required here.
2. Homestead. The property must be the applicant's principal place of domicile and classified on the City's and County's real estate tax rolls as the applicant's homestead.
3. Income. The income threshold for eligibility of those applicants 65 years of age and older or disabled be established by the most recent U.S. Census Bureau Poverty Threshold compilations. Income eligibility would be determined by the submittal of the most recent federal tax filing form.

Interest on Deferred Assessment

Interest on the deferred assessment shall be forgiven to December 31st of the year before the first installment is payable.

Deferment Period

The deferment shall be granted for as long a period of time as the hardship exists and the conditions aforementioned have been met. However, it shall be the duty of the applicant to notify the City Administrator of any change in status that would affect eligibility or deferment.

The entire amount of deferred special assessments shall be due within sixty (60) days after loss of eligibility by the applicant. If the special assessment is not paid within the sixty (60) days, the City Administrator shall add thereto interest at a per annum interest rate of one percent (1%) above the bond interest rate and the total amount of principal and interest shall be certified to the County Auditor for collection with taxes the following year. Should the applicant demonstrate to the satisfaction of the City Council that full repayment of the deferred special assessment would cause the applicant particular undue financial hardship, the Council may order that the applicant pay within sixty (60) days a sum equal to the number of installments of deferred special assessments outstanding and unpaid to date, including principal and interest, with the balance thereafter paid according to the terms and conditions of the original special assessments.

Termination of Deferral Status

The option to defer the payment of special assessment shall terminate and all amounts accumulated plus applicable interest shall become due upon the occurrence of any one of the following events:

1. Sale of Property. The subject is sold, transferred, or subdivided in whole or in part.
2. Death of Owner. The death of the fee owner qualified for deferral status unless a surviving joint tenant, tenant in common, or contract vendee is eligible for the deferral benefit provided hereunder.
3. Nonhomestead Property. The subject property loses its homestead status for any reason.
4. No Hardship. The City Council determines that there would be no hardship to require an immediate or partial payment of the deferred special assessment.

Filing for Federal Status/Fee

An eligible applicant must file an application not later than thirty (30) days after the assessment is adopted by the City Council.

All deferral applications must be made on forms approved by the City and submitted to the City Administrator. The applicant will be charged an administrative filing fee, based on the current fee schedule.

Nothing herein shall be construed to prohibit the determination of hardship on the basis of exceptional and unusual circumstances not covered by the above noted requirements where the determination is made in a nondiscriminatory manner and does not give the applicant an unreasonable preference or advantage over other applicants.

Deferred Assessment Procedures

- Deferred Assessment Application form is provided to applicant/property owner by the City Administrator's Office.
- Applicant fills out the application form and provides the relevant information to document qualification for deferred assessment. Applicant then returns form to City Administrator's Office.
- City Administrator makes recommendation to City Council to approve or deny the application.
- An approved application may be forwarded to the Carver County Recorder's office for recording and to the Carver County Taxpayer Services Division.
- The deferral information is entered into the City's property records data base.
- At such time the property no longer qualifies for the deferred assessment (upon a transfer of the property, loss of homestead status, or death, no hardship as determined by the Council), the County Auditor/Recorder's office will notify the City of the termination of the deferral status, and direct the party to the City to pay the balance on the outstanding deferred assessment amount.

FINANCIAL POLICY ADOPTION

The City of Watertown financial policy and guidelines shall be adopted and amended by action of the City Council. The Watertown City Council shall review the policy periodically and any modifications made thereto must be approved by the City Council.

**CAPITALIZATION/DEPRECIATION SCHEDULE
EXHIBIT A**

Item	Useful Life	Item	Useful Life
City Hall		Fire Station	
Buildings	30 to 50 yrs	Buildings	30 to 50 yrs
Land	zero yrs	Land	zero years
Land Improvements	15 yrs	Radios	5 yrs
Computers	5 yrs	Hoses	10 yrs
Dais	10 yrs	Jaws of Life	10 yrs
Office Equipment	10 yrs	Lockers	10 yrs
Scrubber	10 yrs	Pagers	5 yrs
		Vehicles	20 to 30 yrs
Public Works		Building Improvements	15 yrs
Street Sweeper	20 yrs		
Tractors	15 yrs	Parks	
Streets	20 to 25 yrs	Hockey Rink	15 yrs
Seal Coating	7 yrs	Large Lawn Mower	15 yrs
Vehicles	10 to 15 yrs	Playground Equipment	30 yrs
Buildings	30 to 50 yrs	Buildings	30 to 50 yrs
Crack Filling	5 yrs	Equipment	10 to 15 yrs
Equipment	10 to 15 yrs	Park Benches, tables	10 yrs
Building Improvements	15 yrs	Building Improvements	15 yrs
Street Lights	20 to 30 yrs	Trails	20 yrs
Loader	20 yrs		
Rip Rap	20 yrs	Storm Water	
		Storm Water system	25 to 30 yrs
Water		Catch Basin	25 yrs
Water tower	40 yrs		
Buildings	30 to 50 yrs	Sewer	
Building Improvements	15 yrs	Buildings	30 to 50 yrs
Hydrant	25 yrs	Building Improvements	15 yrs
Water Meters	10 to 20 yrs	Slip Lining	40 yrs
Well	30 to 40 yrs	Jet Vac	20 yrs
Vehicles	10 to 15 yrs	Vehicles	10 to 15 yrs
Water Main	40 yrs	Sewer Main	40 yrs.