

CITY OF ROCKVILLE

FUND BALANCE POLICY

SUBJECT: Policies and procedures for retaining healthy fund balance
DATE COUNCIL APPROVED: March 16, 2011

PURPOSE AND NEED FOR POLICY

The City of Rockville understands that it has a responsibility to provide prudent fiscal policies in order to retain the financial health of the municipality. Therefore, it is the intent of this policy to provide guidelines for ensuring and maintaining an appropriate level of funds, **classifying said funds**, to sustain the financial integrity of the City and to ensure proper accountability of the fiscal management of the City.

FUND BALANCE CLASSIFICATIONS:

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Non-spendable – consists of amounts that are not in spendable form, such as prepaid items.

Restricted – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed – consists of internally imposed constraints. These constraints are established by Resolution of the City Council.

Assigned – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the City's intended use. These constraints are established by the City Council and/or management. Pursuant to City Council Resolution, the City's Administrator/Clerk is authorized to establish assignments of fund balance.

Unassigned – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

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

When committed, assigned or unassigned resources are available for use, it is the City's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.

Whereas, the State Auditor's Office has recommended an acceptable unreserved fund balance of 35 to 50 percent of total current expenditures for the General Fund and Special Revenue Funds. Unreserved, or undesignated fund balances include all funds that are remaining at the close of the fiscal year that are not designated or for which no legally-binding commitment has been made. Reserved fund balances include those funds for which there is a legally-binding external commitment.

POLICY

1) The City of Rockville will strive to attain an unreserved fund balance of 50 percent of its annual general fund budget. To achieve and maintain that desired level of unreserved fund balance the City Council and Administrator/Clerk shall diligently work together through proper fiscal management to create a balanced budget which will provide for and protect the unreserved fund balance of the City.

2) The City Council shall review the amounts in fund balance in conjunction with the annual budget approval, and shall provide a safe margin between annual appropriations and the estimated revenues as required by Minnesota Statutes, in order to maintain the fund balance necessary to provide for the anticipated cash flow needs of each fund throughout the upcoming year.

3) If the fund balance is determined to be in excess of the amount deemed necessary the City Council may consider approving appropriations for authorized purposes.

PROCEDURES

1) The City shall maintain the necessary funds in accordance with City procedure and Minnesota Statute.

2) Annual Financial Statements shall be prepared in accordance with generally accepted accounting principles establishing the fund balance of individual funds at the balance sheet date at the end of each fiscal year.

3) The City Council shall review the fund balance and cash flow needs during the annual budgeting process in accordance with this policy.

RESPONSIBILITY & AUTHORITY

Administrative implementation of policies.

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**CITY OF ROCKVILLE
AMENDED
INTERNAL CONTROL POLICY**

SUBJECT: Policies and procedures Internal Controls.
DATE COUNCIL APPROVED: 02/16/11

I. Internal Control Policies

The City has certain policies in place as part of the *Employee Policy Manual* that establish a number of internal controls. They are listed as follows:

- Non-Discrimination
- Reduction in Work Force and Recalls
- Compensation and Work Hours
- Personal Time Off (PTO)
- Leaves of Absence
- Insurance
- Employee Training & Travel
- Uniform Allowances
- Employee Records & Performance Appraisals
- Discipline
- Sexual Harassment
- Harassment
- Conflicts of Interest on City Council or Commissions
- Drug & Alcohol Free Workplace and Testing
- Safety
- Smoking
- Personal Use of City Property & Equipment

II. Disbursements Procedures

1. Purchases are initiated by employees after they have obtained approval from their department head. The purchase is initiated by using a pre-numbered purchase order from Administration a copy is kept with paid invoices. Department heads are required to obtain Council approval before authorizing purchases over \$500. The Fire Department and Public Works Department may authorize purchases up to \$1,000 with approval from the Mayor or City Administrator/Clerk.
2. The employee is then authorized to order the item.
3. When items are received, the employee checks the packing slip to make sure that all items have been received and then turns the packing slip in to their department head.
4. The department head or person purchasing the item writes up a P.O. and attaches it to the invoice. All invoices/P.O.'s are then turned in to the Administrator. The Administrator codes any recurring invoices for payment (no P.O. required).
5. The Receptionist/Admin. Asst. enters the payments into the computer and prints out a payment detail report and Administrator reviews the report. After any edits are made the Receptionist/Admin. Asst. prints the pre-numbered checks and verifies each check to the invoice, stamps the invoices with the paid date, and records the check number on the invoice, then signs the checks, which are given to the City Administrator for review and approval of each bill/invoice. If approved the City Administrator and Utility Billing/Admin. Asst. then signs the checks.
6. Checks are stored in a locked drawer in the Finance Director's office.
7. Authorized signers on the account are the Administrator/Clerk, Utility Billing Clerk/Admin. Asst, or Mayor. Two signatures are required on each check. The payment detail reports are saved and filed in a binder.

8. The Receptionist/Admin. Asst. then prepares a list of the accounts payable by check number order and distributes copies of it to the City Council via e-mail and hard copies.
9. The City Council approves the list of bills at their council meetings.
10. After the checks are approved by the Council, the Receptionist stuffs them in envelopes with bill stubs and mails them out.
11. The invoices are filed by the Receptionist/Admin. Asst. in vendor files, in alphabetical order, and all invoices and purchase orders are saved.
12. The City uses EFT for state and federal withholding taxes, and sales tax payments. The City Administrator and Utility Billing/Admin. Asst. are authorized to initiate EFT's. EFT's are entered into the system by the Utility Billing/Admin. Asst. as payment batches and reviewed and initialed by the City Administrator.
13. Copies of the bi-monthly expenditure & revenue budget summary report are printed by the Receptionist/Admin. Asst. and distributed to the City Council members and department heads for review and monitoring. In the reports are details of monthly totals, as well as total budget to actual

III. Utility Billing

1. Approximately the last week of the odd numbered months as billing, one Public Works employee goes out to read all the water meters in the City. Meters are read by the hand held radio or entered into the hand held device. Before the meters can be read by radio, the Utility Billing Clerk downloads all the accounts' previous meter readings onto the handheld radio.
2. The Public Works employee returns the handheld radio to the Utility Billing Clerk after they have read all the meters. The Utility Billing Clerk then uploads all the readings gathered from the handheld into the utility billing software.
3. After all the new meter readings have successfully been uploaded into utility billing software, the Utility Billing Clerk verifies that there is a new, appropriate reading for each account.
4. Next the Utility Billing Clerk calculates the bills and then runs a bill register and bill register summary. Next they review the bill register to verify that the bills were calculated correctly.
5. The bill register and summary are filed and retained.
6. The bills are then printed, torn apart, separated by zip code and mailed out to each resident.
7. If a utility bill is not received on time a late payment letter is created by the Utility Billing Clerk notifying the customer of the amount owed. The City Administrator verifies and signs the letters before they are mailed out.
8. Final bills are calculated when a resident moves out. After the resident notifies City staff of the closing or move out date, the Utility Billing Clerk notifies Public Works staff that the meter has to be read.
9. The Utility Billing Clerk enters the new final meter reading into utility billing.
10. Steps 4 and 5 from above are performed.
11. Penalties are applied to the overdue portion at the end of each billing cycle. The Utility Billing Clerk calculates and applies the penalties and then prints out the current penalties report and files them.

IV. Misc. Accounts Receivable

1. Invoices are generated periodically for miscellaneous receivables. These invoices are generated by the Utility Billing Clerk in the Administration Dept. A copy of the invoice is printed and filed and the amount is recorded on an Accounts Receivable Spreadsheet kept in the Finance Director's office that is reconciled monthly to the general ledger.
2. When a payment is received for these invoices, the date and amount of payment is recorded in the Accounts Receivable register and a receipt is written up for the payment. The Utility Billing Clerk enters the receipt number, date, customer, comments, payment amount, invoice, etc. into the Accounts Receivable register.
3. All receipts are entered into the computer by the Receptionist. The Administrator reviews and approves the receipt batch before it is posted and verifies the deposit slip with the Accounts Receivable register and the computer generated receipt batch.

V. Cash and Receipts Procedures

1. Receipts come in through one of four ways: In person (at the counter), in the mail, in the drop box, or through electronic transfer. Payments received at the counter are accepted by all Administration employees. The Receptionist stamps the date received on the receipts payments that come in the mail and also empties the drop box every morning. The Receptionist/Admin. Asst. does receipt batches for all electronic receipts and has them approved by the City Administrator.
2. Whenever cash is received, a receipt is written up, in duplicate, and is dated and signed by the person who accepted the money. If the payer wants a receipt, they are given the original. The city retains the duplicate copy.
3. When payments are received for water/sewer bills, the payment amount, date, and check number are recorded on the stub, along with the name and account number which are pre-printed on it, and one receipt report is written up for the whole batch on the date that it is deposited into the bank.
4. Deposits are done daily unless no money has been collected.
5. The Utility Billing Clerk prepares the deposit and writes up the information in the Accounts Receivable register as noted in Misc. Accounts Receivable #2 above.
6. Petty Cash is stored in a locked drawer in the Administrator/Clerks office. An average petty cash balance of approximately \$200 is maintained in order to make change for customers. The Utility Billing Clerk monitors the balance and deposits some of the money into the general fund if the balance gets too high, and disburses more into the petty cash fund if it gets too low. This expense would be done after the City Council has approved the check.
7. An "Accounts Receivable" register is kept for all receivables, including utility bills. Invoices for these receivables are created by the Utility Billing Clerk in the Administration department. When payments are received for these items, the date, receipt number, amount paid, etc. are recorded in the register. Any unpaid invoices at year-end are certified to the homeowners' property taxes for collection by special assessments.
8. Payments for building permits are received in this same manner and no permits are issued until payment for them is received in full, including all necessary water & sewer hook-up fees, water meter expenses, etc.
9. Invoices for contracts with other entities (fire contracts, etc.) are prepared by the Administrator and approved by the City Council.
10. Copies of monthly revenue and expenditure budgets or budget summary reports are distributed to the City Council members and department heads for review and monitoring. Included in the reports are details of monthly totals, as well as total budget to actual. Copies of these budget reports are saved and filed.

VI. Month-End Reconciliation

1. The bank statement is sent monthly to the Receptionist who reconciles the statement to the general ledger and then gives the statement and the reconciliation printouts to the City Administrator for review.
2. The Receptionist then cancels the checks in the payroll software to match the checks that were cleared during the month and makes sure that it agrees with the Fund Accounting Software.
3. A treasurer's report is printed by the Receptionist before each City Council Meeting and distributed to the Council for review and monitoring.

VII. Investments

1. All investments are made in accordance with City of Rockville Policy, "Policy on Deposits and Investments" and MN Statutes Chapter 118A.
2. Per the City's policy, authority to conduct investment transactions is delegated to the City Administrator/Clerk, who may delegate that authority to the Utility Billing/Admin. Asst. The City Administrator approves all investment transactions.

3. The deposits on Investments are then allocated by investment fund balance by the Receptionist who then makes the entry. The deposit entry is then reviewed for accuracy by the Administrator and then given back to the Receptionist who then posts it to the general ledger.
4. The Receptionist then reconciles the general ledger with the monthly investment reports.
5. A Treasury Report is printed for the council before each council meeting that reflects the current investment balance totals by Fund.

VIII. Payroll

1. Timecards are completed by all employees for each day, including start and stop times, and any hours of paid time off they are requesting (vacation, sick, comp time, etc.).
2. Timecards are reviewed and approved by the City Administrator before they are submitted to the Payroll Department. The Utility Billing Clerk/Admin. Asst. does the payroll unless unavailable in which case the Receptionist would process payroll.
3. Timecards are reviewed by the City Administrator for accuracy.
4. All information is entered into the computer by the Utility Billing Clerk/Admin. Asst. in regards to hours worked and paid time off. Payroll data is updated each pay period for employees who are due for a step increase after reaching their anniversary date and or promotion. The payroll program is only stored on city PC's which are secured by passwords.
5. Once all entries are in the system, payroll is calculated using Banyon Payroll software and a Payroll Register and other reports are generated. The Administrator reviews these reports against each timecard to make sure all hours are paid for and all paid time off is deducted, and that all necessary payroll deductions have been taken.
6. The Utility Billing Clerk/Admin. Asst. then prints the checks on pre-numbered checks, and the City Administrator reviews and approves them.
7. Authorized signers on the account are the Administrator/Clerk, Utility Billing Clerk/Admin. Asst. and/or the Mayor. Two signatures are required on each check.
8. Payroll reports are filed in the Finance Director's office.
9. The payroll checks are approved by the City Council during each council meeting.
10. Checks are stored in a locked drawer in the office of the Finance Director.

IX. Property and Workers Comp Insurance

1. The City's policy for property and liability insurance is due on June 1st of each year. Prior to the renewal date, the City's insurance agent requests renewal information from the City. This renewal packet is completed by the Administrator. The Administrator or Utility Billing Clerk/Administrative Assistant confers with each department head to confirm the list of property and equipment on the policy, and the current value of each item. If there are any significant changes to the policy the City Administrators reviews the approval on them.
2. The City's worker's comp policy is due on July 10th of each year. Prior to the renewal date, the City's insurance agent requests payroll data from the City. This information is provided to them by the Administrator/Clerk.
3. The checks to pay for the insurance are not issued until they are approved by the City Council.
4. The annual work comp audit information is gathered and prepared by the Administrator & Utility Billing Clerk/Admin. Asst. and the audit generally occur in late August or in September.

X. Asset Inventory

1. The assets of the City are maintained in a list kept on file by the City of Rockville. Each year as assets are purchased the list is updated by the Utility Billing Clerk.
2. The Utility Billing Clerk or Administrator determines new assets purchased and old asset disposals by reviewing the revenues and expenditures for the year and speaking with department heads. For new

purchases there is a fixed asset form completed by either the department head or city administration staff which lists the pertinent information needed for entry into the Banyon Fixed Asset module and fixed asset spreadsheet.

3. Assets are capitalized and depreciated in conformance with the City of Rockville Fixed Asset and Capitalization policy and with required audit standards.

XI. Special Assessments and Property Taxes

1. All new special assessment rolls are approved by the City Council at a Public Hearing conducted in accordance with State Statutes.
2. Special assessment payments are received at the City or with the tax settlement from Stearns County. The Utility Billing Clerk/Admin. Asst. reviews the county settlements and notes any pre-payments to be recorded by the Receptionist in the receipts batch.
3. Any assessment payments received at City Hall are recorded on the City's Accounts Receivable register. The City Administrator then sends a letter to the Stearns County Auditor's Office notifying them of the pre-payment received at our office.

XII. Journal Entries and Transfers

1. All journal entries are done by the Receptionist/Admin. Asst. during the year, to make adjustments to accounts as needed. Documentation for each journal entry is then given to the City Administrator for approval.
2. All transfers between funds are done by the staff. They are approved by the City Administrator and by the City Council and copies of them are kept on file along with documentation about the transfer.

XIII. Fund Balances, Debt Service, and Tax Levies

1. All fund balances are monitored by the staff on an on-going basis. If there is an area of concern, the City Administrator is made aware of the issue.
2. A treasurer's report is prepared/printed for each council meeting for the City Council to review the cash and investment balances of all funds.
3. The city tax levy is reviewed and approved in December of each year by the City Council before the levy amount letter is sent to the County Auditor.

XIV. Grants and Programs

1. Before applying for grants, employees present the request to the City Administrator for their review and approval. Specific attention is given to what requirements the City will need to fulfill, such as matching grant amounts or in-kind.
2. The request is then approved by the City Council before the grant application is submitted.
3. Progress of the grant is monitored by the City Administrator. They will often request information from the Administrator to make sure proper documentation is submitted for complete grant reimbursement.

XV. Hiring and Terminations

1. Whenever there is an open position for employment with the City, the position is filled in accordance with the "Appointments" section of the *Employee Policy Manual*. The Department Head or City

Administrator/Clerk requests Council approval to advertise for the position, which is posted in the Cold Spring Record and other local or on-line publications.

2. A hiring committee is established, the people on the committee vary depending on the nature of the open position.
3. The applications are reviewed and candidates are chosen to be interviewed. The City Administrator sets up the interview schedule.
4. During the interview process, the candidates are ranked according to their answers to the interview questions, again using a numbering system.
5. After the candidates have been interviewed, the committee meets to share their rankings and then decides whom their top three candidates are, in order.
6. The City Administrator reports the committee's recommendations to the City Council, and they give final approval on whom to hire.
7. The City Administrator notifies the candidate outlining the conditions of their employment, including rate of pay, start date, benefit summary, and any contingencies involved in their hiring. The Utility Billing Clerk/Admin. Asst. then sets them up as a new employee in the payroll system.
8. All terminations of employees are coordinated through the Mayor, the City Administrator, and the City Attorney. No action is ever taken to terminate an employee, except by the City Council. All terminations follow the procedure outlined in the *Employee Policy Manual*.

XVI. Health Insurance, Retirement, and Other Similar Benefits

1. When a new employee is hired, the Utility Billing Clerk/Admin. Asst. gets them set up with all their benefits through the City. The City Administrator or Receptionist/Admin. Asst. has them fill out applications for health insurance (if applicable).
2. The City Administrator enrolls new employees in the City's short and long-term disability programs (with assistance from the city insurance agent).
3. The Receptionist has the employees complete forms W-4, I-9, and the New Hire Reporting Form, and obtains (or verifies) copies of their social security card and drivers license, or a copy of their passport.
4. The Utility Billing Clerk/Admin. Asst. explains any additional forms needed and provides the employees with forms to complete.
5. Copies of all applications and forms are placed in either the employee's personnel or medical files, as appropriate.

XVII. Financial Management

1. Internal Controls will be evaluated yearly by the City Administrator and staff to ensure that the procedures are 1) adequately achieving their intended purpose 2) the procedures have been implemented and 3) continue to function as designed.
2. Updates to the Internal Control Policy will be made as needed with changes in procedures and submitted to Council for review and approval.
3. In the event an employee observes management overriding internal controls they should report this information to one of the following: the City Administrator, Mayor, or a Council Member.