



City of Sterling, Kansas

Financial Policies



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City of Sterling, Kansas

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Section I: Goals, Purposes and Principles

A. Financial Goals for the City

1. To insure that the community obtains full value for its tax dollar through delivery of efficient, cost-effective service.
2. To preserve the quality of life in the Sterling community by providing adequate financial resources to operate city programs and functions.
3. To manage funds as if required to secure and maintain a solid credit rating in financial community.

B. Purpose of Financial Policies

1. The financial policies exist in part to assure provision of information necessary to manage City resources and reach financial goals.
2. Further, policies enable management and elected officials to track expenditures and revenues to determine if the City will be within budget and have adequate cash balances to finish the year within budget and statutory requirements.
3. To provide assurance that funds and resources are handled in an appropriate manner.

C. Periodic Review

1. To assure that this policy document is updated and maintained, these policies shall be reviewed annually by City staff.
2. The City Commission may request a review of these policies at any point in time.

D. General Financial Operating Policy

1. The City will pay all current operating expenditures with current operating revenues.
2. Encumbrances represent commitments, so will be reported as reservation of fund balances.
3. In order to track compliance with statutory requirements and monitor budget compliance, the Finance Director will prepare monthly financial reports of financial position and results of operations for General Fund, Special Revenue Funds, Debt Service Funds, and Enterprise Funds. These will show as a minimum:
 - a. Monthly and year-to-date expenditures (amount and percentage of budget).
 - b. Monthly and year-to-date revenues (amount and percentage of budget).
 - c. Cash balance in each fund for beginning and end of the month.
 - d. Investments at end of reporting period.
 - e. Status or project accounts.
4. The City shall arrange for an annual audit by a qualified, independent accounting firm.
5. The City staff shall insure that the City complies with financial reporting requirements of Kansas statutes.
6. The City Commission shall assure that the City operates within its annual budget.
7. The City will adopt balanced operating budget (i.e., annual revenues will at least equal expenditures in the various budgeted funds).
8. The fiscal year for the City of Sterling is the same as the calendar year.
9. Funds must be created within statutory authority.

10. The City Manager may authorize transfer of up to \$4,999 of available balances between funds as budgeted and within statutory limitations, but those transfers must be budgeted in accordance with Kansas budget laws.
11. The City may establish reserve funds in accordance with state statutes and provide funds for these reserve funds as allowed by Kansas budget laws.
12. Surplus funds shall be invested as allowed by State General Investment law and City of Sterling investment policy.
13. As defined in the City Code Article 4 at Sections 1-401 through 1-405, the City Clerk and Director of Finance positions and responsibilities have been combined into a single position filled by one individual employee. References in these policies to City Clerk and Director of Finance are thereby references to the same individual employee.

Section II: BUDGET POLICIES

A. Fund Accounting

1. The City of Sterling operates under a fund accounting system. All revenues and expenditures are allocated to a specific fund. Funds must be authorized by statute.
2. Types of funds include general fund, enterprise funds, revenue funds, debt service funds, project accounting funds, and reserve funds.

B. Revenue Policy

1. Ideally revenues should grow as fast as or faster than expenditures in order to prevent deficit spending.
2. A revenue review process should be incorporated into the budget process:
 - a. The Manager shall establish a process to review revenues annually to assure adequate revenue flow in various revenue streams.
 - b. Periodically, additional revenue sources shall be examined by staff.
 - c. Each year, major revenues shall be projected two years into the future.
 - d. Legally restricted revenues shall be avoided when possible, because they limit flexibility of city finances.
 - e. Staff will pursue grants as appropriate to bring additional revenue to the City.
 - f. Intergovernmental revenues shall be used in accordance with rules and regulations associated with such revenues.
 - g. One time revenues shall be used for capital improvements or as required by relevant rules and regulations.
 - h. Staff will monitor amounts due to the City.
 - i. Enterprise funds will generate revenue sufficient to cover expenses of operation, costs of capital outlay, and relevant debt service associated with that enterprise.
 - j. Revenue forecasts should be conservative.
 - k. There should be a periodic review of fees. Direct and indirect costs will be accounted for when establishing charges for service delivered by the City.

C. General expenditure policy

1. The City of Sterling must follow Kansas law, rules and regulations on spending. In particular, the cash basis and budget laws impose restrictions on spending, and the City must comply with those limitations.
1. Expenditures must be recorded in an accurate, timely fashion.
2. Review and approval of expenditures must be in accordance with City purchasing policy.
 - a. Departments must purchase needed supplies and services within the parameters of the City purchasing policy.
 - b. Properly completed claims must be prepared and submitted to the Director of Finance.
 - c. Claims must include vendor name/address, date of claim, explanation, account number to be charged, authorized signatures, and other documentation needed to explain purchase.
 - d. Typical documentation includes:
 - i. Purchase order
 - ii. Invoices or statements

- iii. Commission minutes authorizing purchase
- iv. Resolutions awarding bids
- v. Copies of quotes received
- vi. Receiving slips
- vii. Other communications or correspondence.
- e. Claims shall include a purchase order if possible, even if not absolutely required.
- f. The accounts payable clerk will issue checks promptly for all claims once approved by the Governing Body, except for regularly recurring bills authorized for early payment to avoid late charges and penalties.
- g. Claims shall be submitted to the City Commission for approval.
- h. Account balances will be monitored by the Finance Director, the City Manager, and the City Commission to assure that expenditures are within budgeted limits and do not exceed the cash resources available within the fund.
- i. To reduce costs, the City may contract for various services.
- j. Appropriations lapse at year-end if funds are not expended or encumbered.

D. Fund Balances

- 1. Minimum cash balance
 - a. The City Commission/City Manager will strive to maintain unreserved, undesignated cash balances at a level equal to 30% of total General Fund expenditures.
 - b. The City Commission/City Manager will strive to maintain a contingency in all funds of between 5% and 30%.
 - c. The Finance Director shall endeavor to maintain the balances as directed by the City Commission and City Manager.
 - d. The Finance Director shall retain adequate balances to pay debt service obligations in a timely manner.
- 2. Excess unreserved fund balances can be used for the following purposes:
 - a. Debt reduction.
 - b. One time expenditures which do not increase future operating costs.
 - c. Establish or increase reserves for risk management programs, equipment replacement, capital projects, emergencies, or disaster recovery.
 - d. Start up expenditures for new programs, provided such programs have been approved by Commission.
 - e. Carryover into the next fiscal year within the fund.
- 3. Restoration of minimum balances
 - a. If cash is below target, the Finance Director will recommend a plan to the City Manager for restoration of the appropriate balance.
 - b. Restoration would ideally be within 1-2 years.

- E. Interfund transfers
 - 1. Transfers between funds must be budgeted within Kansas statutory requirements and budget rules.
 - 2. The City Manager has authority to transfer the full budgeted amount of the transfer or up to \$4,999 if not fully budgeted.
 - 3. Transfers in an amount more than \$4,999, which are not budgeted in full, shall require Commission authorization.
- F. Amending the budget
 - 1. The City budget can be amended if there is adequate revenue in excess of budgeted amounts to cover any increase in expenditures.
 - 2. Amendments must comply with state statutes and budget rules and regulations.
 - 3. The City must follow prescribed rules for amending the budget.
 - 4. Budget amendments can occur at any time during the year, but require a specified procedure for public notification and a time period for official publication in advance of action by the Governing Body.

Section III: REVENUE CONTROL AND MANAGEMENT

A. Revenue Policy

1. Revenues should be adequately diverse to shelter the City from short term fluctuations in any one particular revenue source.
2. The revenue structure should be established in order to capture financial benefits of growth and development.
3. The revenue structure should be competitive with other cities to the extent practicable.

B. Determining Revenue Levels

1. User charges and fees should be established at a level related to true cost of service including both direct and indirect costs.
2. Revenue estimates should be prepared through an objective and analytical process.
3. Enterprise funds should be self-supporting with utility rates raising adequate revenues to cover expenditures for operations, needed reserve funds, and debt service.

C. Internal Controls

1. All aspects of cash receipts and accounts should be subject to proper internal controls to safeguard the City.
2. The Finance Director shall establish adequate internal controls to meet the objectives of these financial policies.
3. The Finance Director shall demonstrate the adequacy of internal controls to the City Manager.
4. Any employee is free to bypass the normal chain of command and bring any concerns about handling of cash or accounts directly to the City Manager.

D. Deposits

1. Money collected by any official or employee of the city should be deposited every Friday, on the last day of the month, or when the daily balance exceeds \$1,000 more than beginning cash.
2. The Finance Director is responsible for maintaining an internal control structure to provide reasonable assurance that deposits and investments are safeguarded against loss from unauthorized use.
3. Deposits and investments must follow the city financial policy.

E. Cash Collection Locations

1. The Finance Director shall maintain a list of all locations within the city government which accept cash.
2. Changes in the location or number of cash collection points shall be subject to approval by the City Manager.
3. Cash collection shall occur at the reception desk at City Hall for all normal operations except Municipal Court. Municipal Court revenues are collected by the Court Clerk.

F. Segregation of Duties

1. Segregation is adequate when no one employee can misappropriate assets or improperly record a transaction without detection.
2. To safeguard against any one individual being able to act alone to misappropriate assets, different persons shall be responsible for the following functions:

- a. Authorizing cash transactions.
 - b. Collecting or paying cash.
 - c. Maintaining records of accountability.
3. Bank reconciliation must have the same type of segregation:
 - a. Reconciliation and recordkeeping.
 - b. Handling cash.
 - c. Authorizing transactions and supervisory review of the process.
4. The Treasurer shall perform the daily reconciliations, while the Finance Director shall perform the month end reconciliations.
5. Cash should be secured (e.g., locked in a cash drawer) at all times and the key properly secured with the responsible employee.

G. Oversight

1. Responsibility for collection of and access to cash should be limited to as few people as possible.
2. The primary cash drawer is maintained by the accounts receivable clerk who is supervised by the Treasurer.
3. The cash and receipts taken by the Court Clerk are supervised by the Treasurer.
4. The Treasurer is supervised by the Finance Director.

H. Cash Reconciliations

1. Any employee who accepts cash must balance their cash drawer daily.
2. If automated Point of Sale (POS) is used, cash should balance to the POS detail.
3. If manual receipts are used, then the manual receipts should balance to cash.

I. Documentation of Overages and Shortages

1. Overages and shortages in daily cash shall be recorded daily at each cash collection location.
2. Cash balance errors require the following authorizations, depending upon the amount:
 - a. Up to \$10.00 may be authorized by the Director of Finance.
 - b. Amounts of more than \$10.00 may be authorized by the City Manager.
 - c. Documentation of authorizations shall be held for three years.

J. Supervisory Review

1. The City Manager shall periodically verify the reconciliation and recount cash on a periodic basis.
2. This shall be done in the presence of the employee responsible for collecting that day's cash.
3. Chronic imbalances in cash shall be subject to the City Manager's review and disciplinary authority as described in the personnel policies of the City.

K. Pre-numbered Receipts

1. Customer receipts must be pre-numbered to ensure that the amount received from the customer matches the amount recorded by the individual accepting cash on behalf of the city.
2. Voided transactions require City Manager approval and should be accounted for to ensure that services (licenses, permits, etc.) are not issued without actual payment.
3. Manual receipt books should be maintained for a period of three years.

L. Customer adjustments and discounts

1. Customer discounts beyond normal citywide policy are only granted in limited situations where there are clear reasons.

2. Any adjustments and discounts given to customers beyond normal city policy must be approved by the City Manager.
- M. Temporary Borrowing
1. No employee can utilize IOU's or borrow money on a temporary basis from the cash drawer or any other city account.
- N. Computer Access Controls
1. The Finance Director shall assure that computer controls are in place to prevent circumvention of cash controls.
 2. Access must be controlled to prohibit a second employee from adjusting a transaction that another employee input into the system, unless there is review and documentation by the supervisor.
 3. The Finance Director shall maintain relevant documentation of systems and programs as well as any modifications to systems and programs.
 4. The Finance Director shall assure backup and storage of programs and data files.
- O. External Inquiries
1. Procedures must be in place to assure that customers may inquire about perceived irregularities in the handling of a transaction.
 2. Supervisory employees should be available to answer customer inquiries as needed.
- P. Mandatory Vacation Leave
1. A minimum of five consecutive work days of vacation is recommended for all positions which are involved in collecting cash.
 2. City Personnel Policies should reflect this recommendation.
- Q. Bank and merchant service accounts
1. The Treasurer is the only employee authorized to establish bank accounts and merchant service agreements. Such accounts are subject to approval by the City Manager.
 2. Deposits can only be made in banks authorized by the City Commission.
 3. Credit card transactions can only be accepted through merchant service accounts.
- R. Accounting Practices
1. Revenue shall be recorded in the proper general ledger account.
 2. Revenue shall be recorded in the proper fiscal accounting period.
- S. Methods of payment
1. The city may accept payment by cash, credit card, check, and electronic transfer.
- T. Handling checks at Service Counter
1. Checks from customers paying for a service should be made payable to the City of Sterling.
 2. Checks must contain the following information from the customer:
 - a. Driver's license number
 - b. Phone number
 3. Identification of the check writer should be verified.
 4. No two party checks will be accepted.

U. Credit Cards

1. The city may accept credit cards for transactions except if limited by law.
2. Cards need to be signed by the person named on the face of the card.
3. The city will accept credit card payments by telephone.
 - a. Pre-authorization is required prior to completing the transaction.
 - b. Payment by phone must be made by the person named on the account unless preauthorized by the City.
 - c. Customer name must be written on the cardholder signature line along with a notation "by phone".
 - d. Information about a customer's card will not be disclosed.
 - e. Any documentation other than the sales ticket which has the credit card number, authorization code, or similar information shall be safely discarded by shredding as soon as possible after the transaction.
 - f. Customer credit card information on service orders, customer request forms, permits, et. al., shall be shredded.
4. Credit card sales slips are to be treated like cash or checks. They must be placed in the cash drawer with daily receipts.

V. Accounts Receivable

1. While payment by cash, check or credit card is preferred, in some circumstances the City will accept payment by open account.
2. This will typically be very limited to those who have repetitive and regular business with the City or in situations where the cost of service cannot be determined until after services have been completed.

W. Charge Accounts for Accounts Receivable

1. An account receivable shall be established for services provided in advance of payment.
2. All initiated charges shall have a due date of 30 days from the billing date unless otherwise stated by ordinance or resolution.
3. When services are provided by the department prior to receipt of funds for such services, an on-going accounts receivable record shall be maintained.
4. Bills shall be generated in a centralized accounts receivable system wherever possible.
5. Information required to initiate an account shall include:
 - a. Billing name and address.
 - b. Responsible party name and address if different.
 - c. EIN or SSN for responsible party.
 - d. Telephone number.
6. Applications for a charge account will be reviewed on a case by case basis. Conditions required for establishing an account (including temporary accounts) may include the requirement to file an irrevocable letter of credit running to the benefit of the City, prepayment arrangements, security deposits, or other conditions appropriate to the circumstances.
7. Payments should be remitted to the City of Sterling at its official City office or mailed to its official postal address.
8. Payment for services is due within 30 days and is considered delinquent thereafter. Timing of billing may vary depending upon circumstances.

9. Fees and charges shall apply as established by resolution, ordinance, or other administrative action of the City.
10. Method of payment includes cash, check, cash equivalents, and credit card.
11. Late fees and delinquency: Late fees may be applied after the due date. Late fees for utilities are determined by ordinance. Other late fees may be established by the City Commission. The City reserves the right to establish additional conditions for customers with delinquent accounts.
12. Charge accounts shall not be established for businesses or individuals who have delinquent amounts due on other accounts established with the City.

X. Adjustments to Accounts Receivable

1. Billing errors
 - a. Adjustments to receivable accounts may be made in those cases where the Department Head, City Treasurer, or their designee has erred in applying the charges.
 - b. An adjustment requires the approval of the Finance Director. All adjustments must be documented and signed off. A record of such transactions will be kept by the City Treasurer.
2. Collection fee adjustments
 - a. When a third party collects an account on behalf of the City, a percentage of the payment is usually retained as the collection fee. These amounts are written off as uncollectable at the time the payment is received from the collection agency, and remittance of this fee does not require specific approval.

Y. Depositing of Received Funds

1. The City Treasurer shall serve as primary recipient for all revenue collection sites.
2. Each department with remote collection responsibility shall establish and maintain an adequate system of internal controls for receipts. Controls shall include, at a minimum, the following:
 - a. Numerically controlled (accounting system generated or paper) official receipts with the printed name of the department for all revenue.
 - b. Receipt books issued by the City must be accounted for numerically. The use of generic non-numbered receipts is strictly prohibited.
 - c. The method of payment (e.g. cash, check or credit card) shall be indicated on the receipt.
 - d. Identification of the individual receiving payment on receipt.
 - e. Wherever possible, the receipt shall allow for immediate revenue account classification in conformance with the established chart of accounts.
 - f. Restrictive endorsement (stamped for deposit only) of checks at the point and time of collection.
 - g. Reconciliation of collections by an individual not involved in the receipting or posting process or establishment of mitigating controls.
 - h. Recording of receipts in the financial accounting system on a timely basis.
 - i. Timely posting of adjustments with supervisory approval required.
 - j. Timely reconciliation and deposit of funds received.

Z. Remote Cash Collection Sites

1. All remote sites must be approved by the City Treasurer and must abide by City policy and procedure including the following:
 - a. A dollar threshold for the remote collection site that governs the amount of cash accumulated in the cash drawer. The aggregate should not be over \$500.00 in cash and

- checks/credit card receipts; such funds shall be submitted to the Treasurer by the beginning of the next business day.
 - b. Plan for securing of un-deposited funds in a locked place, such as a safe or secure drawer.
 - c. Accounting of any differences in the cash reconciliation process in a “cash overage/shortage” account. The change drawer shall not be used for the difference.
2. Employees are prohibited from using the change drawer to cash personal checks for themselves, elected officials, or other employees.

AA. Petty Cash Fund

1. The following procedural statement shall be used as a basis for the operation of all petty cash funds of the City. This policy is in place to ensure the safety of the fund while making monies available for the purchase of small emergency items or the purchase of small items where an account has not been established.
2. The purpose of the petty cash fund shall be to assist departments with the purchase of items that are small infrequent or non-reoccurring purchases.
3. The petty cash fund may not be loaned or advanced against the salary of any employee, nor may it be loaned or advanced to enable a Department to make any small purchases. Transactions through the petty cash fund shall be made in the form of a reimbursement, or a cash advance may be given up to \$100 but as soon as possible after such advances the employee receiving the advance must present a receipt for goods purchased.
4. For each payment from the petty cash fund, the individual requesting the reimbursement shall provide an original receipt and in the case of travel a completed travel reimbursement form.
5. The information required for reimbursement should include at a minimum:
 - a. Transaction receipt.
 - b. Amount of the transaction.
 - c. Purpose for the transaction.
 - d. Signature of the individual requesting the reimbursement.
 - e. Account number to be charged when the fund is replenished.
6. Disbursements may not be made from the petty cash fund without the above-required supporting documentation.
7. Each time it becomes necessary to replenish the petty cash fund, and at the end of each fiscal year, the custodian of the petty cash fund shall prepare a report showing the beginning balance, receipts, disbursements, and the ending balance in the fund. A claim voucher shall be prepared and made payable to the Petty Cash Fund, showing the amount needed to bring the cash balance on hand to the maximum amount approved for each location.
8. Authorization to charge these accounts is considered secured at the time of reimbursement by the petty cash custodian.
9. Reimbursement shall be placed with the petty cash fund. Receipt of the reimbursement shall be noted in the perpetual record.
10. If the balance of the petty cash fund is over or short, as compared to the supporting documentation and the cash on hand, a special report shall be prepared, signed by the custodian and attached to the petty cash reimbursement showing when the discovery was made and the circumstances involved. Repeated problems in this area shall be the cause for disciplinary actions against the employee charged with the custody of the petty cash fund.
11. Failure on the part of any employee of the City, who is designated custodian of the petty cash fund, to exercise reasonable care in safeguarding the money in the fund, or who willfully permits misuse of the fund in violation of the laws and regulations covering such funds, shall be

personally responsible to indemnify the City for any loss of petty cash which might occur and further can be determined to be malfeasant and subject to discharge.

BB. Escrowed Funds

1. Funds received by the City in advance of revenue recognition or funds anticipated to be remitted back to the payee shall be deposited into an interest earning escrow liability account.
2. Escrowed funds shall only accrue interest back to the payee if explicitly stated in the escrow agreement; otherwise interest accrues to the associated fund.
3. Once meeting the criteria for revenue recognition, such escrowed funds shall be transferred in a timely manner and recognized as revenue in the applicable fund.
4. For performance guarantee escrows, funds shall be returned to the payee upon compliance or transferred to the applicable fund for non-compliance.

CC. Collection of Receivables

1. The Treasurer shall establish and maintain an adequate system of internal controls to ensure that receivables are collected in a timely manner.
2. All accounts receivable shall be recorded by the entity to permit an analysis of the aging of such receivables (e.g., <30 days, 30-60 days, etc.).
3. For those accounts that become past due, proper delinquent notice shall be provided to the payee and continued service restricted, unless continuation of service is required by law or policy, until such accounts are current.
4. For those accounts that are greater than 60 days past due and over \$50.00, notice and supporting detail shall be maintained for further collection efforts.
5. To facilitate collection efforts, the Treasurer shall establish information criteria as part of the initial credit application process with the customer (e.g., bank account number, social security number or driver's license number, federal ID number, etc.).
6. Assignment to a collection agency may be considered. When cost effective, a selected collection agency may be utilized to assure maximum collections.
7. Collections of past due accounts may be pursued by any legal means necessary, including, but not limited to one or more of the following:
 - a. Termination or suspension of services.
 - b. Placing demand on a letter of credit.
 - c. Submittal of account to a private collection agency.
 - d. Submittal of accounts to the State of Kansas Set-Off program.
 - e. Filing a claim in Small Claims of District Court.
 - f. Process against a third party guarantor of the account.
 - g. Other action as may be appropriate to restore the account to current status, or to maintain the account in current status.

DD. Returned Checks

1. The City Treasurer shall establish and maintain an adequate system of internal controls for returned checks. Unless otherwise stated per ordinance or resolution, all checks returned due to insufficient funds shall be processed by the Treasurer.
2. When a check made payable to the City is returned by the bank on which it was drawn for reasons of insufficient funds, account closed, etc., the Treasurer or his/her designee will:
 - a. Send a letter to the customer informing them that the City has received a returned check on their account.

- b. The customer shall have three (3) calendar days to make the payment, plus a returned check charge set in fee schedule adopted by the City Commission.
 - c. This payment must be made by cash, cashier's check, or money order.
 - d. A returned check may include suspension of services, if applicable.
- 3. When a customer provides an uncollectible check, they will be placed on a cash only status. Then for one year, if two uncollectible checks then they will be placed on cash only status for two years, and if three uncollectible checks then they will be placed on cash only status indefinitely. At that point, the customer will receive a letter telling him or her that we will no longer accept checks.
- 4. Those people placed on cash only status will be listed and the staff will be directed not to accept a check in-person from anyone on this list. If a person on cash only status submits a check in the night deposit, collection agencies or the mail, the check will be returned to the customer with a letter explaining that they are on cash only status and that we are unable to accept their check for payment of the account. The account will be considered delinquent until the City receives proper payment.
- 5. The City Treasurer will review the cash only status list periodically and a customer's name will be removed from this list if the customer has maintained good credit for at least one full year.
- 6. Returned checks not redeemed within the time period allotted may be referred to the County Attorney for collection or prosecution.

EE. Write-offs

- 1. Write-offs are allowed under the following conditions:
 - a. Any balances owed and written off must be non-tax balances.
 - b. Balances in arrears for a period of at least one year shall be considered for write-off at yearend.
 - c. Writing off a debt does not forgive the debt obligation, but rather is an accounting procedure to aid in properly representing the City's financial position.

FF. Reimbursements

- 1. In general, money received shall be credited to a revenue account. However, funds received by the city as a bona-fide reimbursement of expenditures may be receipted against the appropriate expense account.
- 2. Reimbursements must occur within the same fiscal year in which the original expenditure was made.
- 3. The expense account credited must be the same account to which the item was charged.

GG. Receipts on Behalf of Other Entities

- 1. If the City receives checks payable to the City in error, the City Treasurer will endorse the check and turn it over to the proper authority.
- 2. A copy of the check will be maintained in a file, along with a note detailing the circumstances to document this occurrence.

Section IV: PURCHASING POLICY

A. Responsibilities and authorities

1. The City Commission has ultimate authority for purchases.
2. City Manager shall establish rules and regulations governing the purchasing of goods and services.
3. City Manager has the authority to invoke disciplinary action if purchasing policies are not followed by employees.
4. The Manager is responsible to administer the purchasing system.
5. The Finance Director is responsible for Accounts Payable.
6. Department heads responsible for purchasing within departments must operate within the scope of these purchasing policies.
7. Department heads are responsible for assuring employees in department are aware of the purchasing policies of the City.
8. Employees who violate the purchasing policies may be subject to disciplinary action.

B. Rules and Regulations

1. All expenditures must meet purchasing policy rules.
2. Department heads are authorized to spend within budget limits and within the parameters of these purchasing policies.
3. When purchases involve federal grants, procurement shall follow applicable requirements.

C. Purchasing Authority

Purchasing Authority Matrix			
Type of Purchase	Price Range	Who May Purchase	Method of Purchase
Small purchases	0 to \$499	All regular employees authorized by City Manager	Direct purchase
Informal Solicitation I	\$500-9,999	Department heads	Telephone quotes
Informal Solicitation II	\$10,000-24,999	Department heads with City Manager approval	Written quotes
Formal Solicitation	\$25,000 or more	City Commission	Formal bid process

D. Formal Solicitation (usually \$25,000 or more)

1. The City Commission shall utilize competitive sealed bids for purchases of \$25,000 or more unless specifically authorized otherwise under these policies.
2. Competitive sealed proposals may be utilized where exact specifications are unavailable to the City.

E. Exceptions to Competitive Solicitation

1. Exceptions to the Competitive solicitation process would include:
 - a. Supplies, et. al. less than \$500.00.
 - b. Cooperative purchases made in conjunction with other governmental units.

- c. Purchases from State, Federal, and other governments.
- d. Magazines, books, etc.
- e. Sole source purchases as identified by City Manager per policy, such as:
 - i. Fine art.
 - ii. Particular items to match what other products the City is using.
 - iii. Sole source items.
 - iv. OEM (Original Equipment Manufacturer) repair parts.
 - v. Utility purchases such as electricity, natural gas, etc.
 - vi. Mail service such as USPS, UPS, and Federal Express.
- f. In cases where exact specifications are not available, the City may request proposals in lieu of formal bids.

F. Requests for Proposal

- 1. Requests for proposals (RFPs) may be used when there is a lack of formal specifications available to the City.
- 2. RFPs should include a statement of objectives the City wishes to accomplish with the particular proposal, submittal instructions, and deadline.
- 3. RFPs should be solicited from at least three responsible proposers.
- 4. The successful RFP should be judged by criteria specified in advance of receipt of proposals.

G. Rejection of Bids

- 1. All bids which exceed the anticipated budget amount or engineer's estimate for the purchase of goods or services shall be rejected.
- 2. Bids may be rejected when there are no responsible bidders.
- 3. When the Commission deems that the project is abandoned, then all bids must be rejected.
- 4. When specifications, scope and/or terms and conditions relative to the project are determined by the Commission to be in need of revision, all bids must be rejected.
- 5. An individual bid may be rejected if it is demonstrated that the bidder is not qualified to deliver the product or service in question.
- 6. Bids that are non-responsive to the specifications may be rejected.

H. Protested Award of Bid

- 1. A protest by an unsuccessful bidder must be formally submitted in writing to the City Manager within 72 hours of the bid award.
- 2. Reasons for the protest must be set forth in their entirety in the protest filed with the City Manager.
- 3. If the protest cannot be resolved by the City Manager, then the protest shall be forwarded to City Attorney for resolution.

I. Professional Services Procurement

- 1. The City Manager may enter contracts for professional services up to an amount of \$4,999.
- 2. Contracts of \$5,000 or more shall require authorization by the City Commission.
- 3. In either case, the Manager is responsible for contacting a minimum of three firms to discuss the project unless there are no known competitors to provide services. The exception to this would be when a professional has already been selected to assist the City for a previous project and the City wishes to use the same professional for another project or study. In that case, the City Manager may negotiate directly with the chosen professional firm.

- J. Sole Source Purchase Determination
 - 1. In some cases, there is only one source available to provide a good or service. In such cases, the City Manager may purchase such service in an amount up to \$4,999.
 - 2. Any such sole source purchases by department heads must be within that same limit and also require approval by the City Manager.
 - 3. Any sole source purchases of \$5,000 or more must be authorized by the City Commission.
- K. Emergency Purchase Definition
 - 1. To make an emergency purchase under this policy, the City Manager may suspend all provisions for competitive bidding for the particular purchase.
 - 2. An emergency purchase is authorized when a lack of purchase would threaten:
 - a. Viable functioning of city government;
 - b. Preservation and protection of property, equipment, or machinery;
 - c. Health or safety of any person.
 - 3. The City Manager shall make a full report of any emergency purchases to the City Commission at the earliest opportunity.
- L. Contracts
 - 1. Contract Approval: Contracts of \$5,000 or more must be authorized by the City Commission, and upon such approval the Mayor is authorized to sign and execute such contracts.
 - 2. Contracts under \$4,999 may be signed and executed by City Manager.
- M. Criteria for contracts for service with an individual
 - 1. The individual has performed similar services on contractual basis with other clients.
 - 2. Individual has paid tax withholding and social security withholding as a self-employed person and agrees to do so during his/her contract with City.
 - 3. Individual shall perform duties independently without direct detailed supervision by the City to include independence in establishing working hours and location of performance of duties.
- N. Contract Administration
 - 1. Contracts shall be administered by the City Manager or his designee.
 - 2. Duties of contract administration may include:
 - a. Inspecting, accepting, and recording contractor performance.
 - b. Communicating to and with contractors about City's requirements.
 - c. Notifying supervisor promptly if problems
 - d. Documentation and assuring copies of important documents are retained and forwarded to City Clerk.
 - 3. Responsibilities are as follows:
 - a. The City Clerk shall maintain the City's record file of the contract.
 - b. The City Manager or his designee shall review and approve all requests for changes in delivery, price, and specifications *before* action is taken.
 - c. The City Manager shall be responsible for resolution of disputes with a contractor.
 - d. The City Manager or his designee shall issue any cure notices, demand letters, or contract default/termination notices to contractors
- O. Contract change orders

1. The City Manager or his designee shall have the authority to approve change orders up to \$9,999 which do not alter the nature or purpose of the purchase.
2. Any change orders of \$10,000 or more are subject to the approval of the City Commission.

P. Normal Expenditure Process

1. The department head or City Manager purchases a good or service within the appropriate limits of this policy.
2. The purchaser codes the purchase to the appropriate account and delivers a ticket to the account clerk.
3. The ticket is matched to inventory and approved by the department head.
4. The account clerk enters the transaction into the accounts payable system.
5. The purchase is subject to City Commission approval at its regular meetings, typically held twice per month.

Section V: INVESTMENT POLICIES

- A. Investment objectives
 - 1. Safety: It is paramount to safeguard the principal amount of the investment.
 - 2. Compliance: The City wishes to conform with applicable laws, rules, and regulations governing investments.
 - 3. Liquidity: Cash invested should be available when needed to provide sufficient funds to pay the financial obligations of the City.
 - 4. Yield: The City wishes to obtain a reasonable return on investments.
- B. Priority among objectives
 - 1. The top order of importance among the priority objectives is Safety of the investment.
 - 2. Second ranking priority is Compliance.
 - 3. Third ranking priority is Liquidity.
 - 4. Fourth ranking priority is Yield.
- C. Delegation of Authority
 - 1. In Sterling, authority for investments is delegated to the Finance Director.
 - 2. The Finance Director shall:
 - a. Establish procedures consistent with objectives.
 - b. Provide internal control structure for accountability.
 - c. Maintain records including descriptions of each investment:
 - d. Amount invested.
 - e. Institution holding investment.
 - f. Transaction date.
 - g. Interest rate.
 - 3. The Finance Director shall coordinate investment maturities with the Treasurer to identify cash requirements throughout the fiscal year.
- D. Internal Controls
 - 1. The City Manager is responsible for assuring an internal control structure to provide reasonable assurance that objectives are met.
 - a. The cost of the control should not exceed benefits.
 - b. Evaluation of costs and benefits requires estimates and judgments by City Manager.
 - 2. Internal controls shall address:
 - a. Transaction authority.
 - b. Custodial safekeeping.
 - c. Written confirmation of any transactions and wire transfers.
- E. Authority to Invest
 - 1. The Finance Director may invest the following funds:
 - a. City of Sterling Idle Funds as authorized by KSA 12-1675.
 - b. City of Sterling proceeds of temporary notes or bonds as authorized by KSA 10-131.
- F. Maturities
 - 1. Maturities should be coordinated with the Treasurer to assure liquidity to meet the financial demands of the City.

2. Maturities shall not exceed statutory limits.
- G. Designation of Depositories
1. The Finance Director may invest idle funds with depositories having offices located in the City of Sterling as provided by KSA 9-1401.
 2. Prior to investment, the Governing Body shall have designated institutions that may serve as a depository of city funds per resolution.
 3. Such designation by the Governing Body shall be performed on a periodic basis.
- H. Permitted Investments
1. The investments available for use of City funds may include:
 - a. Bank Time Deposits or Certificates of Deposit that are fully collateralized per KSA 9-1402.
 - b. Municipal Investment Pool
 - c. U.S. Treasury bills, notes, or bonds.
 2. All investments in excess of FDIC coverage must be 100% collateralized and secured at all times.
- I. Competitive Placement of Funds
1. The Finance Director shall maintain a list of interested bidders who wish to participate in the City's investment funds.
 2. Eligible financial institutions shall include banks, trust companies, savings and loan associations, or savings banks with a main or branch office located within the city of Sterling, Kansas. The City may also invest in the State of Kansas Municipal Investment Pool.
 3. City shall invest with the eligible institution offering the best return and meeting requirements of the investment.
- J. Safekeeping, custody, and pledging of assets
1. Assets of the City in Federal Book Entry form shall be secured through a third party bank.
 2. City shall enter a Custodial Agreement with the third party bank holding the collateral for deposits
 3. Securities not backed by full faith and credit of the United States government shall be collateralized through issuance of bank deposit guaranty bonds or joint custody receipts in an amount equal to or greater than the investments.
- K. Inventory of investments
1. A current inventory of active investments shall be maintained by the Finance Director.
 2. The inventory of investments shall be available for inspection by the City Manager at all times.

Section VI: DEBT MANAGEMENT

A. Purpose for debt financing

1. Cities often utilize debt to spread the costs of expensive one-time capital improvement projects over a period of years to match the costs with the life of the asset.
2. At times, cities utilize debt for very high expense equipment whose price exceeds available cash resources.
3. Criteria for determining the need for debt financing shall include the following:
 - a. An improvement project or very high expense equipment is budgeted within the Capital Improvement Program.
 - b. An asset has extended life span equal to or greater than the maturity of financing.
 - c. There are inadequate cash resources available for needed project.
 - d. Project is result of growth-related activity requiring unanticipated improvements.
 - e. When there are designated revenues sufficient to retire the associated debt, whether from the project, reserves or other designated sources.
 - f. Whenever appropriate, the City should seek to finance improvements from special assessments, relevant enterprise fund revenues, or sources other than general property tax revenues.
 - g. Funds are included in the annual budget to repay the debt in a timely manner.

B. Criteria for Debt vs. "Pay-as-You-Go"

1. "Pay-as-You-Go" is a term utilized to refer to funding projects with existing cash resources rather than utilizing bond financing. Factors which should be present when using cash resources instead of borrowing for major improvement projects or expensive equipment are:
 - a. Adequate funds are available from current fund balances and revenues without jeopardizing current operations or cash position.
 - b. Increased indebtedness could adversely affect the City's credit standing or repayment sources.
 - c. Market conditions for borrowing are unstable or interest rates are high.
 - d. The City exceeds or is nearing its legal debt limit.
2. Debt financing can be advantageous to the City when:
 - a. Revenues from current sources are limited and not available to pay capital outlay for the project.
 - b. Market conditions are conducive to borrowing (low interest rates).
 - c. The expected life of the project or equipment is equal to or greater than the term of financing.
 - d. Costs and benefits of an issue have been satisfactorily analyzed by the Governing Body.
3. Any proposed debt of any type shall be referred to the City Manager prior to presentation to the governing body.

C. Maturity benchmarks

1. Debt will be constructed so as to assure the lowest net interest cost available to the city.
2. Maturities shall not exceed 20 years.

D. Special Assessments

1. Special assessments are a method of financing improvements whose benefits accrue to a specific and limited area within the City. There are very detailed statutory procedures which the City must follow in order to utilize special assessments.
2. Special assessments will be used to the extent practicable for new construction and extensions of streets and drainage improvements, water, sewer, and other improvements beneficial to a particular area of the community.
3. When special assessment financing is utilized for a particular new development, the City shall require an Irrevocable Letter or Credit or cash deposit from the developer guaranteeing at least 30 percent of total assessment obligation of the developer. This Letter of Credit may be waived once 35 percent of benefit district property is developed.
4. Special assessments may be amortized over a 10, 15 or 20 year period, based upon the preference of the developer, expected lifespan of proposed improvements, if the appropriate guarantees are in place.
5. It should be noted that the Governing Body has the right to reject special assessment petitions when in their judgment it is not in the best interests of the City.

E. Bond Calls, Refunding and Balloon Payments

1. Any bonds issued by the City should be callable at par if possible.
2. Periodic review of debt shall be undertaken to determine if there are potential savings available by refunding. Typically, refunding is recommended only if present value savings will exceed 2 percent of principal.
3. The City shall not enter into indebtedness which includes any balloon payments.

F. Bond and Interest Fund

1. The payment of all general obligation debt and special assessments shall be incorporated in the appropriate fund of the city.
2. Balances in the Bond and Interest Fund shall be maintained at a minimum of 5 percent of total principal and interest payments, or in sufficient amounts to meet bond payment deadlines, whichever is greater.
3. The Director of Finance is responsible to avoid any arbitrage liability.

G. Bond Counsel

1. The City will utilize external bond counsel with substantial work experience issuing debt for Kansas communities.
2. Bond counsel shall be selected by the City Commission upon recommendation by the City Manager.

H. Financial advisor

1. City shall retain a financial advisor to assist with structuring the debt, estimating costs of issuance and debt service schedules, providing information about the bond issue, preparing the Official Statement and other relevant documentation, and meeting any other logistical requirements on the city.
2. The Financial Advisor shall be selected by the City Commission upon recommendation of the City Manager.

I. Temporary Notes

1. Temporary notes are utilized to provide temporary construction financing.
2. Temporary notes will only be used when current cash resources are not available in a timely manner needed to finance construction improvements.
3. Temporary notes are limited by statute to a period of four years maturity.

J. Credit Enhancement

1. When advantageous and available, the City may utilize bond rating or bond insurance to guarantee bond payments in order to secure a lower rate.
2. The City shall fully explore the costs of any proposed credit enhancements prior to submission for such.

K. Lease/Purchase Agreements

1. Lease/Purchase agreements may be used for acquisition of vehicles and major equipment. However, such financing requires additional administrative attention, may result in higher interest rates, and may have punitive contractual obligations if the lease purchase agreement is terminated.
2. Therefore, such agreements shall only be used in special circumstances when the City has failed to establish adequate cash reserves and bonding costs are excessive.

L. Sale of Bonds

1. City shall normally seek a competitive bid on general obligation or revenue bonds.
2. Special purpose bonds may be issued by negotiated sale if there is documentation of market costs to justify the interest rates associated with the issue.
3. Determination of when to utilize a negotiated sale will rest with the Governing Body.

M. Management Responsibility for Impact Analysis

1. The City Manager shall submit a fiscal impact disclosure to the City Council prior to approval of any bonded indebtedness decision.
2. The fiscal impact disclosure report shall include total project costs, projected debt service requirements, impact upon mill levy or relevant utility rate, and any affect upon bonded debt limitation of the City.

Section VII: CAPITAL ASSETS POLICY

A. Definitions and Threshold

1. Capital assets include land, improvements to land, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures,, infrastructure, construction in progress, and all other tangible assets that are used in operations and have an initial useful life of one year or more.
2. The capital asset threshold is \$5,000, the amount established by the Finance Director as the floor value for determining if the asset is to be depreciated. The threshold is based upon the cost of the individual asset being depreciated.
3. Capital assets meeting the threshold shall be recorded at historical cost.

B. Disposal of Surplus Property

1. The City Manager may transfer, sell, exchange or destroy any surplus, obsolete, abandoned or confiscated property without competitive bidding if property has a value of less than \$1,000.
2. Such property may only be disposed of using appropriate methods identified within these policies. The method to be used shall be determined by the City Manager.
3. Only the City Commission has authority to dispose of property valued in excess of \$1,000.

C. Procedure for Disposal

1. When items with original purchase cost of \$1,000 or more are to be disposed, the Finance Director must be notified in order to update the Fixed Assets Account and/or Inventory.
2. Items may be transferred to another department within the City with approval by the City Manager.
3. Methods of disposal shall include the following options:
 - a. Sale through:
 - i. Auction.
 - ii. Sealed bid.
 - iii. Commercial market if an item of specialized equipment is involved.
 - iv. Sale of scrap.
 - v. Posted prices (if there appears no bid interest, item can be posted at a price for first come-first served basis.)
 - b. Trade-in.
 - c. Cannibalization.
 - d. Donation: Only the City Commission can approve a donation of property to a party outside the City government if such property is valued at \$1,000 or more.
 - e. Disposal of hazardous waste materials requires coordination with the fire chief or local environmental authority.
4. Allocations of proceeds are distributed to the General Fund, unless otherwise directed by City Commission or grant requirement.
5. Sales to Employees: Employees may not purchase items unless they participate in a bid process and present the highest bid.
6. Disposal of grant funded equipment must be accomplished in accordance with grant requirements.

D. Annual Inventory

1. The city shall conduct an annual physical inventory of assets in a manner and form determined by the City Manager.
2. Department heads shall be responsible for all inventory items under their control and reporting such inventory list to the Finance Director.
3. All depreciable assets shall be included in the inventory as well as items which might easily be susceptible to theft (such as special tools, computers, etc.)
4. The inventory data base or listing shall be maintained by the Finance Director based upon the inputs from the department heads.
5. Assets shall not be removed from the inventory until properly disposed of within the terms of this policy.
6. Fixed asset inventory data requirements include:
 - a. Asset identification number
 - b. Asset classification (e.g., land, equipment, building...)
 - c. Account number(s) to which original purchase was charged
 - d. Location of asset
 - e. Description:
 - i. Model number
 - ii. Manufacturer
 - iii. Serial number, etc.
 - f. Name/address of vendor
 - g. Total cost including component costs:
 - i. Price
 - ii. Shipping
 - iii. Installation
 - iv. Market appraisals for any contributions
 - h. Date of acquisition
 - i. Method of acquisition
 - i. Purchase
 - ii. Lease
 - iii. Contribution
 - iv. Construction
 - j. Estimated useful life

Section VIII: CAPITAL IMPROVEMENTS PROGRAM

A. Purpose

1. A Capital Improvement Program (CIP) is a multiyear plan for capital expenditures to replace and expand public infrastructure and facilities.
2. The CIP is a planning tool to enable the Governing Body and staff to work together on defining future projects, establishing priorities among projects which demand use of limited public financial resources, and identifying potential funding sources (taxes, utility revenues, grants, etc.).
3. The CIP also enables the fiscal impact of each project to be taken into account during the planning process in order to avoid or at least manage heavy impacts on annual budgets.

B. Parameters

1. The threshold for including a project in the CIP is a total project cost of \$50,000 or any project which is to be financed with bonds.
2. The CIP may include one-time cash expenditures, but the primary purpose is to provide a method of planning and prioritizing multiple debt-financed projects so that the fiscal impacts can be managed by the City.

C. CIP Development Process

1. The CIP will involve multiple planning steps involving management, department heads, and elected officials.
2. The CIP process includes the following steps:
 - a. Development of a Master List of all foreseeable projects.
 - b. Identification of those projects on the Master List which are anticipated to be undertaken within the next five years.
 - c. Staff involved in the process should identify potential projects and present them to the City Manager in advance of the CIP review in order that such projects may be included in the prioritization process.
 - d. The Governing Body and management staff should work collaboratively to establish priorities among the proposed projects and to develop the final CIP.
 - e. The CIP should be reviewed annually well in advance of the construction season.
3. Contents of the CIP should include:
 - a. List and brief description of each project to be included in the CIP over the next five years.
 - b. Approximation of total project costs for each project.
 - c. Anticipated sources of revenues.
 - d. Annual amortization costs of each project.
 - e. Any significant notes about the project.
 - f. Priority level of each project.
 - g. Projected time frame within which the project should be undertaken.

D. Identifying Priority Projects

1. Prioritization of projects should be established by the City Commission in consultation with management staff.
2. The Commission should be the final arbiter of priorities for projects.

3. Priority levels are as follows:
 - a. Priority I: Essential projects which must be completed because:
 - i. There is a clear demonstrated need.
 - ii. Potential adverse consequences such as loss of life or property could occur absent the project.
 - iii. Project has an impact upon a substantial number of citizens.
 - iv. There is an inability to delay the improvement because of factors such as timing or requirements of funding sources.
 - v. Current infrastructure is about to fail.
 - vi. Project is mandated by state or federal government.
 - b. Priority II: Needed projects which should be completed because:
 - i. There is a clearly demonstrated need.
 - ii. The project would have an impact upon a substantial number of citizens.
 - iii. Timing is less sensitive than Priority I projects.
 - c. Priority III: Desirable projects which do not rise to the level of Priority I or II.