

CITY OF ROWLETT FINANCIAL POLICIES

I. STATEMENT OF PURPOSE

The City recognizes that the community of Rowlett is a unique, dynamic environment with a rich, cultural history and desires to enhance and protect that environment through the adoption of fiscally responsible policies that will maintain or improve the financial health and wellbeing of the City. In order to accomplish this, it is critical to understand the external economic factors operating in the community, identify existing and/or emerging problems before they reach serious proportions, and consider the financial impact decisions have on the City's financial condition. The goals of these financial policies are as follows:

- A. To protect the City's policy-making ability by ensuring that policy decisions are not hindered by financial problems or emergencies.
- B. To assist sound management of the City by providing accurate and timely information on financial condition.
- C. To provide sound principles to guide the important decisions of the City Council and of management which have significant fiscal impact.
- D. To establish operational principles that minimize the cost of local government, to the extent consistent with services provided by the City, and which minimize financial risk.
- E. To employ revenue policies that prevent undue or unbalanced reliance on certain revenues, which distribute the costs of municipal services fairly, and which provide adequate funds to operate desired programs.
- F. To provide funding capacity for the ongoing maintenance of the City's essential public facilities and infrastructure.
- G. To protect and enhance the City's credit rating and prevent default on any municipal debts.
- H. To insure the legal use of all City funds through a good system of financial security and internal control.

The scope of these policies generally spans, among other issues, accounting, auditing, financial reporting, internal controls, operating and capital budgeting, revenue management, cash and investment management, expenditure control, debt management, and planning concepts, in order to:

- Present fairly and with full disclosure the financial position and results of financial operations of the City in conformity with generally accepted accounting principles (GAAP).
- Determine and demonstrate compliance with finance-related legal and contractual issues in accordance with provisions of the Texas Local Government Code, Home Rule Charter, and other pertinent legal documents and mandates.
- Demonstrate good fiscal administration of the City's funds and promote accountability to its citizens.

II. GENERAL IMPLEMENTATION AND COMPLIANCE GUIDELINES

- A. **FINANCE COMMITTEE.** A committee, designated as the Finance Committee, will be appointed by the City Council and consist of three members of the City Council. The Finance Committee will meet as requested with the City Manager, the Director of Financial Services, Chief Financial Officer, and the City's independent auditor for these purposes:

1. Financial and fiscal policy review.
 2. Auditor selection recommendation.
 3. Investment policy review and guidance.
 4. Communications with the City's independent auditor.
- B. PERIODIC REVIEW. Based upon the results and recommendations of the Finance Committee, on a periodic basis, the City Council will approve the financial and fiscal policies as reviewed and refined to reflect current laws in effect at the time, as well as significant changes in the City, which will impact the prevailing policy.
- C. IMPLEMENTATION, COMPLIANCE, ACCOUNTABILITY AND REVIEW. The Director of Financial Services will be accountable for implementing these policies and will to the best of his or her knowledge make the Finance Committee and the City Council aware of any variances in practice from these policies or any other deviation from prudent financial practices in accordance with GAAP, the City Charter, state laws or ethics of the profession. Any variances will be presented at meetings of the Finance Committee with notification sent to the City Council in writing.
- D. The Finance Committee may have bylaws approved by the City Council that may further define its role and responsibilities. Such bylaws shall be approved by resolution.

III. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

- A. ACCOUNTING. The City is solely responsible for the reporting of its financial affairs, both internally and externally. The Director of Financial Services is the City's Chief Financial Officer and is responsible for establishing the Chart of Accounts and for properly recording financial transactions.
- B. EXTERNAL AUDITING.
1. Audit and Examination of City Books and Accounts. In conformance with Section 6.01 of the City's Charter and according to the provisions of Texas Local Government Code, Title 4, Chapter 103, the City will be audited annually by outside independent accountants ("external auditor").
 2. External Auditor Repute. The external auditor must be a CPA firm of regional reputation and must demonstrate that it has the breadth and depth of staff to conduct the City's audit in accordance with generally accepted auditing standards and contractual requirements. The external auditor must be registered as a partnership or corporation of certified public accountants, holding a license under Article 41a-1, Section 9, of the Civil Statutes of Texas, capable of demonstrating that it has sufficient staff which will enable it to conduct the City's audit in accordance with generally accepted auditing standards as required by the City Charter and applicable state and federal laws.
 3. Timing. Pursuant to Section 103.003(a) of the Texas Local Government Code, the annual financial statement, including the external auditor's opinion on the City's financial statements, shall be filed in the office of the City Secretary within 120 days of the City's fiscal year end. In the event that it is impossible to complete the audit within the specified timeframe, an unaudited financial report, certified by the Director of Financial Services, shall be filed with the City Secretary by the 120th day deadline to be replaced by the final audited financial statements when completed.
 4. Management Letter. The external auditor will prepare and will review the Management Letter with the City Council within 60 days of its receipt and in accordance with the City Charter. The Director

of Financial Services shall respond in writing to the City Manager and City Council regarding the external auditor's Management Letter, addressing the issues contained therein and will meet with the Audit Committee to discuss the findings and response. The City Council shall schedule its formal acceptance of the external auditor's report upon the resolution of any issues resulting from its review. Pursuant to Section 6.01 of the City's Charter, the written report will be presented to City Council in a regular meeting.

5. Responsibility of External Auditor to City Council. The external auditor is accountable to the City Council and will have access to direct communication with the City Council if City Staff is unresponsive to external auditor recommendations or if the external auditor considers such communication necessary to fulfill its legal and professional responsibilities.
6. Rotation of External Auditor. Pursuant to Section 6.01 of the Home Rule Charter, the City shall seek competitive requests for proposals at least once every five (5) years. The certified public accountant selected shall have no personal interest, directly or indirectly, in the financial affairs of the City or any of its officers. Year to year authorization to continue shall be done no later than 60 days prior to the beginning of the fiscal year to facilitate audit-planning purposes.
7. External Auditor Requirements. The external auditor will provide the following to City Staff:
 - a. Detailed invoices accounting for time spent both by audit phase and level of auditor will be submitted to the City with each invoice.
 - b. Copies of all work papers will be furnished to the City upon request.

C. FINANCIAL AND FISCAL REPORTING.

1. External Financial Reporting.
 - a. Scope. A Comprehensive Annual Financial Report (CAFR) shall be prepared in accordance with generally accepted accounting principles (GAAP) and recommended practices of the Government Finance Officers Association (GFOA).
 - b. Timing. The report shall be presented to the City Council within 120 calendar days of the City's fiscal year end (see III B3 above).
2. Internal Fiscal Reporting. Pursuant to Section 3.13(6) of the Home Rule Charter, the City Council shall adopt a periodic fiscal reporting policy, sufficient to plan, monitor, and control the City's fiscal affairs. Internal financial reporting objectives are addressed throughout these policies.
 - a. Timing. Pursuant to Section 4.03(10) of the Home Rule Charter, on a quarterly basis the Finance Department shall prepare a written report of the City's financial affairs. The City Manager, or designee, shall orally present said report at a public meeting of the City Council. Each report shall accurately reflect the City's current position in regards to revenue and expenditure performance, as well as any additional information that reflects the City's current and future fiscal position.

IV. OPERATING BUDGET

- A. PREPARATION. Budgeting is an essential element of the financial planning, control, and evaluation process of municipal government. The City's "operating budget" is the City's annual financial operating plan. The City shall attempt to balance the budget consistent with the needs and desires of the community and available resources and will not generally rely upon one-time measures to balance the budget. The budget shall be prepared and presented to meet the requirements of Section 102 of the

Texas Local Government Code.

1. **Scope.** The scope of the budget includes the following funds for which the City will adopt a formal budget: General Fund, Debt Service, Utility Fund, Economic Development Fund, Refuse Fund, Drainage Fund, Golf Fund, and Employee Benefits Fund. All Special Revenue Fund budgets are included in the annual budget process with the City Council and are included in the annual budget document.
2. **Budgetary Process.** The City Manager, or designee, prepares the annual budget and transmits the document to the City Council. In order to meet the requirements of Section 102.005 of the Texas Local Government Code, the budget shall be delivered to the City Council 45 days prior to the beginning of each fiscal year end, filed with the City Secretary, and should be approved by the City Council prior to the fiscal year end. In the event that a budget is not adopted prior to October 1st, the preceding fiscal year budget shall be deemed adopted, which may be amended or supplemented, as the City Council deems appropriate pursuant to Section 6.02 of the Home Rule Charter.
3. **Basis of Budgeting.** The basis of budgeting will be the same as the basis of accounting; that is, that budgets for the General Fund and the Special Revenue Funds are prepared on the modified accrual basis of accounting. The budgets for the Enterprise (Proprietary) Funds and Internal Service Funds are prepared on a full accrual basis, except that capital purchases and depreciation are not adjusted until year-end financial reporting.
4. **Proposed Budget Format.** A proposed budget shall be prepared by the City Manager, within the provisions of Section 102 of the Texas Local Government Code. The budget shall include five basic segments for review and evaluation. These segments are: (1) personnel costs, (2) operations and maintenance costs, (3) capital and other (non-capital) project costs, (4) debt service, and (5) revenues. At minimum, a four-column format should be used such that prior year actual, current year budget and revised, and next year proposed are all clearly shown. The budget format should also clearly indicate an opening fund balance, the operating results of each fund, and a closing fund balance, carried over to each subsequent year of the budget. Where possible, the budget should be defined by programs and services provided to the budget and the corresponding costs and benefits of each. In order to meet the Texas Local Government Code, the proposed budget shall also contain the outstanding obligations of the City; the cash on hand to the credit of each fund; and the estimated tax rate required to cover the proposed budget.
5. **City Council Participation.** The budget review process shall include City Council participation in the review prior to the budget adoption. The budget process will span sufficient time to address policy and fiscal issues by the City Council. The budget process will be coordinated to identify major policy issues for City Council consideration prior to the budget approval date so that proper decision analysis can be made.
6. **Filing and Adoption.** Upon the presentation of a proposed budget document acceptable to the City Council, the City Council shall call and publicize a public hearing and adopt by Ordinance such budget as the City's Official Budget, effective for the fiscal year beginning October 1st. A copy of the proposed budget shall be filed with the City Secretary in accordance with the provisions of Section 102 of the Texas Local Government Code. Within 45 days after the adoption of the budget or a budget amendment, the budget officer shall provide for the filing of a true copy of the approved budget or amendment in the office of Dallas and Rockwall counties.
7. **Amending the Official Budget.** Amendments to the Official Budget shall be made at regularly scheduled City Council meetings. Budget transfers shall be made at the discretion of the City Manager, as outlined and defined in Section VI.A of these policies.

8. Encumbrances. Encumbrances outstanding at the end of each fiscal year that the City intends to pay during the succeeding fiscal year may be appropriated in that subsequent year's official budget by means of budget amendment as appropriations expire at year-end. However, budgeted funds for encumbrances on items ordered but not received by year- end will automatically be carried over.
 9. Balanced Budget. The operating budget will be balanced where the proposed resources (prior year fund balance plus current year revenues) are equal to or greater than the proposed expenditures.
 10. Forecasting. The budgeting process for the annual budget necessitates the preparation of future projections of both revenues and expenditures. It should be recognized that the balanced budget requirement forces the conservative estimate of revenues and expenditures. Inherent in the forecasting process is the identification of assumptions used in the forecasting calculations. A statement of assumptions should be included in the presentation of forecasts.
 11. Control. Operating Expenditure Control is addressed in Section VI.A. of these Policies.
- B. PERFORMANCE MEASURES AND PRODUCTIVITY INDICATORS. Where appropriate, performance measures and productivity indicators will be used as guidelines and reviewed for efficiency and effectiveness. This information will be included in the annual budgeting process.
- C. MULTI-YEAR PLANNING MODEL. As part of the annual budget process, the City will maintain a five-year operating plan to model the effect of significant changes over time. Said model should include major components such as (1) personnel costs, (2) operations and maintenance costs, (3) capital and other (non-capital) project costs, (4) debt service, and (5) revenues, and will identify basic assumptions used in the model.

V. REVENUE MANAGEMENT.

- A. The City will strive for the following optimum characteristics in its revenue system:
1. Simplicity. The City, where possible and without sacrificing accuracy, will strive to keep the revenue system simple in order to reduce compliance costs and to make it more understandable to the taxpayer or service recipient. The City will avoid nuisance taxes or charges as revenue sources.
 2. Certainty. Knowledge and understanding of revenue sources increases the reliability of the revenue system. The City will understand its revenue sources and enact consistent collection policies to provide assurances that the revenue base will materialize according to budgets and plans.
 3. Equity. The City shall make every effort to maintain equity in its revenue system structure; i.e., the City shall seek to minimize or eliminate all forms of subsidization between entities, funds, services, utilities, and customers. The City shall strive for a balance in the revenue system; i.e., the revenue base will have the characteristics of fairness and neutrality as it applies to cost of service, willingness to pay, and ability to pay.
 4. Administration. The benefits of a revenue will be expected to exceed the cost of producing the revenue. The cost of collection will be reviewed annually for cost effectiveness as a part of the indirect cost and cost of services analysis. Where appropriate, the City will use the administrative processes of State or Federal collection agencies in order to reduce administrative costs.
 5. Diversification and Stability. In order to protect the City from fluctuations in a revenue source due

to fluctuations in the economy and variations in weather, a diversified revenue system will be maintained which will provide stability of income. This stability is also achieved by a balance between elastic and inelastic sources of revenues.

6. Grants and Restricted Revenues. In order to maintain flexibility in the revenue system, restricted revenues will be closely monitored. Any potential grants will be examined for matching requirements.
- B. The following considerations and issues will guide the City in its revenue policies concerning specific sources of funds:
1. Cost/Benefit of Abatement. The City will use due caution in the analysis of any tax or fee incentives that are used to encourage development. Ideally, a cost/benefit (fiscal impact) analysis will be performed as a part of such caution.
 2. Non-Recurring Revenues. One-time or non-recurring revenues will not be used to finance current ongoing operations. Nonrecurring revenues should be used only for one-time expenditures such as long-lived capital needs. They will not be used for budget balancing purposes.
 3. Property Tax Revenues. All real and business personal property located within the City shall be valued at 100% of the fair market value for any given year based on the current appraisal supplied to the City by the Dallas Central Appraisal District. Reappraisal and reassessment shall be done regularly as required by State law. A 98% collection rate shall serve each year as a goal for tax collections. All delinquent taxes shall be aggressively pursued each year by the County's Tax Assessor/Collector. Delinquent tax accounts shall be submitted for collection each year to an attorney selected by the City Council. A penalty shall be assessed on all delinquent property taxes, which shall include all court costs, as well as an amount for compensation of the attorney as permitted by State law and in accordance with the attorney's contract with the City.
 4. Interest Income. Interest earned from investment of available monies, whether pooled or not, will be distributed to the funds in accordance with the operating and capital budgets. Wherever possible, the distribution will be in accordance with the equity balance of the fund from which monies were provided to be invested.
 5. User-Based Fees and Service Charges. For services associated with a user fee or charge, a fee should offset the direct and indirect costs of that service where possible or appropriate. There will be a periodic review of fees and charges to ensure that fees provide adequate coverage of costs of services.
 6. Utility Rates. The City will review and adopt utility rates periodically that will generate revenues required to fully cover operating expenditures, meet the legal restrictions of all applicable bond covenants, and provide for an adequate level of working capital needs. At a minimum, this review should be conducted every five (5) years. This policy does not preclude drawing down cash balances to finance current operations. However, it is best that any extra cash balance be used instead to finance capital projects. Components of Utility Rates will include transfers to the General Fund as follows:
 - a. General and Administrative Charge. An administrative fee will be charged to the Utility Fund for services of general overhead, such as administration, finance, personnel, data processing, and legal counsel.
 - b. Franchise payment (in lieu of tax). A rate of 5% of gross sales will be charged to the Utility Fund, consistent with the rates charged to private utilities operating within the City.

7. Revenue Monitoring. Revenues actually received will be regularly compared to budgeted revenues and variances will be investigated. This process will be summarized in the appropriate budget report.
 8. Interfund Cost Allocation. The expenditures of all funds of the City, except for debt service and capital project funds shall be evaluated on an annual basis to identify and allocate the general and administrative overhead costs between operating funds. The model for this allocation shall be developed by the Finance Department and approved by the City Manager.
- C. The City will utilize the following policies regarding utility billings and collections:
1. Use of Estimates. In the advent of technical or other factors that prevent the Utility Office from issuing a bill based on actual water/sewer consumption, the City may utilize appropriate administrative techniques to estimate the amount of the water/sewer consumption utilized.
 2. Appeals. Utility customers may appeal staff decisions regarding their utility account. Customers will be required to submit the basis of their appeal in writing. The City Manager (or his designee) after duly reviewing the available information, shall have the authority to make adjustments to customer accounts based upon, but not limited to, questionable water leaks, technical difficulties, customer history, etc.

VI. EXPENDITURE CONTROL

- A. APPROPRIATIONS. The level of budgetary control is at the fund level.
1. Budget and Adjustments. Budget adjustments are transfers of approved funds from one line item within a department or from one department to another within a fund. Budget transfers never increase the total appropriation of a given fund. Budget adjustments within the same department, under \$10,000, may be approved by the Department Director and Director of Financial Services with notification to the City Manager. Budget adjustments exceeding \$10,000 or between departments within the same fund shall be made at the discretion and approval of the City Manager.
 2. Budget Amendments. Budget amendments increase or decrease the total appropriation of a given fund. The City Council shall approve all budget amendments at a regularly scheduled City Council meeting.
- B. PURCHASING. All purchases should be in accordance with the City's purchasing policies as defined in the Purchasing Manual and Chapters 252 and 271 of the Texas Local Government Code as amended. Purchases under \$50,000 but exceeding \$15,000 require the approval of the City Manager in addition to the Department Director.

The purchase of goods or services at a total cost of \$3,000 or more shall be made through purchase orders. Written purchase orders shall also be used for vendors requiring formal City authorization regardless of the dollar amount. Exceptions to this include payroll items, utilities, water supply, wastewater treatment, attorney fees, advertising for public notices, travel, training, debt, and other items that do not require additional authorization per administrative guidance and policy.

Any payment for the purchase of goods or services by the City at a total cost of less than \$3,000 may be made via direct invoice entry, a procurement card, or a purchase order.

All documentation for the disbursement of funds by the Finance Department exceeding \$25,000 shall require the authorization of the City Manager and the Director of Financial Services or designee in

addition to the respective Department Director or designee prior to processing.

C. CONTRACT MODIFICATIONS.

1. Once a contract is approved by the City Council, minor modifications (Administrative Modifications) that change the scope of work and increases the original contract amount by less than \$50,000 may be approved by the City Manager.
2. Major modifications (Change Orders) that change the scope of work and increases the original contract amount by more than \$50,000 must be approved by the City Council.
3. Pursuant to Texas Local Government Code, Article 252.048, contract modifications over 25% of the original amount awarded by City Council must be rebid through the formal bid process.

D. PROMPT PAYMENT. All invoices approved for payment by the proper City authorities shall be paid by the Finance Department within thirty (30) calendar days of receipt in accordance with the provisions of Article 601f, Section 2 of the State of Texas Civil Statutes.

The Director of Financial Services shall establish and maintain proper procedures, which will enable the City to take advantage of all purchase discounts, when possible, except in the instance where payments can be reasonably and legally delayed in order to maximize the City's investable cash.

E. RISK MANAGEMENT. The City will aggressively pursue every opportunity to provide for the public's and city employees' safety and to manage its risks. The goal shall be to minimize the risk of loss of resources through liability claims with an emphasis on safety programs. All reasonable options will be investigated to minimize risks. Such options may include risk transfer, insurance, and risk retention. Where risk is retained, reserves will be established based upon actuarial determinations and will not be used for purposes other than for financing losses.

VII. ASSET MANAGEMENT

A. INVESTMENTS. The City's designated Investment Officer(s) shall promptly invest all City funds with the Bank Depository in accordance with the provisions of the current Bank Depository Agreement or in any negotiable instrument that the City Council has authorized under the provisions of the State of Texas Public Funds Investment Act, and in accordance with the City Council approved Investment Policies. The Investment Policies shall designate the City's Investment Officer(s).

As required by the Public Funds Investment Act (PFIA), a report on investment performance will be provided to the City Council. The Director of Financial Services shall prepare and provide a written quarterly report of the City's investment portfolio to the City Council, detailing each City investment instrument with its rate of return and maturity date.

B. CASH MANAGEMENT. The City's cash flow will be managed to maximize the cash available to invest. Such cash management will entail the centralization of cash collections, where feasible, including property tax payments, utility bills, building and related permits and licenses, and other collection offices as appropriate.

The Director of Financial Services or designee may transfer funds, via electronic transfer, through verbal or written instructions to the City's Depository only for payment of any obligation of the City. Payment authorization shall be in accordance with the pay authorization criteria as defined in the current Bank Depository Agreement, approved by City Council, stipulating the conditions and control procedures on such activity.

C. FIXED ASSETS AND INVENTORY. A fixed asset of the City shall be defined as a purchased or

otherwise acquired piece of equipment, vehicle, furniture, fixture, capital improvement, addition to existing capital investments, land, buildings, or accessioned Library materials. The cost or value of any such acquisition, other than accessioned Library materials, must be \$10,000 or more with an expected useful life greater than three years. Public Infrastructure, including but not limited to street and alley improvements, drainage improvements, etc., exceeding \$100,000 in value and with an expected useful life of greater than five years, will also be capitalized. Depreciation guidelines may be promulgated by the Director of Financial Services but should never exceed the expected useful life of the asset. Buildings and land, including right-of-way acquisition, shall be capitalized at any value.

The City's fixed assets shall be reasonably safeguarded and properly accounted for and sufficiently insured. Responsibility for the safeguarding of the City's fixed assets lies with the Department Director in whose department the fixed asset is assigned. The Finance Department shall supervise the marking of fixed assets with City numbered property tags or other identification process and shall maintain the permanent records of the City's fixed assets including description, cost, department of responsibility, date of acquisition, depreciation and expected useful life. The Department in which the fixed assets are assigned shall perform an annual inventory of assets. Such inventory shall be spot checked, using informal sampling by the department supervisor to verify inventory accuracy before submission to the Finance Department. A secondary, informal sampling to verify accuracy may be performed by the Director of Financial Services or designee in the presence of designated department personnel.

VIII. CAPITAL IMPROVEMENTS

- A. **PREPARATION.** The City's capital budget will be called the Five Year Capital Improvements Plan (CIP), and include all capital projects funds and all capital resources. The budget will be prepared annually on a fiscal year basis. The capital budget will be prepared with the involvement of all applicable city departments.
- B. **ADOPTION.** A copy of the Five Year Capital Improvements Plan shall be made available to each council member and to the public prior to City Council discussions concerning the proposed program. A public hearing shall be held each year to allow any citizen to be heard for or against any project or the amount of any project contained herein. Project budgets are formally adopted by City Council through the awarding of formal bids.
- C. **CONTROL.** All capital project expenditures must be appropriated in the capital budget. The Finance Department must certify the availability of appropriations prior to presenting a capital projects contract to the City Council for approval. Any remaining project funds not completed or started at the end of a fiscal year will be automatically carried over into the following fiscal year.
- D. **CONTINGENCIES.** It is appropriate for certain types of capital projects to include a contingency to cover unforeseen costs and prevent undue delays. This amount can vary due to the type and complexity of the project.
- E. **REPORTING.** Monthly reports shall be prepared on the progress of each active project in the CIP. The reports should contain data on each project, identifying any changes in the financial status of the project and identifying the status of the project. Said reports will be prepared to enable Department Directors to manage their capital budgets and to enable the Finance Department to monitor and control the capital budget as authorized by the City Manager.
- F. **PROGRAM PLANNING.** The capital budget will include capital improvements planned for future years. The planning time frame should be at least five (5) years. The replacement and maintenance for capital items should also be projected for the next five (5) years. Future maintenance and operational costs will be considered so that these costs can be included in the operating budget.
- G. **FINANCING PROGRAMS.** Where applicable, assessments, impact fees, pro-rata charges, or other

fees should be used to fund capital projects that have a primary benefit to specific, identifiable property owners.

Recognizing that long-term debt is usually a more expensive financing method, alternative financing sources will be explored before debt is issued. When debt is issued, it will be used to acquire major assets with expected lives that equal or exceed the average life of the debt issue. The exceptions to this requirement are the traditional costs of marketing and issuing the debt, capitalized labor for design and construction of capital projects, and small component parts, which are attached to major equipment purchases.

- H. **INFRASTRUCTURE MAINTENANCE.** The City recognizes that deferred maintenance increases future capital costs. Therefore, a portion of the City's operating budget will be set aside each year to maintain the quality of the City's infrastructure. The amount will be established annually, as part of the budget process, so that necessary repairs will be made.

IX. FINANCIAL CONDITIONS, RESERVES, AND STABILITY RATIOS

A. OPERATING RESERVES/FUND BALANCES

1. Defined: Under generally accepted accounting principles (GAAP), governmental entities maintain several types of funds with different accounting basis. As a result, the methodology for determining the level of operating reserves is different. For funds falling under the modified accrual basis of accounting (generally governmental fund types such as the general fund and special revenue funds), the operating reserve will be defined as Fund Balance under GAAP. For funds falling under the full accrual basis of accounting (generally business-type activities such as the utility, drainage and refuse funds), the operating reserve will be defined as Unrestricted Net Assets under GAAP.
2. The General Fund operating reserve balance should be at least 25% of the Fund's annual operating expenditures exclusive of transfers to other funds and any restricted reserves required to be set aside.
3. A Utility Fund operating reserve cash balance of at least 90 days of net operating expense should be maintained, exclusive of transfers to other funds and any restricted reserves required to be set aside.
4. The Drainage Fund operating reserve balance should be at least 10% of total operating expenditures exclusive of transfers to other funds and any restricted reserves required to be set aside.
5. The Refuse Fund operating reserve balance should be at least 5% of total operating expenditures exclusive of transfers to other funds and any restricted reserves required to be set aside.
6. The Golf Fund operating reserve balance should be at least one-year's debt service payment exclusive of transfers to other funds and any restricted reserves required to be set aside.
7. All other funds should maintain adequate operating reserves to accomplish their mission. The Director of Financial Services and the City Manager shall annually evaluate those needs and include such recommendations as part of the annual budget process.

B. GASB 54.

Beginning with the September 30, 2011 financial statements GASB 54 will be applied to all governmental funds. Fund balance classifications that establish a hierarchy based on the extent to

which the City observes constraints imposed upon the use of the resources that are reported by the governmental fund will be used for reporting purposes only. This change will not affect the fund balance reserves outlined in A. above.

The fund balance will now be composed of three primary categories:

1. Non-spendable Fund Balance – includes amounts that cannot be spent and are, therefore, not included in the current year appropriation.

There are two components to this fund balance category:

- i. Not in spendable form – previously recorded disbursements and include items that are not expected to be converted into cash, i.e. inventories, pre-paid items, etc.
 - ii. Legally or contractually required to be maintained intact – refers to an amount that has been received that must be invested indefinitely, i.e. a donation received by the City from a citizen, the principal of which is to be invested in a permanent fund and the earnings used for general governmental purposes
2. Restricted Fund Balance – reports on resources that have spending constraints that are either:
 - a. Externally imposed by creditors, grantors, contributors or laws and regulations of other governments, i.e. grants, etc.
 - b. Imposed by law through constitutional provision or enabling legislation. The amounts represented by this fund balance category have very stringent conditions imposed by external parties or by law. Therefore, the amounts are restricted to very specific purposes and cannot be redeployed for other purposes. The City can be compelled by an external party to comply with the spending requirements represented by the Restricted Fund Balance.

3. Unrestricted Fund Balance

- a. Committed Fund Balance – represents amounts that have internally imposed restrictions mandated by formal action of the City Council. The committed amounts cannot be redeployed for other purposes unless the same type of formal action is taken by the highest level of decision-making authority to reserve or modify the previously imposed restriction.
- b. Assigned Fund Balance – reports amounts that are constrained by the City's intent that they will be used for specific purposes. Decision making with regard to these amounts shall be delegated to the Chief Financial Officer and/or the Director of Financial Services.

Except for the General Fund, fund balance amounts that are not labeled as non-spendable, restricted or committed would be reported in the Assigned Fund Balance category. Therefore, the Assigned Fund Balance becomes the residual amount for the Special Revenue Fund, Capital Project Fund, and Debt Service Funds.

- c. Unassigned Fund Balance – the residual fund balance for the General Fund. It represents the amount of fund balance remaining after allocation to the Non-spendable, restricted, committed and assigned fund balances. This amount reflects the resources that are available for further appropriation and expenditure for general governmental purposes.

C. LIABILITIES AND RECEIVABLES.

Procedures will be taken to maximize any discounts offered by creditors. Current liabilities will

be paid within 30 days of receiving the invoice. Generally, the City will exhaust all normal collection efforts before taking extraordinary procedures, such as utilizing collection agencies or shutting off service. Generally, Accounts Receivables older than 90 days will be turned over to a collection agency or other appropriate medium to ensure collection. In addition, the City will take all reasonable and necessary steps to perfect such receivables. NSF checks shall be automatically processed a second time by the bank before being sent back to the City.

The City Manager is authorized to write-off uncollectible accounts that are delinquent for more than 365 days, if the proper delinquency procedures have been followed. Property and labor liens are exempt from the preceding write-off criteria.

D. CAPITAL AND DEBT SERVICE FUNDS.

1. Monies in the Capital Projects Funds should be used within 36 months of receipt. Balances will be used to generate interest income to offset construction costs.
2. Approved funds in the Capital Improvements Program for projects not started or completed will automatically carryover into the next fiscal year. Any capital improvement included in the capital improvements program that has not started nor any funds spent for three consecutive years will be reevaluated by staff and presented to City Council for alternative project consideration.
3. General Obligation Debt Service Funds will not have reserves or balances in excess of one month of principal and interest plus 15% of the principal outstanding for unrefunded debt issued prior to September 1, 1986. This maximum is dictated by Federal law and does not include the amounts accrued for the next debt service payment.
4. Revenue Obligations will maintain Debt Coverage Ratios as specified by the bond covenants.

E. COMPENSATED ABSENCES. The City will establish an additional reserve within its operating funds to pay for accrued reimbursable vacation and sick leave.

X. TREASURY AND DEBT MANAGEMENT

A. CASH MANAGEMENT. Periodic review of cash flow position will be performed to determine performance of cash management and investment policies. A detailed policy structure will be followed with respect to Cash/Treasury Management. The underlying theme will be that idle cash will be invested with the intent to, in this order, 1) safeguard assets, 2) maintain liquidity, and 3) maximize return. Where legally permitted, pooling of investments will be utilized.

The City will adhere to the investments authorized through the State of Texas Public Funds Investment Act, with amendments, and will additionally establish a comprehensive Investment Policies and Guidelines. Such policies will clarify acceptable investment securities, brokers, terms, and other pertinent investment information.

B. TYPES OF DEBT

1. Leases and Lease Purchase Agreements.
2. Long-term debt will not be used for operating purposes, and the life of a bond issue will not exceed the useful life of a project financed by that bond issue.
3. When appropriate, self-supporting revenues will pay debt service in lieu of tax revenues.

C. ANALYSIS OF FINANCING ALTERNATIVES. The City will explore all financing alternatives in addition

to long-term debt including leasing, grants and other aid, developer contributions, impact fees, and use of reserves of current monies.

- D. **DISCLOSURE.** Full disclosure of operations will be made to the bond rating agencies and other users of financial information. The City staff, with the assistance of financial advisors and bond counsel, will prepare the necessary materials for presentation to the rating agencies, will aid in the production of Offering Statements, and will take responsibility for the accuracy of all financial information released.
- E. **FEDERAL REQUIREMENTS.** The City will maintain procedures to comply with arbitrage rebate and other Federal requirements.
- F. **DEBT STRUCTURING.** The City will issue bonds with an average life of 20 years or less, not to exceed the life of the asset acquired.

The structure should approximate level debt service unless operational matters dictate otherwise or if market conditions indicate a potential savings could result from modifying the level payment stream. Consideration of market factors, such as the tax-exempt qualification, minimum tax alternative, and so forth will be given during the structuring of long-term debt instruments.

G. **DEBT ISSUANCE.**

- 1. **Method of Sale.** The City will use a competitive bidding process in the sale of bonds unless the nature of the issue warrants a negotiated bid. In situations where a competitive bidding process is not elected, the City will publicly present the reasons why, and the City will participate with the financial advisor in the selection of the underwriter or direct purchaser.
- 2. **Bidding Parameters.** The notice of sale will be carefully constructed to ensure the best possible bid for the City in light of the existing market conditions and other prevailing factors. Parameters to be examined include:
 - Limits between lowest and highest coupons
 - Coupon requirements relative to the yield curve
 - Method of underwriter compensation discount or premium coupons
 - Use of True Interest Cost vs. Net Interest Cost
 - Use of bond insurance
 - Deep discount bonds
 - Variable rate bonds
 - Call provisions
- 3. **Bond Issuance Costs.** The City will be involved in the selection of all financial advisors, underwriters, paying agents, and bond counsel. The City shall evaluate the merits of rotating professional advisors and consultants and the kinds of services and fee structures available from independent financial advisors, investment banking firms, and commercial banks. The City will carefully itemize and scrutinize all costs associated with the issuance of bonds.
- 4. It will be the policy of the City to comply with any requirements of the federal government regarding debt issuance reporting and tax compliance.

XI. INTERNAL CONTROLS

- A. **WRITTEN PROCEDURES.** Wherever possible, written procedures will be established and maintained by the Director of Financial Services for all functions involving cash handling and/or accounting throughout the City. These procedures will embrace the general concepts of fiscal responsibility set forth in this policy statement.

B. DEPARTMENT DIRECTORS RESPONSIBLE. Each Department Director must ensure that good internal controls are followed throughout his or her Department, that all Finance Department directives or internal controls are implemented, and that all independent auditor internal control recommendations are addressed.