CITY OF GRAND PRAIRIE
FINANCIAL MANAGEMENT POLICIES
September 20, 2011

Prepared by the Finance Department

FINANCIAL MANAGEMENT POLICIES

Table of Contents

	Page No.
I. Purpose Statement	5
II. Accounting, Auditing and Financial Reporting	5
A. Accounting	
B. Funds	
C. External Auditing	
D. External Auditors Responsible to City Council	
E. External Auditors Rotation	
F. Internal Auditing	
G. External Financial Reporting	
H. Internal Financial Reporting	
III. Internal Controls	6
A. Written Procedures	
B. Internal Audit	
C. Department Managers Responsible	
IV. Operating Budget	7
A. Preparation	
B. Balanced Budgets	
C. Planning	
D. Reporting	
E. Control	
F. Performance Measures and Productivity Indicators	
V. Capital Budget and Program	8
A. Preparation	
B. Control	
C. Program Planning	
D. Alternate Resources	
E. Debt Financing	
F. Capital and Lending Reserve Fund	
G. Street Maintenance	
H. Water/Wastewater Main Rehabilitation and Replacement	
I. General Government Capital Reserve	
J. Water and Wastewater Capital Reserve	
K. Reporting	

Table of Contents (cont.)

Page No.

VI. Revenue Management 10

A. Simplicity
B. Certainty
C. Equity
D. Administration
E. Revenue Adequacy
F. Cost/Benefit of Abatement
G. Diversification and Stability
H. Non-recurring Revenues
I. Property Tax Revenues
J. Park and Recreation Venue Sales Tax Revenue
K. Employee Insurance Fund
L. User-Based Fees
M. Impact Fees
N. In-Lieu-of-Property Tax
O. General and Administrative Charges
P. Utility Rates
Q. Interest Income
R. Revenue Monitoring
S. Sales Tax Revenue

VII. Expenditure Control 12

A. Appropriations
B. Vacancy Savings and Contingency Account
C. Contingency Account Expenditures
D. Central Control
E. Purchasing
F. Professional Services
G. Prompt Payment
H. Equipment Financing
I. Information Technology

VIII. Asset Management 14

A. Investments
B. Cash Management
C. Investment Performance
D. Fixed Assets and Inventory

Table of Contents (cont.)

	Page No.
IX. Financial Condition and Reserves	14
A. No Operating Deficits	
B. Interfund Loans	
C. Operating Reserves	
D. Risk Management Reserves	
E. Loss Financing	
F. Enterprise Fund Self-Sufficiency	
G. Landfill Reserve	
H. Cemetery Care and Maintenance	
I. Cemetery Prepaid Service Fee Escrow	
J. Water/Wastewater Rate Stabilization Fund	
X. Debt Management	18
A. General	
B. Self Supporting-Debt	
C. Analysis of Financing Alternatives	
D. Voter Authorization	
XI. Staffing and Training	19
A. Adequate Staffing	
B. Training	
C. Awards, Credentials	
XII. Grants Financial Management	19
A. Grant Solicitation	
B. Responsibility	
C. Section 8 Operating Reserves	
D. CDBG Programs	
XIII. Annual Review & Reporting	20

I. PURPOSE STATEMENT

These policies are developed by the City Manager to guide the Finance Director, Management Services Director, Budget Director and staff in financial matters. The overriding goal of the Financial Management Policies is to enable the City to achieve a long-term stable and positive financial condition while conducting its operations consistent with the Council—Manager form of government established in the City Charter. The watchwords of the City's financial management include integrity, prudent stewardship, planning, accountability, and full disclosure.

The purpose of the Financial Management Policies is to provide guidelines for the financial management staff in planning and directing the City's day-to-day financial affairs, and in developing recommendations to the City Manager.

The scope of the policies spans accounting, auditing, financial reporting, internal controls, operating and capital budgeting, revenue management, cash management, expenditure control, and debt management.

II. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING

A. ACCOUNTING - The City's Accounting Manager is responsible for establishing the chart of accounts, and for properly recording financial transactions.

B. FUNDS - Self balancing groups of accounts are used to account for City financial transactions in accordance with generally accepted accounting principles. Each fund is created for a specific purpose except for the General Fund, which is used to account for all transactions not accounted for in other funds. Funds are created and fund names are changed by City Council approval either through resolution during the year or in the City Council's approval of the annual operating or capital budget ordinances.

C. EXTERNAL AUDITING - The City will be audited annually by outside independent auditors. The auditors must be a CPA firm of national reputation, and must demonstrate that they have the breadth and depth of staff to conduct the City's audit in accordance with generally accepted auditing standards, generally accepted government auditing standards, and contractual requirements. The auditors' report on the City's financial statements including federal grants single audit will be completed within 120 days of the City's fiscal year end, and the auditors' management letter will be presented to the City staff within 150 days after the City's fiscal year end. An interim management letter will be issued prior to this date if any materially significant internal control weaknesses are discovered. The City staff and auditors will jointly review the management letter with the City Council Finance and Government Committee and City Council within 60 days of its receipt by the staff.

D. EXTERNAL AUDITORS RESPONSIBLE TO CITY COUNCIL - The external auditors are accountable to the City Council and will have access to direct communication with the City Council if the City staff is

unresponsive to auditor recommendations or if the auditors consider such communication necessary to fulfill their legal and professional responsibilities.

The City Council Finance and Government Committee will conduct at least one closed session annually with the auditors present without the presence of City staff. Such meeting shall be conducted in accordance with the Open Meetings Act.

E. EXTERNAL AUDITOR ROTATION - The City will not require external auditor rotation, but will circulate requests for proposal for audit services periodically, normally at five year intervals.

F. INTERNAL AUDITING - The City Manager established an internal audit function February 1, 1989. The Management Services Director, who is responsible for internal audit, reports to the City Manager's office. The annual work plan for the internal auditor includes compliance test work and performance auditing along with designated special projects. The internal audit work plan is approved by the City Manager's office and reviewed annually by the Council Finance and Government Committee.

G. EXTERNAL FINANCIAL REPORTING - The City will prepare and publish a comprehensive annual financial report (CAFR). The CAFR will be prepared in accordance with generally accepted accounting principles, and will be presented annually to the Government Finance Officers Association (GFOA) for evaluation and awarding of the Certification of Achievement for Excellence in Financial Reporting. The CAFR will be published and presented to the City Council within 120 days after the end of the fiscal year. City staffing limitations may preclude such timely reporting. In such case, the finance director will inform the City Manager and the City Manager will inform the City Council of the delay and the reasons therefore.

H. INTERNAL FINANCIAL REPORTING - The Finance and Budget and Research departments will prepare internal financial reports sufficient for management to plan, monitor, and control the City's financial affairs. Internal financial reporting objectives are addressed throughout the policies.

III. INTERNAL CONTROLS -

A. WRITTEN PROCEDURES - The Finance Director and Management Services Director are responsible for developing City-wide written guidelines on accounting, cash handling, and other financial matters which will be approved by the City Manager.

The Finance department will assist department managers as needed in tailoring these guidelines into detailed written procedures to fit each department's requirements.

B. INTERNAL AUDIT - Internal Audit will conduct reviews of the departments to determine if the departments are following the written guidelines as they apply to the departments. Internal Audit will also review the written guidelines on accounting, cash handling and other financial matters. Based on these reviews Internal Audit will recommend internal control improvements as needed.

C. DEPARTMENT MANAGERS' RESPONSIBILITY - Each department manager is responsible to the City Manager to ensure that good internal controls are followed throughout his or her department, that all guidelines on accounting and internal controls are implemented, and that all independent and internal auditor internal control recommendations are addressed.

IV. OPERATING BUDGET

A. PREPARATION - The City's "operating budget" is the City's annual financial operating plan. The budgetary basis of accounting will be GAAP, which is the same basis used to prepare the Comprehensive Annual Financial Report. This method incorporates accruals for expenditures and revenues at year end into the budget document. These accruals represent the actual amounts of revenues/receivables and expenditures/payables that are earned or incurred in the budget year but processed afterwards. It consists of governmental and proprietary funds, including the general obligation Debt Service Fund, but excluding capital projects funds. The budget is prepared by Budget and Research with the cooperation of all City departments, and is submitted to the City Manager who makes any necessary changes and transmits the document to the City Council. The budget should be presented to the City Council no later than six weeks prior to fiscal year end, and should be enacted by the City Council prior to fiscal year end. The operating budget may be submitted to the GFOA annually for evaluation and awarding of the Award for Distinguished Budget Presentation.

B. BALANCED BUDGETS - The operating budgets will be balanced, with current revenues, exclusive of beginning resources, greater than or equal to current expenditures/expenses.

C. PLANNING - The budget process will be coordinated so as to identify major policy issues for City Council consideration several months prior to the budget approval date.

D. REPORTING - Periodic financial reports will be prepared to enable the department managers to manage their budgets and to enable the Budget Manager to monitor and control the budget as authorized by the City Manager. Summary financial reports will be presented to the City Council each quarter within five weeks after the end of each quarter. Such reports will include current year revenue and expenditure projections.

E. CONTROL - Operating Expenditure Control is addressed in another section of the Policies.

F. 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 and reported to the City Council at least quarterly.

V. CAPITAL BUDGET AND PROGRAM

A. PREPARATION - The City's capital budget will include all capital projects funds and all capital resources. The budget will be prepared annually on a fiscal year basis and adopted by ordinance. The capital budget will be prepared by the Budget and Research Department with the involvement of all required City departments.

B. CONTROL - All capital project expenditures must be appropriated in the capital budget. The Budget Office must certify the availability of resources so an appropriation can be made before a capital project contract is presented by the City Manager to the City Council for approval.

C. PROGRAM PLANNING - The capital budget will include capital improvements program plans for future years. The planning time frame should normally be at least five years. The replacement and maintenance for capital items should also be projected for the next 5 years. Future maintenance and operations will be fully costed, so that these costs can be considered in the operating budget.

D. ALTERNATE RESOURCES - Where applicable, assessments, impact fees, or other user-based fees should be used to fund capital projects which have a primary benefit to certain property owners.

E. DEBT FINANCING - Recognizing that 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 which 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.

F. CAPITAL AND LENDING RESERVE FUND

A fund is hereby established, to be maintained by the finance department and separately maintained from other funds, to be designated the capital and lending reserve fund. The fund shall be accounted for as a one-time capital and lending reserve fund. There are no set contributions to the fund. However, funds may be added at any time with the recommendation by the city manager's Office (CMO), the F&G Committee and City Council approval. All

interest earnings and/or other proceeds from investment of the fund shall be returned to said fund.

Expenditures from the Capital and Lending Reserve Fund– Disbursements from the funds will be authorized by City Council action following recommendations by the CMO and the Finance and Government Committee. A plan to replenish the fund over a reasonable time frame will be included in this authorization. There may be one-time uses that will not be repaid.

G. STREET MAINTENANCE - The City recognizes that deferred street maintenance increases future capital costs by an estimated 5 to 10 times. Therefore, a portion of the General Fund budget will be set aside each year to maintain the quality of streets. The amount will be established annually so that repairs will be made amounting to a designated percentage of the value of the streets.

H. WATER/WASTEWATER MAIN REHABILITATION AND REPLACEMENT - The City recognizes that deferred water/wastewater main rehabilitation and replacement increases future costs due to loss of potable water from water mains and inflow and infiltration into wastewater mains. Therefore, to ensure that the rehabilitation and replacement program is adequately funded, the City's goal will be to dedicate an amount equal to at least 1% of the undepreciated value of infrastructure annually to provide for a water and wastewater main repair and replacement program.

I. GENERAL GOVERNMENT CAPITAL RESERVE - A reserve will be maintained for general governmental capital projects. The reserve will be funded with operating surpluses, interest earnings and payments-in-lieu-of-taxes. The reserve will be used for temporary loans to other capital funds, for major capital outlay and for unplanned projects. As soon as practicable after each fiscal year end when annual operating results are known, any General Fund operating surplus in excess of budget which is not required to meet ending resources requirements may be transferred to the reserve with the approval of the City Council.

The reserve will be used for temporary loans to other capital funds, for street maintenance, for major capital outlay and for unplanned projects.

J. WATER AND WASTEWATER CAPITAL RESERVE - A reserve will be maintained for water and wastewater capital projects. The reserve will be funded with operating surpluses, interest earnings and transfers in from water and wastewater operations equal to at least 1% of the undepreciated value of infrastructure. As soon as practicable after each fiscal year end when annual operating results are known, any Water/Wastewater Fund operating surplus in excess of budget which is not required to meet ending resources requirements may be transferred to the reserve with the approval of the City Council. The reserve will be used for temporary loans to other capital funds, for water/wastewater main rehabilitation and

replacement, for major capital outlay and for unplanned projects.

K. REPORTING - Periodic financial reports will be prepared to enable the department managers to manage their capital budgets and to enable the Budget Office to monitor the capital budget as authorized by the City Manager. Summary capital projects status reports will be presented to the City Council quarterly beginning in June, 1989.

VI. REVENUE MANAGEMENT

A. SIMPLICITY - The City will strive to keep the revenue system simple which will result in a decrease of compliance costs for the taxpayer or service recipient and a corresponding decrease in avoidance to pay. The City will avoid nuisance taxes, fees, or charges as revenue sources.

B. CERTAINTY - An understanding of the revenue source increases the reliability of the revenue system. The City will try to understand its revenue sources, and enact consistent collection policies so that assurances can be provided that the revenue base will materialize according to budgets and plans.

C. EQUITY - The City will strive to maintain equity in the revenue system structure. That is, the City will seek to minimize or eliminate all forms for subsidization between entities, funds, services, utilities, and customers. However, it is recognized that public policy decisions may lead to subsidies in certain circumstances, e.g., senior citizen property tax exemptions or partial property tax abatement.

D. ADMINISTRATION - The benefits of a revenue will 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.

E. REVENUE ADEQUACY - The City will require that there be a balance in the revenue system. That is, the revenue base will have the characteristic of fairness and neutrality as it applies to cost of service, willingness to pay, and ability to pay.

F. COST/BENEFIT OF ABATEMENT - The City will use due caution in the analysis of any tax, fee, or water and wastewater incentives that are used to encourage development. Ideally, a cost/benefit (fiscal impact) analysis will be performed as a part of such analysis.

G. DIVERSIFICATION AND STABILITY - In order to protect the government from fluctuations in a revenue source due to fluctuations in the economy, and variations in weather, (in the case of water and wastewater), a diversified revenue system will be maintained.

H. NON-RECURRING REVENUES - One-time revenues will not be used for ongoing operations. Non-recurring revenues will be used only for non-recurring expenditures. Care will be taken not to use these revenues for budget balancing purposes.

I. PROPERTY TAX REVENUES - Property shall be assessed at 100% of the fair market value as appraised by the Dallas Central Appraisal District. Reappraisal and reassessment shall be done regularly as required by State law. A 97% collection rate will serve as a minimum for tax collections, with a delinquency rate of 3% or less.

The 97% rate is calculated by dividing total current year tax collections for a fiscal year by the total tax levy for the fiscal year.

All delinquent taxes will be aggressively pursued, with delinquents greater than 150 days being turned over to the City Attorney or a private attorney, and a penalty assessed to compensate the attorney as allowed by state law, and in accordance with the attorney's contract. Annual performance criteria will be developed for the attorney.

J. PARKS AND RECREATION VENUE SALES TAX REVENUE – Parks and Recreation Venue sales tax revenue shall supplement but not supplant the funding for the Parks and Recreation System which was in place prior to 2000. No more than 40% of Parks and Recreation Venue sales tax revenue may be used for operations. At least 60% of the revenue will be dedicated to capital expenditures and debt service for Parks and Recreation System improvements and for associated reserves.

K. EMPLOYEE INSURANCE FUND – Since a portion of the revenue in the Employee Insurance Fund was deducted from employee paychecks for the specific purpose of providing health and life insurance coverage, no funds shall ever be transferred out of this fund to be used for any other purpose.

L. USER-BASED FEES - For services associated with a user fee or charge, the direct and indirect costs of that service will be offset by a fee where possible. There will be an annual review of fees and charges to ensure that fees provide adequate coverage of costs of services. User charges may be classified as "full cost recovery", "partial cost recovery", and "minimal cost recovery", based upon City Council policy.

M. IMPACT FEES - Impact fees will be imposed for water, wastewater, and transportation in accordance with the requirements of state law. The staff working with the Impact Fee Advisory Committee (Planning and Zoning Commission) shall prepare a semi-annual report on the capital improvement plans and fees. Additionally, the impact fees will be re-evaluated at least every three years as required by law.

N. IN-LIEU-OF PROPERTY TAX - The in-lieu-of-property-tax paid by the Water/Wastewater and Solid Waste funds will be dedicated solely to street maintenance and improvements.

O. GENERAL AND ADMINISTRATIVE CHARGES - A method will be maintained whereby the General Fund can impose a charge to the enterprise funds for general and administrative services (indirect costs) performed on the enterprise funds' behalf. The details will be documented in the annual indirect cost study.

P. UTILITY RATES - The City will review utility rates annually and, if necessary, adopt new rates 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. This policy does not preclude drawing down cash balance to finance current operations. However, it is best that any extra cash balance be used instead to finance capital projects.

Q. 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 which, wherever possible, will be in accordance with the equity balance of the fund from which monies were provided to be invested.

R. 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.

S. SALES TAX REVENUE – The State Comptrollers Office collects, administers and disburses this revenue each month. The Budget & Research Office monitors and reports this activity reflecting Economic Development Agreements, state audit adjustments and refunds made to the gross collections. These adjustments are prorated back to the other sales taxing entities (Crime Control & Prevention District, Park Venue, Streets, etc.) that currently exist and have not been dissolved. The General fund may absorb any adjustment variances among the sales tax entities that may result due to dissolutions.

VII. EXPENDITURE CONTROL

A. APPROPRIATIONS – Appropriations are budgeted at the fund level. If budget amendments (increase in appropriations) are necessary they must be approved by the City Council. Budget adjustments (transfers between line items within the fund) are allowed as long as the adjustments do not exceed the total budgeted appropriations for the fund. Budget adjustments are outlined in Administrative Directive 5, "Budget Appropriations, Transfers, and Control."

B. VACANCY SAVINGS AND CONTINGENCY ACCOUNT - The General Fund Contingency Account will be budgeted at a minimal amount

($50,000). The contingency account balance for expenditures will be increased quarterly by the amount of available vacancy savings. Procedures for authorization of contingency account expenditures from all operating funds are outlined in Administrative Directive 5, "Budget Appropriations, Transfers, and Control."

C. CONTINGENCY ACCOUNT EXPENDITURES - The City Council must approve all contingency account expenditures of $50,000 or more, as discussed under Purchasing. While no approval is required, the City Council will be informed of all contingency account expenditures of $5,000 or more by memorandum in the Administrative Report. The Budget Office is responsible for submitting this memorandum to the City Manager based on information submitted by the spending department.

D. CENTRAL CONTROL - Significant vacancy (salary) and capital budgetary savings in any department will be centrally controlled in accordance with Administrative Directive No. 5 and may not be spent by the department without City Manager authorization.

E. PURCHASING - All purchases shall be in accordance with the City's purchasing policies as defined in the Purchasing Manual.

F. PROFESSIONAL SERVICES - Professional Services Contracts consist of the following services: Certified Public Accountant, Architect, Physician, Optometrist, Surgeon, Surveyor, Engineer, Lawyer, Insurance Broker or Consultant, Construction Manager, Financial Advisors, Artist, Appraisers, Teachers, Landscape Architectural and Geoscientific. Professional services will generally be processed through a request for proposals process, except for smaller contracts. The City Manager may execute any professional services contract except for insurance less than $50,000 provided there is an appropriation for such contract. While City Council approval of other contracts less than $50,000 is not required, the Budget Office will inform the City Manager who will then inform the City Council by memorandum in the Administrative Report whenever a professional services contract of $5,000 or more is approved.

G. PROMPT PAYMENT - All invoices will be paid within 30 days of receipt in accordance with the prompt payment requirements of State law. Procedures will be used to take advantage of all purchase discounts where considered cost effective. However, payments will also be reasonably delayed in order to maximize the City's investable cash, where such delay does not violate the agreed upon payment terms.

H. EQUIPMENT FINANCING - Equipment may be financed when the unit purchase price is $30,000 or more and the useful life is at least four years. General Fund equipment financing and equipment for the Parks

and Recreation programs that were funded in the General Fund prior to fiscal year 2000 will be accounted for in the Equipment Acquisition Fund, along with related professional services costs including long range plans and studies.

I. INFORMATION TECHNOLOGY –

Certain information technology acquisitions will be centrally funded from the Information Technology Fund. Acquisitions from this fund may include all related professional services costs for researching and/or implementing an information technology project. Lease cost is also an eligible expense.

Items to be paid for in other funds include: The cost of repair and maintenance, supplies and replacement parts; acquisition of radios, telephones and pagers; on-going personnel costs; and, items acquired for a new position which will be budgeted with the position.

Annual funding of between $250,000 and $500,000 for replacements and between $250,000 and $500,000 for new technology will be provided through transfers from the major operating funds (General Fund, Water Wastewater Fund, Solid Waste Fund and Parks and Recreation Venue Fund) based on the relative amount of their budgeted ending resources.

Additional funding above the base amount may be provided for major projects with available one-time sources including debt proceeds.

VIII. ASSET MANAGEMENT

A. INVESTMENTS - The City's investment practices will be conducted in accordance with the City Council approved Investment Policies.

B. CASH MANAGEMENT - The City's cash flow will be managed to maximize the cash available to invest.

C. INVESTMENT PERFORMANCE - A quarterly report on investment performance will be provided by the Finance Director to the City Manager for presentation to the City Council.

D. FIXED ASSETS AND INVENTORY - These assets will be reasonably safeguarded and properly accounted for, and prudently insured.

IX. FINANCIAL CONDITION AND RESERVES

A. NO OPERATING DEFICITS - Current expenditures will be paid with current revenues. Deferrals, short-term loans, or one-time sources will be avoided as budget balancing techniques. Reserves will be used only for emergencies or non-recurring expenditures, except when balances can be reduced because their levels exceed guideline minimums.

B. INTERFUND LOANS - Non-routine interfund loans shall be made only in emergencies where other temporary sources of working capital are not available and with the approval of the City Council. At the time an interfund loan is considered, a plan to repay it prior to fiscal year end shall also be considered. A fund will only lend money that it will not need to spend for the next 365 days. A loan may be made from a fund only if the fund has ending resources in excess of the minimum requirement for the fund. Loans will not be made from the City's enterprise funds (Water/Wastewater, Solid Waste, etc.) except for projects related to the purpose of the fund. Total interfund loans outstanding from a fund shall not exceed 15% of the target fund balance for the fund. If any interfund loan is to be repaid from the proceeds of a future debt issue, a proper reimbursement resolution will be approved at the time the loan is authorized.

C. OPERATING RESERVES – A key element of the financial stability of the City is to establish guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the City maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures and similar circumstances. Fund balance also provides cash flow liquidity for the City's general questions.

Definitions:
Fund Equity is generally the difference between its assets and liabilities; and, Fund Balance is an accounting distinction made between the portions of fund equity that are spendable and non-spendable. These are broken up into five categories:

(1) Non-Spendable includes amounts that are not in a spendable form or are required to be maintained intact, for example Inventory or permanent funds.

(2) Restricted includes amounts that can be spent only for specific purposes either constitutionally or through enabling legislation (e.g., grants and child safety fees).

(3) Committed includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.

(4) Assigned comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the autority. In governmental funds, other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

(5) Unassigned is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

The City Council is the highest level of decision-making authority and the formal action

that is required to be taken to establish, modify or rescind a fund balance commitment is a resolution approved by the Council. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned Fund Balance – The City Council has authorized the City's City Manager as the official authorized to assign fund balance to a specific purpose as approved by the fund balance policy.

Minimum Unassigned Fund Balance - Failure to meet these standards will be disclosed to the City Council as soon as the situation is recognized and a plan to replenish the ending resources over a reasonable time frame shall be adopted.

(1) The General fund unassigned fund balance will be maintained at a level between 50 and 60 days expenditures. The annual budget shall target the mid-point of the range.

(2) The combined ending resources of the Water/Wastewater Fund and Water/Wastewater Rate Stabilization Trust Fund shall be maintained at a level between 80 and 100 days expenditures. The annual budget shall target the mid-point of the range.

(3) The ending resources of the Parks and Recreation Venue Fund will be maintained at a level between 80 and 100 days of budgeted Parks and Recreation Venue Sales Tax revenue. The annual budget shall target the mid-point of the range.

(4) The Pooled Investment Fund resources balance should be maintained at a level equal to .50% times the value of the investment portfolio.

(5) All other enterprise funds <u>plus the Risk Management Fund and Employee Insurance Fund</u> should be maintained at a level equivalent to 45 days expenditures.

Order of Expenditure of Funds – When multiple categories of fund balance are available for expenditure, the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

D. RISK MANAGEMENT RESERVES - The City will aggressively pursue every opportunity to provide for the public's and City employees' safety and to manage its risks.

Property, Liability, Workers Comp Reserves – Cash Reserves of no less than 85% of the actuarially determined incurred but not reported (IBNR) costs shall be maintained in the Risk Management Fund.

Employee Insurance Reserves – Cash Reserves of no less than 100% of actuarially determined incurred but not reported (IBNR) costs shall be maintained in the Employee Insurance Fund.

E. LOSS FINANCING - All reasonable options will be investigated to finance losses. Such options may include risk transfer, insurance, and risk retention. Where risk is retained, reserves will be established

based on a calculation of incurred but not reported (IBNR) claims and actuarial determinations. Such reserves will not be used for any purpose other than for financing losses.

F. ENTERPRISE FUND SELF-SUFFICIENCY - The City's enterprise funds' resources will be sufficient to fund operating and capital expenditures. The enterprise funds will pay (where applicable) their fair share of general and administrative expenses, in-lieu-of-property taxes and/or franchise fees. If an enterprise fund is temporarily unable to pay all expenses, then the City Council may waive general and administrative expenses, in-lieu-of-property taxes and/or franchise fees until the fund is able to pay them. The City Council may pay out-of-pocket expenses that a fund is temporarily unable to pay with interfund loans, to be repaid at a future date.

G. LANDFILL RESERVES – A series of cash reserves will be funded to help ensure stable customer rates and long term financial security for the City's landfill. The amounts required will be reviewed no less frequently than every second year.

Liner Reserve – An amount will be set aside from operations annually so that sufficient funds have accumulated to pay for the next liner when required. The amount set aside will be based on the average annual amount actually paid for liners over the most recent three year period, modified for known scope changes, if any, anticipated in the next liner project.

Equipment Replacement – An amount will be set aside from operations annually approximately equal to the average annual depreciation cost of all landfill equipment, based on estimated replacement cost less salvage value.

Closure/Post Closure – The reserve required according to Generally Acceptable Accounting Principles (GASB Statement No.18) will be accumulated over time through annual contributions from operations so that sufficient funds are on hand at the end of the life of the landfill to pay closure/post closure costs.

Landfill Replacement – The City's goal will be to fund the amount estimated to be required to provide a replacement solid waste disposal facility by the end of the life of the landfill through annual contributions from operations. The amount funded will be based on the average of the cost of two or more replacement alternatives as estimated by Public Works.

Capital Projects/Emergency Reserve – An amount approximately equal to the average annual amount required for miscellaneous capital improvements at the landfill will be provided annually from operations. Additionally, approximately one year's average annual amount will be retained in the fund to provide for miscellaneous, moderate emergencies.

H. CEMETERY CARE AND MAINTENANCE FUND – In accordance with Section 713.002 of the Health and Safety Code, the City shall contribute 15% of every sale of burial rights (including graves, lawn crypts, and mausoleum crypts and columbaria niches) within the cemetery to the Cemetery and Maintenance Care Fund. The principal amount contributed to the fund will be non-expendable. Interest earned on the fund balance shall be used for the care and preservation of cemetery grounds.

I. CEMETERY PREPAID SERVICE FEE ESCROW – The Parks and Recreation Department is authorized to collect prepaid burial service fees from patrons of the cemetery. When collected, such fees will be deposited into the Cemetery Prepaid Service Fee Escrow account and a separate record of each patron's deposit will be maintained by the Parks and Recreation Department. Upon delivery of the burial service to the patron, the amount on deposit will be transferred into the Cemetery Fund as revenue. Any interest earned on the Prepaid Service Fee Escrow account balance will be revenue to the Cemetery Fund. In the event the burial service is not delivered, the Parks and Recreation Department may refund the original amount paid without interest.

J. WATER/WASTEWATER RATE STABILIZATION FUND – A Water/Wastewater Rate Stabilization Fund shall be established by ordinance as a trust fund and maintained separately from other funds. Its purpose will be to protect rate payers from excessive utility rate volatility. It may not be used for any other purpose. It will be funded with surplus revenues of the Water/Wastewater Fund and interest earnings. The City's goal will be to maintain the Funds' assets at between 7.5% and 10% of budgeted operating expenditures.

X. DEBT MANAGEMENT

A. GENERAL - The City's borrowing practices will be conducted in accordance with the City Manager approved Debt Management Policies.

B. SELF-SUPPORTING DEBT - 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 or current monies.

D. VOTER AUTHORIZATION - The City shall obtain voter authorization before issuing General Obligation Bonds as required by law. Voter authorization is not required for the issuance of Revenue Bonds. However, the City may elect to obtain voter authorization for Revenue Bonds.

XI. STAFFING AND TRAINING

A. ADEQUATE STAFFING - Staffing levels will be adequate for the fiscal functions of the City to function effectively. Overtime shall be used only to address temporary or seasonal demands that require excessive hours. Workload shedding alternatives will be explored before adding staff.

B. TRAINING - The City will support the continuing education efforts of all financial staff including the investment in time and materials for maintaining a current perspective concerning financial issues. Staff will be held accountable for communicating, teaching, and sharing with other staff members all information and training materials acquired from seminars, conferences, and related education efforts.

C. AWARDS, CREDENTIALS - The City will support efforts and involvements which result in meeting standards and receiving exemplary recitations on behalf of any of the City's fiscal policies, practices, processes, products, or personnel. Staff certifications may include Certified Public Accountant, Certified Management Accountant, Certified Internal Auditor, Certified Payroll Professional, Certified Government Finance Officer, Professional Public Buyer, and Certified Cash Manager, and others as approved by the City Manager upon recommendation of the finance director.

XII. GRANTS FINANCIAL MANAGEMENT

A. GRANT SOLICITATION - The City will stay informed about available grants and will apply for any which would be cost beneficial and meet the City's objectives.

B. RESPONSIBILITY - Departments will oversee the day to day operations of grant programs, will monitor performance and compliance, and will also keep Finance department contacts informed of significant grant-related plans and activities. Departments will also report re-estimated annual revenues and expenses to the Finance Department after the second quarter of each year. Finance department staff members will serve as liaisons with grantor financial management personnel, will prepare invoices, and will keep the books of account for all grants. Finance Department staff will also prepare and distribute quarterly grant status reports.

C. SECTION 8 OPERATING RESERVES - Section 8 reserves shall only be used for housing related expenditures in compliance with Department of Housing and Urban Development (HUD) regulations.

A minimum threshold reserve of $250,000 shall be maintained for Section 8 purposes to provide funding for future administrative and housing assistance payments in case funding from HUD is not sufficient. Such an insufficiency might become the responsibility of the City should unforeseen market or economic conditions, changes in HUD policy or human error result in a Section 8 deficit.

In addition to the minimum reserve, a contingency account of up to $50,000 may be established annually which may, with the approval of the City Manager or, if appropriate, the City Council, be used for unforeseen, unbudgeted housing-related items.

Amounts in excess of the $250,000 minimum reserve and contingency account may be used for housing-related projects implemented by the Housing and Community Development Department (HCD) and approved by the City Council.

Funds may be temporarily loaned from the $250,000 minimum threshold reserve to finance housing-related projects if, in the judgment of the HCD Director and the City Council, the funds will not be required in the near future to cover a Section 8 deficit. At the time such a loan is approved, a repayment plan must also be approved.

D. CDBG PROGRAMS - City Council approval shall be required to add to any new activity after adoption of the final budget. If the project cost of the new activity will be greater than 10% of the total budget, the addition shall be submitted to HUD for approval.

XIII. ANNUAL REVIEW & REPORTING

A. These Policies will be reviewed administratively by the City Manager at least annually, prior to preparation of the operating budget and will be presented to the City Council for confirmation of any significant changes.

B. The Finance Director will report annually to the Finance and Government Committee on compliance with these policies.