



## FINANCIAL MANAGEMENT POLICIES REVISED 4/28/14

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## **I. PURPOSE STATEMENT**

The intent of the following Financial Management Policies is to enable the Town of Pantego (the "Town") to achieve a long-term stable and positive financial condition. The guiding principles of the Town's financial management include integrity, prudent stewardship, planning, accountability, and full disclosure.

The more specific purpose of this policy is to provide guidelines to the Finance Director and the Town Manager in planning and directing the Town's day-to-day financial affairs and in developing recommendations to the Town Council.

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:

- a) Present fairly and with full disclosure the financial position and results of financial operations of the Town in conformity to generally accepted accounting principles (GAAP) as set forth by the governmental accounting standards board (GASB), and
- b) Determine and demonstrate compliance with finance related legal and contractual issues in accordance with provisions of the Texas Local Government Code and other pertinent legal documents and mandates.

## **II. GENERAL IMPLEMENTATION AND COMPLIANCE GUIDELINES**

- A. **FINANCE/AUDIT COMMITTEE.** A committee designated as the Finance Committee, will be appointed annually by the Town Council and will consist of two members of the Council, the Town Manager and the Finance Director. The committee will meet quarterly, or as needed. The committee will report to the Town Council within 10-14 days after each meeting. The function of the committee will be:
  - 1) Fiscal policy review,
  - 2) Auditor selection recommendation,
  - 3) Investment policy review and guidance, and
  - 4) Long Range Planning.
- B. **ANNUAL REVIEW.** Based upon the results and recommendations of the Finance Committee review, the Town will annually approve new or revisions to fiscal policies.
- C. **IMPLEMENTATION, COMPLIANCE AND REVIEW.** The Finance Director will be accountable for implementing these policies and will to the best of his/her knowledge make the Town Manager, Finance Committee and Town Council aware of any variances in, practice from these policies or any other deviation from prudent financial practices in accordance with GAAP, state/federal laws and/or ethics of the profession. Any variances will be presented at quarterly meetings of the Finance Committee, unless there is a need for a special meeting.

### III. ACCOUNTING, AUDITING AND FINANCIAL REPORTING

- A. ACCOUNTING. The Town is solely responsible for the reporting of its financial affairs, both internally and externally. The Town Manager serves as the Town's Chief Fiscal Officer and the head of the administrative branch of the Town.
- B. AUDITING. An independent certified public accounting (CPA) firm will perform annual financial audits.
- 1) Qualifications of the Auditor. In conformance with Texas Local Government Code, Title 4, Chapter 103, the Town shall have its records and accounts audited annually and shall have an annual financial statement prepared based on the audit performed by external independent accountants ("auditor").
  - 2) Auditor Repute. The auditor must be a CPA firm of good reputation and must demonstrate that it has the breadth and depth of staff to conduct the Town's audit in accordance with generally accepted auditing standards and contractual requirements. The auditor must be registered as a partnership or corporation or certified public accountants, holding a license in the state of Texas, capable of demonstrating that it has sufficient staff which will enable it to conduct the Town's audit.
  - 3) Timing. The auditor's report on the Town's financial statements will be completed within 150 days of the Town's fiscal year end.
  - 4) Management Letter. The independent CPA firm shall provide a management letter, if one is issued, no later than March 31 following the end of each fiscal year. The Finance Director shall respond in writing to the Town Manager and Town Council regarding the auditor's management letter, addressing the issues contained therein. The Council shall schedule its formal acceptance of the auditor's report upon the resolution of any issues resulting from the year end audit.
  - 5) Responsibility of Auditor to Town Council. The auditor is accountable to the Town Council and will have access to direct communication with the Town Council if the Town Staff is unresponsive to auditor recommendations or if the auditor considers such communication necessary to fulfill its legal and professional responsibilities.
  - 6) Rotation of Auditor. The Town will circulate requests for proposal for audit services at least every five years. Should the Town Council be dissatisfied with the auditor's performance, it may request new proposals at any time. Year to year authorization to continue shall be done by no later than July 1st of each year.
  - 7) Auditor Accountability to Staff. The auditor shall provide the Finance Director with copies of all work papers/support documentation and schedules upon completion of the audit. Originals will be maintained at the auditor's office.

### C. FINANCIAL REPORTING.

#### 1. External Reporting.

- a. Scope. The Financial Report shall be prepared in accordance with generally accepted accounting principles (GAAP) as promulgated by the Government Accounting Standards Board (GASB).
- b. Timing. The Report shall be presented to the Town Council within 150 calendar days of the Town's fiscal year end. If Town staffing limitations preclude such timely reporting, the Finance Director will inform the Town Council of the delay and the reasons thereof.
- c. Awards. Upon approval of the Town Council, the Annual Financial Report may be presented annually to the Government Finance Officer's Association (GFOA) for evaluation and consideration for the Certificate of Achievement for Excellence in Financial Reporting. (For a discussion of this award, see Section XI-C below).

2. Internal Reporting. The Finance Department will prepare internal financial reports, sufficient to plan, monitor, and control the Town's financial affairs. Internal financial reporting objectives are addressed throughout these policies. (See Section IV. Budgeting, C. Reporting, below).

## IV. OPERATING BUDGET.

- A. PREPARATION. Budgeting is an essential element of the financial planning, control, and evaluation process of municipal government. The Town's "operating budget" is the Town's annual financial operating plan.

1. Scope. The scope of the budget includes all funds for which the Town will adopt a formal budget, including Governmental Funds, Proprietary Funds, and Fiduciary Funds.
2. Budgetary Process. The budget is prepared by the Town Manager or his/her designee with the cooperation of all Town Departments. The budget should be presented to the Town Council between 60 and 90 days prior to fiscal year end, and should be enacted by the Town Council prior to fiscal year end.

The budget process is completed in several steps and it is initiated by the Town Manager each spring during the month of April. The first step is to calculate the year-end estimate of the current year. Departmental Directors/Managers begin the process by preparing estimates for the remainder of the year. Once the year-end estimates are completed, the departments begin preparing the proposed estimates for the upcoming fiscal year.

The second step is the calculation of the proposed base budget for the new year. This step is the proposed cost for maintaining current base operations, and assumes no additional personnel or additional equipment. Activities which require additional resources to maintain the service due to growth, new facilities, new equipment, etc., are considered enhancements to the base budget and must be explained and justified.

The third step is justification for any proposed new programs or enhancements/supplemental requests. This is defined as any proposed change

in program emphasis, expenditures of funds, allocation of personnel or equipment which will result in a change in the level of service currently being delivered. Departments will have to describe the program, itemize all new costs, proposed personnel as well as the reason supporting the request. Each enhancement is prioritized according to need as perceived by the departmental unit.

During the budget process, each department head will review and discuss their budgetary needs with the Town Manager. Once all departments have finalized their base and enhancement proposals, the Town Manager prepares a comprehensive report on all enhancements by priority and submits this information as part of the proposed budget to the Town Council.

3. Awards. If feasible and approved by the Town Council, the annual operating budget may be submitted to the GFOA annually for evaluation and consideration for the Award for Distinguished Budget Presentation.
4. Basis of Budgeting. The basis of budgeting will be the same as the basis of accounting; that is, budgets for the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds are prepared on the modified accrual basis of accounting – this means that obligations of the Town (for example outstanding purchase orders) are budgeted as expenses but revenues are recognized only when they are actually received. Budgets for the Proprietary (Water and Sewer) Funds, on the other hand, are prepared on a full accrual basis – expenditures are recognized when a commitment is made and revenues are also recognized when they are obligated to the Town.
5. Financial Forecast. A five-year financial forecast shall be prepared annually projecting revenues and expenditures for all operating and capital project funds. This forecast shall be used as a planning tool in developing the following year's operating budget.
6. Proposed Budget Format. A proposed budget shall be prepared by the Town Manager with the participation of all of the Town's Directors/Managers. The budget shall include at least four 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, and (4) revenues. A format should be used such that prior year actual, current year budget and revised, and next year proposed are all clearly shown.
7. Organization of the budget document. The budget document is divided into seven major sections.
  - The first section, **Budget Overview**, begins with the Town Manager's Budget Message to the Town Council with Budget Objectives and Major Issues included. The Budget Message is followed by an Executive Summary, which summarizes information about various funds that comprise the budget. Following the Executive Summary is a schedule of funds and organizational unit and departments. Next is a summary of the Accounting Basis and Municipal Fund Structure followed by a Description of Revenue Sources and Assumptions. Following this section is an overview of the budget process, the budget calendar and the Town's organizational chart.

- The second section, **Fund Summaries**, contains three-year comparison of actual, projected and budgeted amounts of each Governmental, Special Revenue, Capital Project, Debt Service and Proprietary Fund. This section also includes a combined summary of all budgeted accounts and personnel schedule.
  - The third section, **Governmental Funds**, includes detailed information for the General Fund, Debt Service, Special Revenue and Capital Project Funds. The information for each organizational unit (department) in the General Fund will include an expenditure summary, performance measures, mission statement, goals and objectives. The Debt Service Fund section will provide detailed information on all bond issues. Future payments of interest and principal on all outstanding bond issues are included with a summary of payments for each issuance.
  - The fourth section, **Capital Improvement Plan**, includes information for all Capital Projects Funds. A description of major individual capital projects is also included.
  - The fifth section, **Proprietary Funds**, includes detailed information for each unit within the Water and Sewer Fund. The information included for each organizational unit is an expenditure summary, personnel schedule, performance measures, mission statement, goals and objectives. A detailed expenditure summary is also included.
  - The sixth section, **Personnel Budget and Transfers**, includes a summary of salaries and benefits, a list of approved/authorized positions and salary ranges. It also includes a list of all budgetary inter-fund transfers.
  - The final section, **Appendix**, may contain supplemental information and could include a community profile, location map, statistical profile, demographics statistics, and miscellaneous data. Also included are copies of the ordinance adopting the budget, the ordinance establishing the tax rate and any other ordinance necessary to accomplish the proposed annual budget. A glossary of budgetary terms may also be included.
8. Council Participation. The budget review process shall include Council participation in the development of each of the four segments of the proposed budget and a Public Hearing to allow for citizen participation in the budget preparation. The budget process shall span sufficient time to address policy and fiscal issues by the Council. The budget process will be coordinated so as to identify major policy issues for Council consideration prior to the budget approval date so that proper decision analysis can be made.
  9. Filing and Adoption. Upon the presentation of a proposed budget document acceptable to the Council, the Council shall call and publicize a public hearing and adopt by Ordinance such budget as the Town's Official (Adopted) Budget, effective for the fiscal year beginning. A copy of the proposed budget shall be filed with the City Secretary.
  10. Amending the Official (Adopted) Budget. Council may amend the budget for municipal purposes in accordance with state law. The Town Manager is authorized to make line-item and departmental budget adjustments during the year in order to avoid over-expenditures of particular line items. Adjustments do not require further Council action if the total appropriation of each fund as set

forth in the adopted budget is not exceeded. Expenditures in excess of the adopted budget appropriations for each fund require budget amendments.

11. Encumbrances. Encumbrances outstanding at the end of each fiscal year shall expire at the end of the fiscal year, except for capital project funds. These shall be reflected as reservations of fund balance. Subsequent year's payments on previously encumbered capital project funds will be reflected as expenditures of the prior year with a corresponding decrease of the reservation of fund balance.

- B. **BALANCED BUDGET**. The operating budget will be balanced with current revenues and other resources greater than or equal to current expenditures/expenses. Use of beginning balances and other reserves to balance operations will be disclosed in the document with the underlying rationale. The adoption of a balanced budget, where current resources (current revenues plus fund balance or unassigned fund balance) shall be required. Current resources will equal or exceed current expenditures for each individual fund.
- C. **REPORTING**. Monthly financial reports will be prepared to enable the Department Managers/Directors to manage their budgets and to enable the Finance Director to monitor and control the budget as authorized by the Town Manager. Such reports will be in format appropriate to enable Council to understand the budget status at a level of summary executive detail.
- D. **CONTROL**. Operating Expenditure Control is addressed in Section VI-C.
- E. **ACTIVITY INDICATORS AND STATISTICS**. Where appropriate, activity indicators and statistics will be used as guidelines and reviewed for efficiency and effectiveness. This information will be considered in the annual budgeting process and reported to the Town Council regularly. The proposed annual budget shall integrate performance measures, goals and objectives, service levels and productivity measures where appropriate.
- F. **OPERATING POSITION**. The guidelines that the Town should be following to assure fiscal stability are those outlined in Financial Condition/ Reserves/Stability Ratios (Section IX - A and B).

## **V. REVENUE MANAGEMENT**

- A. **ANNUAL ESTIMATES**. Annual estimates of revenue in both the General Fund and Proprietary Funds shall be based on historical trends and reasonable expectation of growth. A conservative approach shall be observed in estimating revenues, so that revenue estimates will not be overstated. The Town will strive for the following optimum characteristics in its revenue system:
  - 1. **SIMPLICITY**. The Town, 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 Town will avoid nuisance taxes or charges as revenue source.
  - 2. **CERTAINTY**. A knowledge and understanding of revenue sources increases the reliability of the revenue system. The Town 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 Town shall make every effort to maintain equity in its revenue system structure; i.e., the Town shall seek to minimize or eliminate all forms of subsidy between entities, funds, services, utilities and customers. The Town shall require that there be a balance in the revenue system; i.e., 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.
4. **ADMINISTRATION.** The benefits of a revenue source will exceed the cost of collecting and administering the revenue program. 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 Town 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 from fluctuations in a revenue source due to fluctuations in the economy and variations in weather, a diversified revenue system will be maintained which has a stable source 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 kept to a minimum, and shall be pursued on a cost-benefit basis. All grants and other federal/state, and restricted funds shall be managed and accounted to comply with the laws, regulations, and guidance of the grantor.

The Town will review all grant submittals requiring an in-kind match requirements to determine their potential impact on the operating budget, and the extent to which they meet the Town's policy objectives. If there is a cash match requirement, the source of funding shall be identified and approved prior to application. Prior to submission, all grant requests/applications shall be reviewed by the Town Manager to ensure the benefits to the Town exceeds the administrative costs incurred through the life of the grant.

The Town will terminate grant-funded programs and associated positions as directed by the Town Council when grant funds are no longer available, unless alternate funding is identified.

- B. **SOURCES OF REVENUES.** The following considerations and issues will guide the Town in its revenue policies concerning specific sources of funds:
  1. **COST/BENEFIT OF ABATEMENT.** The Town 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. Tax abatement may be offered on improvements to real property owned by the applicant, and/or on new personal property brought to the site by the applicant. The abatement will not be ordinarily considered for projects which would be developed without such incentives unless it can be demonstrated that higher development standards or other

development and community goals will be achieved through the use of the abatement.

2. **NON-RECURRING REVENUES.** One-time or non-recurring revenues will not be used to finance current ongoing operations. Non-recurring revenues should be used only for one-time expenditures such as long-lived capital needs.
3. **PROPERTY TAX REVENUES.** All real and business personal property located within the Town shall be valued at 100% of the fair market value for any given year based on the current appraisal supplied to the Town by Tarrant County Appraisal District. Total taxable valuation will be reappraised and reassessed in accordance with State statute, in order to maintain current market values.

A 98% collection rate shall serve each year as a goal for tax collections. All taxes shall be aggressively pursued each year by the Town's appointed tax assessor/collector. Tax accounts delinquent July 1st shall be submitted for collection each year to an attorney selected by the Town Council. A penalty shall be assessed on all property taxes delinquent in accordance with State law and 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 Town. Annual performance criteria will be developed for the attorney.

4. **SALES AND USE TAX REVENUE.** The State Comptroller Office collects, administers and disburses this revenue each month. The Texas sales and use tax rate is 6.25%, but local taxing jurisdictions may also impose a sales and use tax up to 2% for a total maximum combined rate of 8.25%.

The Town, through the Pantego Economic Development Corporation, will encourage and participate in economic development efforts to expand the Town's economy, to increase local employment and to invest in the community when there is a defined specific long-term return.

5. **INTEREST INCOME.** Interest earned from investment of available funds, 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 funds were provided to be invested.
6. **USER-BASED FEES AND SERVICE CHARGES.** 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 Town Council approval.
7. **UTILITY RATES.** The Town will review and/or adopt utility rates annually that will generate revenues required to fully cover operating expenditures, meet the legal restrictions of all applicable bond covenants (when applicable), and provide for an adequate level of working capital. 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. This fee will be documented through a cost allocation procedure.
  - b. Franchise payment. A rate consistent with those charged to private utilities will be charged to the Utility Fund. Presently these rates vary between 2% & 4% of gross sales. This rate may be either raised or lowered so as to be consistent with those of the private utilities.
8. 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.

## VI. EXPENDITURE CONTROL

- A. APPROPRIATIONS. The level of budgetary control is at the Department level budget in the General and Proprietary Funds, and at the fund level in all other funds. When budget adjustments within a department are necessary, these must be approved by the Town Manager, provided the transfer amounts between general classifications of expenditures do not result in a net increase in total appropriations, and further provided that no amounts shall be transferred from or to any capital outlay line-item accounts. When budget adjustments between Departments and/or funds are necessary, these must be approved by the Town Council and through a budget amendment.

All budget appropriations (except for capital projects) lapse at year-end (September 30). Any encumbered appropriations at year-end may be re-appropriated by the Town Manager in the ensuing fiscal year. Such re-appropriations shall be subsequently reporting to the Town Council. Except in emergency situations, and only upon approval by the Town Council, no department shall exceed appropriations.

- B. AMENDMENTS TO THE BUDGET. The Town Council shall approve any budget modification resulting in net increase in appropriations, or any proposed use of contingency funds.
- C. CENTRAL CONTROL. Significant salary (vacancy) or capital budgetary savings in any Department will be centrally controlled and may not be spent by the Department without the prior authorization of the Town Manager and/or the Town Council.
- D. PURCHASING. All purchases should be in accordance with the Town's purchasing policies as defined in the Town's Purchasing Policy. The Town's procurement process is governed by state and federal law, as well as Town's Purchasing Policy. Generally, purchases are authorized as follows:
- 1. All purchases over \$500 but less than \$1,000 must be approved by the Town Manager. The purchase orders need to be approved before the purchase is completed, with the exception of emergency purchases. A department head may make the determination of an emergency but should make all efforts to contact the Town Manager before making emergency purchases. Any emergency purchase is subject to ratification at the following Council meeting.

2. All purchases over \$1,000 must be approved by the Town Council. A memo must be attached to the purchase order request.
  3. When the Town Manager and Department Head approves and issues a purchase order, it signifies that the proper approvals for expenditure authorization have been obtained and that an appropriation is available to accept the charge.
- E. **PROMPT PAYMENT.** All invoices approved for payment shall be paid by the Finance Department within thirty (30) calendar days of receipt. 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 Town's investable cash, where such delays does not violate the agreed upon payment terms.
- F. **EQUIPMENT FINANCING.** Equipment is accounted for at the original acquisition cost, which includes purchase price plus any costs incurred to place the equipment in service. Equipment may be leased or financed when the unit purchase price is \$30,000 or more and the useful life is at least four years.
- G. **RISK MANAGEMENT.** The Town will aggressively pursue every opportunity to provide for the Public's and Town employees' safety and to manage its risks. The goal shall be to minimize and/or prevent the financial impact to the Town due to claims or losses through risk transfer and liability insurance.
- H. **INTERGOVERNMENTAL RELATIONS.** When feasible, the Town will coordinate efforts with other governmental agencies to achieve common policy objectives, share the cost of providing government services on an equitable basis, support appropriate favorable legislation at the state and federal levels, share facilities and develop joint programs to improve service to its citizens.

## **VII. ASSET MANAGEMENT**

- A. **INVESTMENTS.** The Town shall invest the Town's funds in accordance with the provisions of the current Bank Depository Agreement and/or in any negotiable instrument that the Council has authorized under the provisions of the Public Funds Investment Act, and in accordance with the Town's Investment Policy.
- B. **CASH MANAGEMENT.** The Town'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, municipal fines, building and related permits and licenses, and other collection as appropriate. Cycle billing will be used where appropriate.
- C. **FIXED ASSETS AND INVENTORY.** These assets will be reasonably safeguarded and properly accounted for, and prudently insured. A fixed asset of the Town 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 infrastructure. The cost or value of any such acquisition must be \$5,000 or more within an expected useful life greater than two years. All departments with inventory are required to conduct a physical inventory under their control on at least an annual basis. Refer to the Town's Fixed Assets and Inventory Procedures for more detail.

- D. DEPOSITORIES. The Town will enter into a depository agreement with one or more banks for a specified period of time and specified fees for banking services. The term of each depository agreement shall not exceed five (5) years unless otherwise approved by the Town Council.

## VIII. CAPITAL BUDGET AND IMPROVEMENT PROGRAM

- A. PREPARATION. The Town will endeavor to develop a capital budget which will include all capital projects and all capital resources. The budget will be prepared annually on a fiscal year basis. The capital budget will be prepared by the Town Manager and Finance Director with the involvement of all required departments.

Capital improvements for planning purposes shall be considered all land, land improvements, building projects, infrastructure (i.e., streets/drainage, water and wastewater improvements) and equipment.

Final payments of construction contracts will be approved by Town Council. This will require previous involvement of departments in order to verify that all specifications have been satisfactorily met.

- B. CONTROL. All capital project expenditures must be appropriated in the capital budget. The Finance Department must certify the availability of such appropriations or the availability of resources so any appropriation can be made before a capital project contract is presented to the Town 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 (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 are included in the annual operating budget.
- D. FINANCING PROGRAMS. Where applicable, assessments, impact fees, pro-rate charges, or other fees should be used to fund capital projects which have a primary benefit to specific, identifiable property owners.
- E. INFRASTRUCTURE MAINTENANCE. The Town recognizes that deferred maintenance increases future capital costs. Therefore, a portion of the appropriate fund's budget will be set aside each year to maintain the quality of the Town's infrastructure. The inclusion of infrastructure maintenance and replacement costs in the current operating budget places the burden of the costs and repairs on the current users of the systems.
- F. REPORTING. Periodic financial reports will be prepared to enable the Department Managers/Directors to manage their capital budgets and to enable the Finance Department to monitor and control the capital budget as authorized by the Town Manager. Summary capital projects status reports should be presented to the Council periodically.

## **IX. FINANCIAL CONDITIONS AND RESERVES**

- A. **OPERATIONAL COVERAGE -NO OPERATING DEFICITS.** The Town will maintain an operational coverage factor of 1.00, such that current operating revenues (plus approved fund balance appropriations) will equal or exceed current operating expenditures.

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 as stated in Paragraph B, following.

- B. **GENERAL GOVERNMENT RESERVES.** A key element of the financial stability of the Town is to establish guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the Town maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures and similar circumstances.

It is the goal of the Town that the unassigned fund balance of the General Fund should be a minimum of 90 days (24.66%) of the General Fund annual expenditures. The Town will take action to reduce the fund balance if the unassigned fund balance grows beyond 120 days expenditures.

A reserve will be maintained for general governmental capital projects. The reserve will be funded with operating surpluses. The reserve will be used for major capital outlays related to unplanned/emergency 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, not required to meet ending resource requirements, may be transferred to the reserve with the approval of Town Council.

Use of unassigned fund balance/net position (unrestricted retained earnings) may be used in a combination of the following:

- One time expenditures that do not increase recurring operating costs;
- Major capital purchases; and
- Start-up expenditures for new programs undertaken at mid-year provided such action is considered in the context of multiyear projections of program revenues and expenditures.

Should such use reduce the unrestricted balance below the appropriate level set as the objective for that fund, the Town will take action necessary to restore the unrestricted fund balance/net position to acceptable levels.

The Proprietary Fund working capital should be maintained at least at the 24.66% of total operating expenditures or the equivalent of 90 days. The Town will take action to reduce the net position balance if the working capital grows beyond 120 days.

Cash and investment balances in the Town's Economic Development Corporation funds should be maintained at a minimum of 25% of the current year budgeted expenditures and transfers.

## C. FUND BALANCE CLASSIFICATION – Governmental Funds

1. Governmental funds report aggregate amounts of five classifications of fund balance based on the constraints imposed on the use of these resources:
  - a. Nonspendable. Includes amounts that cannot be spent because they are either not spendable in form (such as prepaids or inventory) or are legally or contractually required to be maintained intact (such as endowment funds).
  - b. Restricted. Includes amounts restricted by external sources (such as creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
  - c. Committed. Includes amounts constrained to specific purposes by a government itself, using its highest decision-making authority to be reported as committed. Amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint (such as a Town Ordinance or Resolution)
  - d. Assigned. Includes amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates authority. The Town Council has the authority to assign amounts for specific purposes.
  - e. Unassigned. All amounts not included in other spendable classification.

2. Ending fund balances of the Town shall be reported according to the following classifications:

DEBT SERVICE FUNDS:

400 Interest & Sinking Fund – Restricted

SPECIAL REVENUE FUNDS:

800 Court Security Fund - Restricted

825 Court Technology Fund - Restricted

850 Pantego Fest – Restricted

875 Shamburger Fund – Restricted

880 Cartwright Library Fund – Restricted

CAPITAL PROJECT FUNDS:

300 Capital Projects Fund – Committed

500 Street Improvement Construction Fund – Restricted

3. Order of expenditure -- When committed, assigned and unassigned resources can be used for the same purpose, funds shall be spent in the sequence of committed resources first, assigned second, and unassigned last.
4. When it is appropriate for fund balance to be assigned, the Council delegates that authority to the Town Manager.

#### D. CAPITAL PROJECTS AND DEBT SERVICE FUNDS

1. Items in the Capital Projects Funds will be completed and paid for within 36 months of receipt of bonds proceeds. Balances will be used to generate interest income to offset construction costs.
2. General Obligation Debt Service Funds will not have reserves or balances in excess of one month of principal and interest plus fifteen (15) percent of the principal outstanding for non-refunded 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. Total direct debt shall not exceed ten (10) percent of the assessed value of taxable property.

The policy above does not preclude the debt service reserves normally established to market revenue bonds. The Town's policy and bond ordinance requirements are to maintain these debt service reserves at the level of the average annual debt service.

3. Revenue obligations will maintain Debt Coverage Ratios as specified by the bond covenants. The Town is currently required to have net revenues in excess of average annual debt by 1.25 times. Net revenues must also exceed the maximum outstanding debt by 1.10 times. Both these tests must be met in order to issue additional bonds.
4. Obligations of the Pantego Economic Development Corporation will maintain coverage ratios as specified by bond covenants. If the Town issues obligations partially secured by a limited pledge of the corporations' sales tax revenues, not subject to the coverage ratios of the revenue bond covenants, coverage shall be maintained at no less than 1.25 times average annual debt service, and 1.15 times the maximum annual debt service. Both of these tests must be met in order to issue additional bonds.

#### X. TREASURY AND DEBT MANAGEMENT

- A. CASH MANAGEMENT. Periodic review of cash flow position will be performed to determine performance of cash management. 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 1) safeguard assets, (2) maintain liquidity, and 3) maximize return. Where legally permitted, pooling of investments will be performed.

The Town will adhere to the investments authorized through the Public Funds Investment Act and will additionally establish, review and approve a comprehensive Investment Policy and Investment Strategies on an annual basis. Such policy will clarify acceptable investment securities, brokers, terms and other pertinent investment information.

##### B. TYPES OF DEBTS

1. SHORT-TERM DEBT. Short-term debt shall be defined as debt requiring five (5) years or less to retire, and may be used to fund purchases of machinery, equipment

(including office equipment) and vehicles.

2. **LONG-TERM DEBT.** 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 issuance. A resolution of intent to issue bonds authorizing staff to proceed with the preparations shall be presented for consideration to the Town Council when the capital budget is presented.

Certificates of obligation may be issued to finance permanent improvements and land acquisition if needed between bond elections. The life of the certificates of obligation issued to finance equipment shall match the life of the equipment, which is usually three (3) to five (5) years. Certificates of obligation may be backed by a tax pledge under certain circumstances as defined by law. They may also be backed by a combination tax and revenue pledge. When appropriate, self-supporting revenues will pay debt service in lieu of tax revenues.

The Town 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 Town may elect to obtain voter authorization for Revenue Bonds.

- C. **FINANCING ALTERNATIVES.** The Town 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 available funds.
- D. **DISCLOSURE.** Full disclosure of operations will be made to the bond rating agencies and other users of financial information. The Town 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 Town will maintain procedures to comply with arbitrage rebate and other Federal requirements.
- F. **DEBT STRUCTURING.** The Town will issue general obligation bonds with an average life of 20 years or less, not to exceed the life of the asset acquired. Total debt service requirements (principal and interest) in any fiscal year should generally not exceed twenty-five (25) percent of total expenditures/expenses.

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. Bond Elections. Before a bond election, the Town Manager, Bond Election Committee Members and Town Council-members will be provided with competent debt capacity analyses, tax and user fee impact projections and other information as

directed by the Town Manager. The Bond Counsel and Financial Advisor will provide support during the process.

2. Method of Sale. The Town 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 Town will publicly present the reasons why, and the Town will participate with the financial advisor in the selection of the underwriter or direct purchaser.
3. Bidding Parameters. The notice of sale will be carefully constructed so as to ensure the best possible bid for the Town 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 (TIC) vs. Net Interest Cost (NIC)
  - Use of bond insurance
  - Original Issue discount bonds/Capital Appreciation Bonds
  - Variable rate bonds
  - Call provisions
4. Bond Issuance Costs. The Town will be involved in the selection of all financial advisors, underwriters, paying agents, and bond counsel. The Town 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 Town will carefully itemize and scrutinize all costs associated with the issuance of bonds.
5. Bond Counsel Involvement. The Bond Counsel will issue an opinion as to the legality and tax exempt status of any obligations. The Town will also seek the advice of the Bond Counsel on all other types of financing and on any other questions involving federal tax or arbitrage law. Bond Counsel is also responsible for the preparation of the ordinance authorizing issuance of obligations and all of the closing documents to complete their sale and will perform other services as defined by contract approved by Council.
6. Financial Advisor. The Town will seek the advice of the Financial Advisor when necessary. The financial advisor will be expected to provide planning and analytical services which extend beyond the issuance of debt. To ensure independence, the Financial Advisor will not bid on nor underwrite any Town debt issues.
8. Ratings. The rating agencies will be notified either by telephone or through written correspondence when the Town begins preparation for a debt issuance. After the initial contact, a formal ratings application will be prepared and sent along with the draft of the Official Statement related to the bond sale to the rating agencies. This application and related documentation should be sent several weeks prior to the bond sale to give the rating agencies sufficient time to perform their review. Meetings with representatives of the rating agencies should be scheduled every few years or whenever a major project is initiated.

9. Official Statement. Information for the Official Statement is gathered from departments throughout the Town. The Finance Director will begin assembling the information needed to update the Official Statement. At least eight (8) weeks prior to an anticipated bond issuance.

H. DEBT REFUNDING – Town staff and the financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt. A proposed refunding debt, for interest cost savings, should provide a present value benefit as a percent of refunded principal of at least 5%.

## **XI. INTERNAL CONTROLS**

A. WRITTEN PROCEDURES. Written procedures will be established and maintained by the Finance Director for all functions and financial cycles including cash handling and accounting throughout the Town. These procedures will embrace the general concepts of fiscal responsibility set forth in this policy statement.

B. DEPARTMENTAL DIRECTORS/ MANAGERS RESPONSIBILITY. Town administrators and manager/supervisors are charged with the responsibility for establishing a network of processes with the objective of controlling the operations of the Town in a manner which provides reasonable assurance that:

1. Data and information published either internally or externally is accurate, reliable, complete and timely.
2. The actions of administrators and employees are in compliance with the Town's plans, policies and procedures and all relevant laws and regulations.
3. The Town's resources including its people, systems, data/information, assets and citizens are adequately protected.
4. Resources are acquired economically and employed effectively.
5. The Town's internal controls promote the achievement of plans, programs, goals and objectives.

Each Department Manager/Director is responsible to ensure that good internal controls are followed throughout his/her Department, that all Finance Department directives or internal controls are implemented and that all independent auditor internal control recommendations are addressed.

## **XII. STAFFING AND TRAINING**

A. ADEQUATE STAFFING. Staffing levels will be adequate for the fiscal functions of the Town to operate 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 Town 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, sharing with other staff members all information and training materials acquired from seminars, conferences and related education efforts.

- C. AWARDS, CREDENTIALS AND RECOGNITION. The Town will support efforts and involvements which result in meeting standards and receiving exemplary recitations on behalf of any of the Town's fiscal policies, practices, processes, products, or personnel.

The Town will strive to maintain a high level of excellence in its accounting policies and practices as it prepares its Annual Financial Report. If feasible, the report will be presented to the Government Finance Officers Association (GFOA) for review of qualifications necessary to obtain the Certificate of Achievement for Excellence in Financial Reporting. Additionally, the Town will consider the submission of its annual budget to GFOA for consideration for Distinguished Budget Award.

### **XIII. ANNUAL POLICY REVIEW AND REPORTING**

These policies will be reviewed administratively by the Town Manager and Finance Director at least annually, prior to the preparation of the operating budget and will be presented to the Town Council for confirmation of any significant changes.

The Finance Director will report annually to the Finance/Audit Committee on compliance with these policies.