



**REVISED AND ADOPTED SEPTEMBER 19, 2017**

**CITY OF DEER PARK  
FINANCIAL MANAGEMENT POLICY**

# TABLE OF CONTENTS

Summary .....	1
I. Accounting, Auditing, and Financial Reporting .....	3
II. Financial Consultants.....	5
III. Budgeting and Long Range Financial Planning.....	8
IV. Revenues.....	11
V. Operating Expenditures.....	16
VI. Fund Balance/Working Capital.....	18
VII. Capital Expenditures and Improvements.....	22
VIII. Debt.....	25
IX. Cash Management and Investments.....	29
X. Grants.....	31
XI. Intergovernmental Relations.....	34
XII. Internal Controls.....	35

## SUMMARY

The City of Deer Park (City) is responsible to safeguard and prudently manage public funds, which includes planning for and providing adequate funding and resources to deliver the needed and desired municipal services to the community. To establish and document a policy framework for effective fiscal decision-making, planning, and management, the City shall establish and maintain a comprehensive Financial Management Policy. This policy shall incorporate sound financial management practices and shall demonstrate compliance with the associated federal, state, and local statutes and other legal documents and mandates.

The Financial Management Policy shall be reviewed annually and updated or revised, as necessary. Updates and changes to the policies contained herein shall be presented to City Council for approval.

This Financial Management Policy shall apply to all funds maintained by the City, unless otherwise specified herein. The purpose of these policies is to ensure that financial resources are available to meet the present and future needs of the City and its citizens. Specifically the policy framework contained herein mandates the pursuit of the following fiscal objectives:

- I. ***Accounting, Auditing and Financial Reporting:*** The City shall implement and maintain accounting practices that conform to generally accepted accounting principles and comply with prevailing federal, state, and local statutes and regulations. The City shall present regular reports that analyze, evaluate and forecast the City's financial performance and economic condition. The City shall issue a Comprehensive Annual Financial Report no later than six months following the end of the fiscal year.
- II. ***Financial Consultants:*** The City shall employ the assistance of qualified financial advisors and consultants, as needed, to assist in the administration and management of the City's financial affairs, including audit services, debt administration, delinquent tax collections, and financial modeling.
- III. ***Budgeting and Long Range Financial Planning:*** The City shall establish budgeting guidelines and shall employ a prudent fiscal strategy to provide for the short-term and long-term needs of the City through strategic management and preservation of its financial resources.
- IV. ***Revenues:*** The City shall establish, manage, and maintain a revenue system to assure a reliable, equitable, and sufficient cash flow to support the desired level of City services and fund balance.
- V. ***Operating Expenditures:*** The City shall identify and prioritize services, determine appropriate service levels, and monitor the expenditure of available resources to ensure fiscal stability and the effective and efficient delivery of services.

- VI. *Fund Balance/Working Capital:*** The City shall maintain the fund balance and working capital (retained earnings) of all operating funds at levels sufficient to protect the City's creditworthiness as well as its financial position during emergencies or economic fluctuations.
- VII. *Capital Expenditures and Improvements:*** The City shall annually review and monitor the state of the City's capital assets, setting priorities for the addition, replacement, and renovation of these assets based on needs, funding alternatives, and availability of resources.
- VIII. *Debt:*** The City shall establish guidelines for debt financing to provide needed land, long-term capital additions, and infrastructure improvements while minimizing the impact of debt payments on current and future revenues.
- IX. *Cash Management and Investments:*** The City shall invest idle operating cash so as to ensure the absolute safety of principal, to meet the liquidity needs of the City, and to achieve the highest possible yield in accordance with state statute and the City's Investment Policy.
- X. *Grants:*** The City shall seek, apply for, and effectively administer federal, state, and local grants, which support the City's current and future priorities and policy objectives.
- XI. *Intergovernmental Relations:*** The City shall coordinate efforts with other governmental agencies to achieve common policy objectives, share the cost of providing government services on an equitable basis, and support favorable legislation at the state and federal levels.
- XII. *Internal Controls:*** The City shall establish and maintain a system of internal controls designed to safeguard City assets, ensure the accuracy and reliability of accounting and financial records, promote operational efficiency, and adhere to prescribed policies in compliance with federal and state regulations and City ordinances and policies.

## I.

# ACCOUNTING, AUDITING AND FINANCIAL REPORTING

The City shall implement and maintain accounting practices that conform to generally accepted accounting principles and comply with prevailing federal, state, and local statutes and regulations. The City shall present regular reports that analyze, evaluate and forecast the City's financial performance and economic condition. The City shall issue a Comprehensive Annual Financial Report no later than six months following the end of the fiscal year.

A. *Accounting Practices and Principles*

The City shall implement and maintain accounting practices that conform to Generally Accepted Accounting Principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB), the authoritative standard setting body for state and local governments. All City financial reports, including the comprehensive annual financial report, official statements, and continuing disclosure reports shall comply with these standards.

B. *Financial Reports and Fiscal Monitoring*

Monthly financial reports shall be prepared and distributed to the City Manager, Assistant City Manager, and department directors. Quarterly financial reports shall be presented to the City Council.

These financial reports shall be useful for analyzing, evaluating, and forecasting the City's financial performance and economic position. Additionally, the reports shall be used to evaluate key areas of performance and to develop any remedial actions necessary to maintain the City's financial position.

C. *Annual Audit*

Pursuant to state statute and City ordinance, the City shall have its records and accounts audited annually and shall prepare an annual financial statement and report. The audit shall be performed by a certified public accounting (CPA) firm, licensed to practice in the State of Texas. The annual financial statement and report, including the auditor's opinion, shall be part of an official Comprehensive Annual Financial Report (CAFR), which shall be filed within 180 days after the last day of the City's fiscal year.

The audit firm shall provide a management letter to the City prior to the filing of the audit. The Director of Finance shall be responsible for establishing a process to ensure timely resolution of audit recommendations.

D. *Annual Financial Disclosure*

As required by the Securities and Exchange Commission (SEC) Rule 15c2-12, the City, with the support of the financial advisor, shall annually provide certain financial information and operating data to information repositories. This disclosure requirement also applies to the filing of any periodic material event notices in compliance with Rule 15c2-12.

E. *Escheating Checks*

As required by State law, the City shall file the necessary reports on an annual basis to turn over to the State Comptroller any checks outstanding more than three years. This property is considered abandoned and shall be delivered to the State Comptroller on or before July 1 of each year.

F. *Finance Committee*

The City has established a Finance Committee consisting of mayoral appointments from City Council. The members shall be appointed/re-appointed to the committee annually. The City Manager, Assistant City Manager, and Director of Finance shall also serve on the committee. The committee shall meet quarterly for an update on the City's financial statements and investments. Further, the committee shall meet to review the results of the annual audit and at any other time it may be necessary to report on an internal audit or other external audit authorized by City Council.

## II.

### FINANCIAL CONSULTANTS

The City shall employ qualified financial advisors and consultants, as needed, to assist in the administration and management of the City's financial affairs including, but not limited to, audit services, debt administration, delinquent tax collections, and financial impact modeling. The principal factors in the selection of these advisors and consultants shall include technical expertise, experience, ability to perform the services, and references.

#### A. *Selection of Auditors*

The City Council shall select an independent firm of certified public accountants to perform an annual audit of the City's accounts and records and to render an opinion on the financial statements of the City. At least every five years, the City shall request proposals from qualified firms, to affirm the current audit firm or select a new firm. It is prudent that the current firm rotates the audit partner and lead auditor at least every two years.

Annually, the independent auditor will provide a letter of engagement to the City Council for the fiscal year to be audited.

#### B. *Arbitrage*

The City is responsible for the annual arbitrage rebate calculation on each bond issue. The City shall provide the necessary information and records to a qualified firm for completing these calculations and preparing the required report filings. The City shall make timely payments of any rebate amount owed to the federal government.

Requests for qualifications shall be solicited at least every five years from firms qualified to prepare arbitrage rebate calculations and reports.

#### C. *Delinquent Tax Collection Attorney*

Due to the specialized nature of these services, the City shall hire an experienced attorney to collect delinquent property taxes. These services shall also include the filing of bankruptcy claims, foreclosures on real property, and seizures of personal property. The attorney shall provide legal representation for the City in court cases and property sales.

D. *Bond Counsel*

Bond counsel to the City shall provide an objective legal opinion concerning the issuance of bonds and other debt instruments. Generally, bonds are not marketable without the opinion of bond counsel indicating the bonds are valid and binding obligations of the City and exempt from federal and state income taxes.

Due to the complexity of the City's financial structure and the benefits that come from a history and knowledge of the City, the City maintains an ongoing relationship with the bond counsel for continuity. The engagement letter with bond counsel may be terminated at any time upon written notice by either party.

E. *Financial Advisory Services*

The City issues various types of securities to finance its capital improvement program and shall employ a financial advisor for these services. Debt issuance and restructuring requires a comprehensive list of services associated with municipal transactions including, but not limited to, analysis of market conditions, size and structure of the issue, method of sale, preparation of disclosure documents, evaluation of and advice on the pricing of securities, facilitation of rating agency relations, and calculation of debt service schedules. The financial advisor shall provide other financial advice and expertise, as needed.

Due to the complexity of the City's financial structure and the benefits that come from a history and knowledge of the City, the City maintains an ongoing relationship with the financial advisor for continuity. The City's agreement with the financial advisor is for a five-year term and automatically renews on the fifth anniversary for an additional five years. Either party may terminate the agreement at any time with thirty days written notice.

F. *Depository Bank*

Pursuant to state statute, the City may approve a depository services contract for a term up to five years. The City typically establishes the contract for depository services for an initial term of three years with the option to renew annually in each of the remaining two years. The City shall select a depository through a formal bid process in order to provide the City with the most comprehensive, flexible, and cost-effective banking services available.



G. Investment Advisory Services

The City Council may from time to time employ qualified individuals or firms as an Investment Advisor to assist the investment officer(s) in carrying out the investment program and complying with the requirements of the City's Investment Policy and the Public Funds Investment Act.

H. *OPEB*

The City is required to comply with the requirements of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to measure and report the liabilities associated with other (than pension) postemployment benefits (OPEB). The City shall hire an experienced and qualified firm to provide actuarial and consulting services to the City to comply with these reporting requirements. These services shall include completion of the actuarial valuation and information to complete the notes to the financial statements and the required supplementary information included in the CAFR.

### III.

## BUDGETING AND LONG RANGE FINANCIAL PLANNING

The City shall establish budgeting guidelines and shall employ a prudent fiscal strategy to provide for the short-term and long-term needs of the City through strategic management and preservation of its financial resources.

#### A. *Balanced Budget*

Budgeting is an essential element of the financial planning, control, and evaluation process of the City. The operating budget represents the City's annual financial operating plan. It includes all operating departments of the City. Annually, the City Manager shall file an operating budget for the ensuing fiscal year in accordance with state and local statutes. This budget shall adhere to the City's fund balance policies.

The operating budget should be balanced with current revenues, exclusive of beginning balances, greater than or equal to current expenditures/expenses. Excess balances may be used for capital outlay or other non-recurring expenditures.

#### B. *Current Funding Basis*

The City shall budget and operate on a current funding basis with expenditures budgeted and controlled so as not to exceed projected current revenues. Recurring expenditures shall be funded exclusively with recurring revenues to facilitate operations on a current funding basis.

#### C. *Ad Valorem Tax Rate*

The City Manager shall recommend an ad valorem (property) tax rate to enable the City to operate efficiently and to fund the required annual debt service payments in the general fund.

#### D. *Revenue Estimating for Budgeting*

To protect the City from revenue shortfalls and to maintain a constant level of services, the City shall use a conservative, objective, and analytical approach when preparing revenue estimates. The process shall include an analysis of probable economic changes and the estimated impact on revenues in conjunction with a review of historical revenue collection rates and trends. This approach should reduce the likelihood of revenue shortfalls and should help to avoid decreased service levels during the year.

Sales tax is used to fund recurring operations, but sales tax revenue fluctuates with changes in economic conditions. To mitigate the overall effects of these revenue fluctuations, the City shall limit discretionary spending, exercise budget control, and generate conservative revenue forecasts.

The Utility Fund water and wastewater revenues shall be budgeted using an analysis of prior service levels, historical trends in water consumption and usage, and projected new service requirements.

E. *Budget Management*

The City Manager shall administer the budget after it is formally adopted by City Council. Department directors shall be responsible to manage spending so as not exceed the department's total budget allocation.

F. *Amended Budget*

Emergency situations, unforeseen circumstances, and revised cost estimates may require amending the original budget. Budget amendments shall be presented to City Council for approval, as needed.

G. *Operating Deficits*

The City shall take immediate corrective actions if at any time during the fiscal year expenditure and revenue forecasts are such that an operating deficit is projected at year-end. Corrective actions may include any or all of the following:

- Deferral of capital purchases
- Expenditure reductions
- Hiring and/or salary freezes
- Reduction or elimination of wage increases
- Use of fund balance
- Increased service and usage fees
- Staff reductions

Short-term loans shall not be used to balance the budget.

With City Council approval, fund balance, as a one-time revenue source, may be used to cover an annual operating deficit.

H. *Finance Committee*

The City has established a Finance Committee consisting of mayoral appointments from City Council. The members shall be appointed/re-appointed to the committee annually. The City Manager, Assistant City Manager, and Director of Finance shall also serve on the committee. The committee shall meet quarterly for an update on the City's financial statements and investments. Further, the committee shall meet to review the results of the annual audit and at any other time it may be necessary to report on an internal audit or other external audit authorized by City Council.

## IV.

### REVENUES

The City shall establish, manage, and maintain a revenue system to assure a reliable, equitable, and sufficient cash flow to support the desired level of City services and fund balance.

A. *Balance and Diversification in Revenue Sources*

The City shall strive to maintain a stable and diversified revenue system to protect the City from fluctuations in any single revenue source due to changes in local economic conditions, for example, which may adversely impact the revenue source (e.g., sales tax revenue).

The City shall maintain balance in its revenue structure to ensure fairness and neutrality as it relates to cost of service and willingness and ability to pay.

B. *User Fees – General Fund*

For services that benefit specific users, the City shall establish and collect fees to recover the costs of these services. The City shall determine the appropriate level of cost recovery and establish a fee schedule accordingly. Each fee shall be set and classified by the City Council.

The City shall identify and evaluate direct and indirect costs to determine what is applicable in calculating cost of service. The following may also be considerations when setting user fees: current economic conditions, demand for services, impact on users, and competitive pricing in the private sector, if applicable. While the City shall seek to recover full direct and indirect costs, in some cases, the City may deem it appropriate to set user fees at a level that will result in partial or minimal cost recovery. The City shall review user fees on an annual basis to calculate the level of cost recovery and determine if adjustments are necessary or appropriate.

C. *User Fees – Enterprise Funds*

Utility rates and user fees shall be set at levels sufficient to fully cover direct and indirect operating costs, meet debt obligations and all legal restrictions of applicable bond covenants (e.g., debt service coverage), allow for planned pay-as-you-go funding for capital improvements, and provide an adequate level of working capital.

The City shall separately establish a drainage utility fee structure to comply with federal and state regulations to reduce storm water pollution and prevent flooding. Fees are assessed according to the potential impact a property could have on the public drainage system. These funds may only be used to cover costs related to the City's drainage system, which may include a reserve/contingency fund to cover unexpected regulatory costs.

Revenues collected for water and wastewater services and for the public drainage system shall remain in the respective enterprise funds. The City shall monitor monthly utility revenues to project any revenue surplus or shortfall for the year.

The City shall not use general funds to subsidize the enterprise fund.

D. *Sales Tax*

Voters in Deer Park may, by referendum, adopt special option sales taxes (e.g., special districts, street maintenance). These special tax revenues shall be allocated accordingly upon receipt.

The City shall monitor monthly sales tax revenues to project any revenue surplus or shortfall for the year.

E. *Revenue Collections*

The City shall enact collection policies that ensure revenues will materialize as budgeted/forecast. The City shall follow an aggressive, consistent, yet reasonable approach for revenue collection by pursuing delinquent and overdue accounts to the fullest extent allowed by law.

The City shall levy a charge against any person making a payment to the City by check, credit card, or any automated or electronic means when such payment is returned to the City and not paid. This charge shall apply to payments of any kind, including but not limited to, taxes, permits, fees, and utilities. The City shall establish this charge based on the associated direct and indirect costs incurred by the City to recover and process the monies owed to the City. The charge shall not exceed the maximum allowed by state law.

F. *Write-off of Uncollectible Receivables – Property Tax Accounts*

Annually, the City shall turn over any delinquent property tax accounts to the tax attorney in an effort to collect the past due amount(s). The City shall remove from the delinquent tax roll (write-off) delinquent property tax accounts in accordance with state law, which authorizes the release or extinguishment, in whole or in part, of the applicable indebtedness, liability, or obligation as follows: "If there is no pending litigation concerning the delinquent tax at the time of cancelation and removal, the collector for a taxing unit shall cancel and remove from the delinquent tax roll...a tax on real property that has been delinquent for more than 20 years [and] a tax on personal property that has been delinquent for more than 10 years." The Director of Finance shall review the write-off of delinquent property tax accounts.

G. *Write-off of Uncollectible Receivables – Industrial District*

The City receives annual "in-lieu-of-tax" payments from industries located within its extraterritorial jurisdiction ("industrial district"). Relative to the amounts owed, the City may elect to turn any delinquent account over to a collection agency for further attempts to collect the past due amount(s). The City shall write-off industrial district accounts where collection efforts have been exhausted or are no longer feasible or cost effective. Aged receivables shall be considered for write-off when mail has been returned and all attempts to acquire a valid forwarding address have failed or after accounts have been outstanding for four years or more and all attempts to collect the past due amount(s) have been exhausted.

The City shall consider any write-off of uncollected accounts as an accounting entry only and does not release the debtor from any debt owed to the City. If an account becomes collectible after having been written-off, the accounts receivable balance shall be reinstated and payments applied to that balance. The Director of Finance shall review the write-off of delinquent industrial district accounts.

H. *Write-off of Uncollectible Receivables – Utility & Other Accounts*

The City may elect to turn any delinquent account over to a collection agency for further attempts to collect the past due amount(s). The City shall write-off utility accounts where collection efforts have been exhausted or are no longer feasible or cost effective. Aged receivables shall be considered for write-off when mail has been returned and all attempts to acquire a valid forwarding address have failed or after accounts have been outstanding for four years or more and all attempts to collect the past due amount(s) have been exhausted.

The City shall consider any write-off of uncollected accounts as an accounting entry only and does not release the debtor from any debt owed to the City. If an account becomes collectible after having been written-off, the accounts receivable balance shall be reinstated and payments applied to that balance. The Director of Finance shall review the write-off of delinquent utility and other accounts.

I. *Write-off of Uncollectible Receivables – Ambulance Billing Accounts*

Aged receivables shall be considered for write-off of individual ambulance billing accounts that have been outstanding more than 12-months. If an account becomes collectible after having been written-off, the accounts receivable balance shall be reinstated and payments applied to that balance.

The 12-month threshold shall not apply in the following circumstances:

- The account has been discharged in bankruptcy court
- The City has been provided with a death certificate showing the debtor is deceased
- The debt cannot be sustained in court due to a refusal of judgment
- The amount owed represents the difference between the amount billed and the amount allowed by Medicare
- Further pursuit of collection is not cost effective

Individual account balances of \$20 or less shall be written-off. The Director of Emergency Services is authorized to approve the write-off of individual accounts up to \$500. The Director of Finance is authorized to approve the write-off of individual accounts up to \$1,000. The City Manager is authorized to approve the write-off of individual accounts up to \$2,000.

The City Attorney is authorized to settle or dismiss any individual account involving legal action when the balance does not exceed \$500. If an account involves legal action and the balance due is in excess of \$500, the City Attorney may submit a recommendation to the City Manager to settle or dismiss the balance if it is less than \$2,000.

The City Council shall approve the write-off or settlement of any individual account in excess of \$2,000.



J. *Write-off of Outstanding Warrants (Municipal Court)*

When a Defendant makes payment arrangements for the fine, costs and fee(s) associated with a traffic offense and fails to make a payment per the payment plan, the Municipal Court shall issue a "Capias Pro Fine Warrant" in the amount of the remaining balance on the payment plan as permitted by the State of Texas. A warrant fee shall be added to each offense in which the payment plan is still outstanding. Relative to the total amount owed, the City may elect to turn any delinquent warrants over to a collection agency for further attempts to collect the past due amount(s). The City shall write-off the total amount due, including capias pro fine warrants, where collection efforts have been exhausted or are no longer feasible or cost effective. All outstanding balances shall be considered for write-off after ten years.

The City shall consider any write-off of uncollected warrants as an accounting entry only and does not release the Defendant from any amount owed to the City. If the amount owed becomes collectible after having been written-off, the amount owed shall be reinstated and payments applied to that balance. The Director of Finance shall review the write-off of outstanding warrants.

K. *Non-Recurring Revenues*

One-time or non-recurring revenues shall not be used to finance current on-going operations. Non-recurring revenue sources, such as a one-time revenue remittance, may only be used to fund non-recurring expenditures, such as capital purchases or capital improvement projects. Non-recurring revenues shall not be used to balance the budget.

## V.

### OPERATING EXPENDITURES

The City shall identify and prioritize services, determine appropriate service levels, and monitor the expenditure of available resources to ensure fiscal stability and the effective and efficient delivery of services.

A. *Current Funding Basis*

The City shall budget and operate on a current funding basis with expenditures budgeted and controlled so as not to exceed projected current revenues and/or planned use of fund balance accumulated through prior year savings. Recurring expenditures shall be funded exclusively with recurring revenues to facilitate operations on a current funding basis. Any use of fund balance for expenditures shall be in accordance with the City's fund balance policy incorporated in this Financial Management Policy.

B. *Maintenance of Capital Assets*

Within the resources available each fiscal year, the City shall maintain capital assets and infrastructure at a sufficient level to protect the City's investment, to minimize future replacement and maintenance costs, and to maintain service levels.

C. *Review of Programs and Services*

Annually, as part the budget process, a schedule of services and/or programs, including a calendar of events for each program, shall be established for the ensuing year. The City shall conduct periodic reviews of programs and services to evaluate demand, efficiency and effectiveness. Privatization and contracting with other governmental agencies or private entities may be considered as alternative approaches to service delivery.

D. *Purchasing*

The City shall conduct its purchasing and procurement activities efficiently and effectively and in compliance with all applicable state laws and City ordinances. The City shall strive to maximize discounts and capitalize on savings through the use of competitive bidding or, when competitive bidding is not required, shall seek to obtain the most favorable terms and pricing.

The City has implemented a procurement card program to provide an efficient and cost effective alternative to the traditional purchasing process for fuel, materials, supplies, and travel. With few exceptions, the limit on an individual procurement card does not exceed \$5,000. The City Manager must approve all requests for and limits on a City procurement card. Use of a procurement card does not replace or override the City's purchasing guidelines or state law. Misuse of a procurement card may be considered misappropriation of City funds and may result in revocation of the card with or without prior notice. The monthly statement of charges shall be reviewed and monitored by the Finance Department. Further, the Finance Department shall annually provide the list of cardholders and associated spending levels to the City Manager for review.

## VI.

### FUND BALANCE/WORKING CAPITAL

The City shall maintain the fund balance and working capital of its operating funds at levels sufficient to protect the City's creditworthiness as well as its financial position during emergencies or economic fluctuations. 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.

The City's policy has been updated for GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

#### A. *Classifications*

Fund equity is generally the difference between a fund's assets and liabilities and is commonly referred to as "fund balance". In accordance with GASB Statement No. 54, fund balance shall be classified based on the following distinctions, which depict the relative strength of the spending constraints placed on the purposes for which the funds may be used. Committed, assigned, and unassigned fund balance shall be considered unrestricted fund balance.

- Nonspendable fund balance includes amounts that are not in a spendable form or are required to be maintained intact. Examples are inventory or permanent funds.
- Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants and child safety fees.
- Committed fund balance 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.
- Assigned fund balance 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 authority. 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.
- Unassigned fund balance is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are available for any purpose.

B. *Restricted Fund Balance*

The City Council shall review all restricted fund balance line items and approve expenditures relating to these categories during the budgeting process. The City shall ensure all expenditures adhere to the requirements of the law and/or City ordinances that restrict these funds.

C. *Committed Fund Balance*

The City Council is the City's 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 City Council at a public meeting. 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 constraint may be determined in the subsequent period.

D. *Assigned Fund Balance*

The City Council may assign fund balance for a specific purpose in relation to this fund balance policy. The City Council may, by resolution, designate authority to the City Manager to assign fund balance to reflect the City's intended use of the funds.

E. *Unassigned Fund Balance*

The City has established a target level of unassigned fund balance to alleviate revenue shortfalls and/or unanticipated expenditures to ensure the orderly and continued provision of services. The City shall strive to maintain an unassigned fund balance in the general fund equal to at least 25% of normal recurring operating costs, based on the current year's budgeted operating expenditures.

If the unassigned fund balance exceeds this target amount, non-recurring expenditures in the following fiscal year may be funded through a drawdown of the balance. The City may elect to transfer any excess unassigned fund balance to the Capital Improvements Fund.

If the unassigned fund balance falls below the target amount, the City shall seek to reduce expenditures prior to increasing revenues in order to replenish the fund balance within a reasonable timeframe not to exceed three years.

F. *Order of Expenditure of Funds*

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

G. *Working Capital of Enterprise Operating Funds*

In enterprise operating funds, the City shall maintain working capital sufficient to provide reserves for emergencies and revenue shortfalls, specifically in the Utility System. A cash operating reserve shall be established and maintained at a minimum of 25% of the current year's budget appropriation for operating expenses.

H. *Use of Fund Balance or Working Capital*

Fund balance or working capital shall be used only for emergencies, non-recurring expenditures/expenses, or major capital purchases that become necessary but cannot be accommodated through current year revenues. Should such use reduce balances below the established target levels, the City Manager shall provide restoration recommendations that accompany the decision and request to utilize said balances within the guidelines established in this policy.

I. *Governmental Fund Types*

- General Fund – The general fund is the City's primary operating fund and shall be used to account for and report all financial resources not accounted for and reported in another fund. The general fund shall be used to finance the basic operations of the City.
- Debt Service Fund – The debt service fund shall be used to account for and report the accumulation of resources that are restricted, committed, or assigned for payment of principal and interest on the City's general long-term debt.
- Special Revenue Fund – The City shall maintain special revenue funds to account for and report the proceeds of specific revenue sources that are restricted or committed for specified purposes other than debt service or capital projects.
- Capital Project Fund – The City shall maintain capital project funds to account for and report financial resources that are restricted, committed, or assigned for capital outlay (e.g., bond funds).

J. *Proprietary Fund Types*

- Water and Wastewater Fund – The City shall maintain a water and wastewater fund to account for and report the operations of the water and sewer service (utility) operations of the City, including the annual funding of enterprise fund debt service requirements.
- Storm Water Fund – The City shall maintain a storm water fund to account for and report the operations of the City's drainage system in compliance with federal and state regulations. The fund may include a reserve/contingency to cover unexpected regulatory costs.

K. *Fiduciary Fund Types*

- Senior Citizens Trust Fund – The City shall maintain a senior citizens trust fund to account for disbursements made from investment earnings from an initial \$100,000 corpus established as a trust fund to benefit citizens age 55 and older.
- Local Emergency Planning Committee (LEPC) Fund – The City shall maintain, in a custodial capacity, a local emergency planning committee fund to account for proceeds received for community awareness and emergency response programs.

## VII.

### CAPITAL EXPENDITURES AND IMPROVEMENTS

The City shall annually review and monitor the state of the City's capital assets, setting priorities for the addition, replacement and renovation of these assets based on needs, funding alternatives, and availability of resources. This review shall be done during the annual budget process.

#### A *Capitalization Threshold for Tangible Capital Assets*

- Tangible capital items should be capitalized only if they (1) have an estimated useful life of at least two years following the date of acquisition or significantly extend the useful life of the existing asset, (2) cannot be consumed, unduly altered, or materially reduced in value immediately by use, and (3) have a cost of not less than \$5,000 for any individual item.
- The capitalization threshold of \$5,000 will be applied to individual items rather than to a group of similar items. (e.g., desks, chairs, etc.).
- Computer software, regardless of cost, shall not be capitalized.

#### B. *Capital Improvement Plan*

As part of the annual budget process, the City shall prepare a capital improvement plan (CIP) based on the needs for capital improvements and equipment, including replacement and renovation and potential new projects. Annual capital spending needs shall be considered within the scope of the long-range capital improvement plan taking into consideration pay-as-you go, debt requirements, operating costs, etc.

Capital expenditures are generally defined as those to purchase and/or construct land, buildings, improvements other than buildings, and infrastructure, including roads, sidewalks, bridges, utility lines, etc., in order to provide services over a considerable period of time. Capital costs typically consist of preliminary and final engineering and design and construction, but may also include the acquisition of land or easements. For each project identified in the plan, a project scope and justification shall be provided for review and consideration and shall include cost estimates, funding sources, and projected annual operation and maintenance costs. Capital projects shall become part of the City's asset inventory.



The Capital Improvement Plan shall be reviewed along with the annual budget. Appropriations are for the life of the capital project. At fiscal year-end, projects shall be reviewed and if complete, shall be closed. Following completion of a project, any remaining funds shall be re-appropriated as part of the next year's capital budget. Funds remaining from bond proceeds may only be used in accordance with the legal use of those funds.

C. *Infrastructure Evaluation and Replacement/Rehabilitation*

Water, wastewater, drainage, street lighting, streets and sidewalks, municipal facilities, and other infrastructure are fundamental and essential for public health and safety, environmental protections, and the economic well-being of the City. The City's CIP shall be focused on ensuring that infrastructure is replaced as needed to protect the City's investment, to minimize future replacement and maintenance costs, to maintain existing levels of service, and to accommodate growth.

Infrastructure will be replaced, if feasible, at the end of its useable service life. If upgrades are warranted to meet current design standards, a cost/benefit analysis shall be done and presented to City Council for review and consideration.

D. *Capital Expenditure Financing*

The City utilizes several basic methods of financing its capital needs: pay-as-you-go from current revenues, fund balance/working capital, and debt. Capital projects shall not commence prior to the necessary funds being appropriated.

When cash funding is available, the City may elect to pay for all or part of its capital improvements from the appropriate fund rather than through the issuance of debt. The anticipated benefit of pay-as-you-go financing is a reduced or minimized impact on the property tax rate and utility rates. The use of pay-as-you-go financing may not reduce fund balance below target levels.

Debt financing may include general obligation bonds, revenue bonds, certificates of obligation, lease/purchase agreements, and other obligations permitted by state law. Capital improvement projects may not be debt-financed for periods longer than the projected useful life of the project or improvement.

E. *Monitoring*

In order to track the existence, condition, and retirement or disposal of capital assets, the Finance Department shall utilize various methods to monitor the City's capital assets. A capital asset listing shall be sent to each department head for review near the end of each fiscal year in order to determine if the asset is still in service, impaired or obsolete. The Finance Department shall perform a periodic review of capital assets to verify the asset is still functional and in use. At least every two years, the City shall complete a physical inventory of capital assets and a reconciliation to the capital asset listing. Capital asset records shall be retained by the Finance Department in accordance with the City's records retention schedule.

F. *Reporting*

A summary and status report on capital projects and expenditures shall be included in the quarterly financial report presented to City Council.

## VIII.

### DEBT

The City shall establish guidelines for debt financing to provide needed land, long-term capital additions, and infrastructure improvements while minimizing the impact of debt payments on current and future revenues.

#### A. *Use of Debt Financing*

Debt financing, including general obligation bonds, revenue bonds, certificates of obligation, lease/purchase agreements, and other obligations permitted by state law, shall only be used to purchase capital assets that cannot be acquired from current revenues or fund balance/working capital. Debt financing may be used to fund infrastructure improvements and additions.

#### B. *Debt Financing*

The City shall not assume more tax-supported general purpose debt than it retires each year without conducting an objective analysis regarding the City's ability to assume and support additional debt service. This analysis shall include an examination of the costs and benefits of the proposed capital spending and the anticipated impact on the property tax rate. The decision to issue new debt shall be based on this analysis, a review of the current and projected conditions of the municipal bond market, and the City's ability to service the new debt.

General Obligation Bonds require voter approval and shall be issued to accomplish projects identified in the bond referendum. General Obligation Bonds shall be used to fund capital assets of the City and shall not be used to fund current operating expenditures.

Certificates of Obligation may be issued without voter approval to finance any public works project or capital improvement, as permitted by state law. The City may issue Certificates of Obligation in the event it is more economical than issuing Revenue Bonds.

Revenue Bonds are secured by the revenues of an enterprise fund and require adequate projected revenues to cover anticipated future payments over the life of the bonds. If the City determines it is feasible to issue Revenue Bonds, it may also be necessary to make adjustments to the City's utility rate structure to maintain required coverage. Coverage requirements, and the need for and level of reserve funds to provide additional security in support of the bonds, are subject to rating agency review and market standards.

#### C. *Debt Structure*

The term of any debt issuance may not exceed the useful life of the asset funded by the debt. Relative to the issuance of revenue bonds, the term of the debt shall also be consistent with the revenue-generating capacity of the asset. The maximum term of any debt issue shall not exceed 40 years.

The structure of any debt issuance shall be designed to achieve the best possible results for the City given current market conditions, etc. Consideration shall be given to the term, amortization schedule, interest rates, yield, pricing and call provisions.

To achieve a more favorable interest rate, the City shall strive to issue bonds in amounts such that the issue is bank qualified. However, if the City needs to issue debt that is non-bank qualified, the fact that the issue is so designated will not be a consideration if all other factors support the issuance.

D. *Debt Refunding*

The City's financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt. The City may issue an advance refunding if the difference between when the new bonds are issued and the outstanding bonds being refunded are called or paid at maturity is greater than 90-days. If that difference is less than 90-days, the City may issue a current refunding. Pursuant to federal tax law, the City may advance refund bonds only once on a tax-exempt basis. There is no limit on the number of times the City may current refund bonds.

As a general rule, the net present value savings of an advance refunding should exceed three percent (3%) of the refunded maturities (including cost of issuance), unless, a debt restructuring is necessary.

E. *Bond Elections*

General obligation bond elections shall be determined and set by the City Council based upon recommendations of the City's financial advisers, bond counsel, and underwriters. An analysis showing the impact of the new debt on the City's tax rate and total debt capacity will be included with each proposal to issue new general obligation bonds.

F. *Method of Sale*

The City shall use a competitive bidding process for the sale of debt unless the nature of the issue warrants a negotiated sale. The City may utilize a negotiated sale when the debt issuance is, or contains, a refinancing that is dependent on market timing.

G. *Underwriting Syndicates*

As part of the debt issuance process, the City shall partner with qualified and experienced firms. The City shall be actively involved in the debt issuance process and shall work with the financial advisor, bond counsel, and underwriter(s) to develop and recommend the most appropriate debt financing to meet the City's needs. For any given bond issue, the City may elect to work with a single underwriter or with an underwriting syndicate, which includes several firms and a designated lead underwriter.

H. *Rating Agency Presentations*

Full disclosure of operations and open lines of communication shall be maintained with the rating agencies. The City shall work with the financial advisor to prepare the necessary materials and presentation to the rating agencies. Credit ratings will be sought from one or more of the nationally recognized municipal bond rating agencies, currently Moody's Investor Service, Standard & Poor's Ratings Services, and Fitch Ratings, based on the recommendation of the financial advisor.

I. *Bond Ratings*

The City shall prudently manage the general and enterprise funds in order to maintain or improve the City's bond rating.

J. *Lease/Purchase Agreements*

The City may consider lease/purchase agreements for short-term financing needs when it is the most cost-effective option.

K. *Interest Earnings on Debt Proceeds*

Interest earnings on debt proceeds in the general fund shall be transferred to the debt service fund. Interest earnings on water and wastewater debt proceeds shall remain in the enterprise fund.

L. *Continuing Financial Disclosure*

The City shall comply with all requirements for continuing financial disclosure prescribed by state and federal regulations and City bond ordinances. In order to meet these requirements, the City must annually provide certain updated financial information and operating data to the Municipal Securities Rulemaking Board.

In compliance with SEC Rule 15c2-12, the City is obligated to provide (1) certain updated financial information and operating data annually, and (2) timely notice of specified material events, to the Municipal Securities Rulemaking Board (MSRB) in an electronic format as prescribed by MSRB. This information is available free of charge via the Electronic Municipal Market Access (EMMA) system at [www.emma.msrb.org](http://www.emma.msrb.org).

The information to be provided includes quantitative financial information and operating data as well as audited financial statements. This financial disclosure must be filed by March 31 of each year.

A material event notice must be filed within ten business days of the occurrence of any of the following:

- Principal and interest payment delinquencies
- Non-payment related defaults associated with outstanding bonds, if material
- Unscheduled draws on debt service reserves reflecting financial difficulties
- Unscheduled draws on credit enhancements reflecting financial difficulties
- Substitution of credit or liquidity providers, or their failure to perform
- Adverse tax opinions affecting the tax-exempt status of the City's bonds
- Modifications to the rights of bondholders, if material
- Bond calls, if material, and tender offers
- Defeasances
- Release, substitution, or sale of property securing repayment of the City's bonds, if material
- Changes to the City's credit ratings
- Bankruptcy, insolvency, receivership or similar event of the City
- Merger, consolidation or acquisition involving the City, including the sale of all, or substantially all, City assets
- Appointment of a successor Paying Agent/Registrar or, if material, a change in the name of the Paying Agent/Registrar

M. *Post-Issuance Compliance*

The City has adopted a separate post-issuance compliance policy and procedures to address the requirements of the Tax Code relative to its debt issuances. These requirements include restrictions on the use of proceeds, arbitrage yield restrictions, and the arbitrage rebate requirement. In general, these requirements are applicable throughout the period the debt issuance remains outstanding.

## IX.

### CASH MANAGEMENT AND INVESTMENTS

The City shall invest idle operating cash in such a manner so as to ensure the absolute safety of principal, to meet the liquidity needs of the City, and to achieve the highest possible yield in accordance with state statutes and the City's Investment Policy.

#### A. *Investment Management*

- All aspects of cash and investment management shall be designed to first ensure the safety of the City's financial assets.
- Cash and investment management activities shall be conducted in full compliance with prevailing state statutes and the City's Investment Policy.
- The City shall only do business with financial institutions and broker/dealers approved by City Council and who have executed a written certification of their review and understanding of the City's Investment Policy.
- The City shall design and establish policies relative to a variety of cash and investment management issues as set forth in the City's Investment Policy.
- Investments of City funds shall be made with the exercise of judgment and care which persons of prudence, discretion, and intelligence exercise in the management of their own affairs. Safety of the investment principal and liquidity needs of the City must be taken into account before yield may become a consideration in the investment process. Speculative investments are prohibited.

#### B. *Investment Strategy*

The City shall implement an investment strategy to achieve safety of principal, to maintain adequate liquidity to meet operating requirements, and to achieve a reasonable yield commensurate with the preservation of principal and liquidity. The City shall seek to diversify the investment portfolio in terms of investment type and maturity.

#### C. *Interest Income*

The City consolidates funds for investment. Interest earned from investments shall be allocated to the funds from which the funds were provided.

D. *Arbitrage Investments and Reporting*

The investment of bond proceeds shall be made in accordance with the same priority order of safety, liquidity, and yield. Bond proceeds shall be invested in separate instruments or accounts and not commingled with other investment purchases. Arbitrage rebate calculations shall be done for each bond issue, as required, and funds shall be set aside for any positive arbitrage. Arbitrage shall be rebated to the federal government when due.

E. *Collateralization of Deposits*

Pledged collateral on the City's deposits shall be held at an independent third-party institution and evidenced by a written receipt. The type and amount of collateral shall comply with the City's Investment Policy. Currently, all deposits shall be collateralized at a minimum level of 102 percent of par value. Substitutions of collateral shall comply with the City's Investment Policy. Collateral shall not be released until the replacement collateral has been received into the City's account.

F. *Finance Committee*

The City has established a Finance Committee consisting of mayoral appointments from City Council. The members shall be appointed/re-appointed to the committee annually. The City Manager, Assistant City Manager, and Director of Finance shall also serve on the committee. The committee shall meet quarterly for an update on the City's financial statements and investments. Further, the committee shall meet to review the results of the annual audit and at any other time it may be necessary to report on an internal audit or other external audit authorized by City Council.

G. *Reporting*

A quarterly investment report shall be prepared and presented to City Council in accordance with state law and the City's Investment Policy.



## X.

# GRANTS

The City shall seek, apply for, and effectively administer federal, state, and local grants, which support the City's current and future priorities and policy objectives.

### A. *Grant Guidelines*

The City shall seek and apply for all appropriate grants consistent with the objectives and priority needs identified by the City or City Council. The City shall recover indirect costs to the maximum amount permitted by the grant. The City may waive or reduce indirect costs if doing so will significantly increase the effectiveness of the grant. Grant funding may be considered to leverage City funds; however, inconsistent and/or fluctuating grants should not be relied upon to fund ongoing programs. The potential to incur ongoing costs shall be considered prior to applying for a grant.

### B. *Grant Review & Approval*

All grant submittals shall be reviewed for their cash match requirements, their potential impact on the operating budget, and the extent to which they meet the City's goals and policy objectives. If there is a cash match requirement, the source of funding for the matching funds shall be identified prior to submitting the grant application. All grant submittals shall also be reviewed for any “in-kind” grant match being considered in-lieu-of a cash match. Since an “in-kind” match requires the use of force account labor, the requesting department shall confirm this will not negatively impact existing service levels.

All grant submissions must include an explanation of the need for the grant, the terms of the grant, including reporting requirements, and an analysis of the ongoing maintenance and operations costs that will be incurred by the City upon acceptance of the grant. The department shall designate a Grant Administrator for each grant. The Grant Administrator shall coordinate all grant submissions with the Assistant City Manager prior to consideration by the City Manager. Once a grant is approved, the Grant Administrator shall establish and maintain a shared folder accessible by the Assistant City Manager and the Director of Finance. A new subfolder shall be added for each approved grant submission and shall include a copy of the grant application and all-grant related correspondence, documentation, and reports.

The City Manager shall approve all grant submissions. The City Council must approve all grant applications. If a department has a narrow window to pursue a grant opportunity less than \$25,000 (e.g., grant funds unexpectedly become available on a compressed timeline), the grant application may be ratified at the City Council meeting immediately following the submission of the grant application.

If the grant opportunity is identified during the budget process, it shall be included in the appropriate revenue and expenditure accounts. If the grant is accepted after completion of the budget process, the department applying for the grant funding shall work with the Finance Department to prepare the associated budget amendment.

C. *Grant Administration*

The Grant Administrator shall provide a copy of the approved grant submission (via email or hard copy) to the Assistant City Manager and the Director of Finance. Once a grant agreement is signed, the Grant Administrator shall provide a copy of the executed agreement to the City Secretary. The Grant Administrator shall then initiate a meeting with the Assistant City Manager, the Director of Finance, and any other department members participating in the grant funded program/expenditure. At that meeting, the roles and responsibilities related to the administration of and reporting for the grant shall be established and the appropriate fund and account number(s) shall be assigned.

D. *Grant Management*

The Grant Administrator shall be responsible for all operational aspects of grant management and shall maintain detailed records to ensure maximum reimbursement of grant funds and full compliance with the grant requirements and the Single Audit Act. The Grant Administrator shall notify the Assistant City Manager and the Director of Finance when any correspondence, documentation, or reports have been added to the shared folder for the specific grant.

The expenditure of grant funds shall follow all applicable City policies and procedures, including purchasing and bid policies. The Grant Administrator shall verify that any vendors selected for the grant funded program/expenditure are not debarred or excluded from providing goods and services under state or federal award programs. The list of vendors debarred from doing business with the State of Texas is available at the website of the Texas Comptroller of Public Accounts (Debarred Vendor List) at: [http://www.window.state.tx.us/procurement/prog/vendor\\_performance/debarred/](http://www.window.state.tx.us/procurement/prog/vendor_performance/debarred/). The Grant Administrator shall utilize the Official U.S. Government System for Award Management (SAM) to verify that a potential vendor/contractor has not been excluded or debarred before contracting with that vendor on a federally funded grant. SAM contains an electronic roster of debarred companies excluded from Federal Procurement and non-procurement programs throughout the U.S. Government (unless otherwise noted) and from receiving Federal contracts or certain subcontracts and from certain types of Federal financial and nonfinancial assistance and benefits. Instructions on how to access SAM may be found at: <http://www.dol.gov/ofccp/regs/compliance/preaward/debarlst.htm>.

E. *Grant Termination and/or Reduced Grant Funding*

In the event of reduced grant funding, City resources shall be substituted only after all program priorities and alternatives have been considered during the budget process, unless the City is obligated, through the terms of the grant, to maintain the program or associated positions.

The City shall terminate grant-funded programs and associated positions when grant funds are no longer available and it is determined that the program no longer supports City goals and policy objectives or is no longer in the best interest of the City. The City shall complete any outstanding obligations following the termination of any grant funding.

F. *Reporting*

While individual departments are responsible for grant applications and program administration and reporting, it is necessary to prepare and maintain an annual report of expenditures related to all outstanding grants. To accommodate the annual audit requirements, the Finance Department shall prepare an annual report on the status of all outstanding grants. Prior to its finalization, a draft of the report shall be reviewed and discussed at a director's (staff) meeting. To accommodate this reporting requirement, the Finance Department shall reference the following:

- Copy of signed grant application/agreement;
- Copy of check vouchers and invoices for all expenditures funded by the grant;
- Copy of any program reports submitted to the granting authority;
- Copy of any correspondence related to the grant;
- Copy of any other pertinent information related to the grant.

The Finance Department prepares a quarterly financial report, which is available to any department required to furnish a periodic or interim financial report to the granting authority. Each individual department shall be responsible for program administration and related program reporting. Copies of all program reports shall be added to the shared folder for the specific grant. These reports shall be made available as documentation for the annual grant report provided to the auditors.

## XI.

### Intergovernmental Relations

The City shall coordinate efforts with other governmental agencies to achieve common policy objectives, share the cost of providing government services on an equitable basis, and support favorable legislation at the state and federal levels.

A. *Interlocal Cooperation in Delivery of Services*

In order to promote the efficient and effective delivery of services, the City shall actively seek to work with other local jurisdictions to share, on an equitable basis, the costs of services, to share facilities, and to develop joint programs to improve service to its citizens.

B. *Legislative Program*

The City shall cooperate with other jurisdictions to actively oppose any state or federal regulation or proposal that mandates additional City programs or services but does not provide the funding to implement them.

## XII.

### Internal Controls

The City shall establish and maintain a system of internal controls designed to safeguard City assets, ensure the accuracy and reliability of accounting and financial records, promote operational efficiency, and adhere to prescribed policies in compliance with federal and state regulations and City ordinances and policies.

A. *Segregation of Duties*

The City shall strive to maintain appropriate segregation of duties in the conduct of City business in order to reduce the opportunities for any person to perpetrate and conceal errors or irregularities in the normal course of assigned duties.

B. *Training*

The City shall ensure that all employees responsible for cash handling and/or financial transactions are familiar with and understand the applicable City policies and procedures associated with these responsibilities. Employees shall be properly trained and supervised in the exercise of these duties.

C. *Fiscal Authority*

The City shall implement appropriate levels of fiscal authority and shall design, implement, and maintain procedures to ensure financial transactions and activities are properly reviewed and authorized.

D. *Signature of Checks*

All City checks shall require up to three signatures. Three persons shall be authorized to sign checks: the Mayor, City Manager, and Director of Finance. The Mayor Pro-Tem and the Assistant City Manager are authorized to sign in place of the Mayor and City Manager, respectively. The Accounting Supervisor is authorized to sign in place of the Director of Finance. The signatures of the Mayor, City Manager and Director of Finance shall be affixed on all City checks up to \$1,000 via facsimile signature. Checks in the amount of \$1,000 and greater but less than \$5,000 shall include the facsimile signature of the City Manager and the Director of Finance and the manual signature of the Mayor. All checks in the amount of \$5,000 and over will be manually signed by all three authorized check signers.

E. *Electronic Payment Vouchers*

The City may have occasion to make vendor payments electronically. Three persons shall be authorized to sign electronic payment vouchers: the Mayor, City Manager, and Director of Finance. The Mayor Pro-Tem and the Assistant City Manager are authorized to sign in place of the Mayor and City Manager, respectively. The signatures of the City Manager and Director of Finance shall be affixed on all electronic payment vouchers up to \$1,000. The Mayor shall also sign all electronic payment vouchers over \$1,000 in accordance with the City Charter.

F. *Bank Reconciliations*

The Director of Finance shall receive and initial the monthly bank statements. The completed bank reconciliations shall be reviewed by the Accounting Supervisor. The Director of Finance shall then perform a final review using the on-line banking system to check for unusual activity and to ensure there were no modifications made to the banking activity.

To mitigate the City's exposure to the inherent risks of limited segregation of duties, the employee who completes the bank reconciliations shall not handle cash or post related cash or adjusting entries.

G. *Recordkeeping*

The City shall design, implement, and maintain procedures to ensure financial transactions and events are properly recorded such that all financial reports are current, accurate, and up-to-date. The Director of Finance shall review and approve (sign) all journal entries prepared by the Accounting Supervisor as well as any journal entries that include individual amounts over \$50,000, the activities of which have not been subject to prior review or approval.

H. *Safeguarding Assets and Financial Records*

The City shall design, implement, and maintain procedures to ensure appropriate and adequate safeguards exist over the access to and use of financial assets and records. These measures shall be designed to protect the City's assets from unauthorized access, fraud or theft.

I. *Internal Audits*

The City shall conduct internal audits to ensure compliance with established procedures and proper valuation of recorded amounts. During the year, the Finance Department shall conduct at least one surprise audit of each petty and working cash fund.

J. *Annual Review*

The City shall conduct an annual review of the system of internal controls and shall make any appropriate changes or modifications to improve the controls.